

DOING BUSINESS IN **PANAMA**



THE AMERICAN CHAMBER OF COMMERCE & INDUSTRY OF PANAMA



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PANAMA PACIFICO
Special Economic Area

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The *Doing Business in Panama* is published by the American Chamber of Commerce and Industry of Panama as a worldwide service to potential investors interested in exploring Panama's multifaceted economy and business opportunities. This publication also provides information on free trade zones and special economic areas of Panama and an overview of the newly effective Trade Promotion Agreement between the US and Panama.

It is the work of many members, staff and consultants, listed below, to whom we extend our special thanks and gratitude for a job well done.

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This compilation has been prepared with the purpose of providing general information only and does not intend to provide any person or entity with legal or business advice. It is recommended that professional advice be obtained before making decisions or developing any projects in connection with matters addressed in this summary.

FOREWORD



A stylized, handwritten signature in black ink, consisting of a large, flowing 'A' followed by 'Chiriatti' and a long horizontal stroke.

Aristides Chiriatti

President of AmCham Panama

Talk about being in the right place in the right time, well that's how I felt after moving to Panama back in 2010. I have witnessed how the country's Private sector and Government have joined forces to keep Panama leading the region in economic growth. A test of this partnership was the successful construction of the new set of locks, which, this past June 26th, 2016, gained the respect of the international community.

What seems impressive is how Panama continues to improve and lead the region. This year the World Economic Forum published the 2016-2017 Global Competitiveness Report, which ranked Panama 42nd of 138 economies, and the World Bank ranked Panama 40th (and 1st in Latin America) in the Logistics Performance Index. The country has made considerable progress in transparency, which promises to reduce the risk for investors.

When you look in terms of opportunities for business, don't limit yourself to the population of 4 million that the country has; Panama connects you to more than 300 million people in Latin America. Its strategic location, world-class logistics infrastructure and unsurpassed connectivity, makes it the right place to execute your growth plans in the region.

The "Doing Business in Panama" has proven to be an excellent business tool for our more than 430 members and all companies or individuals who are exploring to expand their business in Panama. This book contains the most recent and up-to-date information that will save you important time and money.

I'd like to give special thanks to my AmCham Panama Team for once again putting together such a great book and I encourage you to leverage the information within it.

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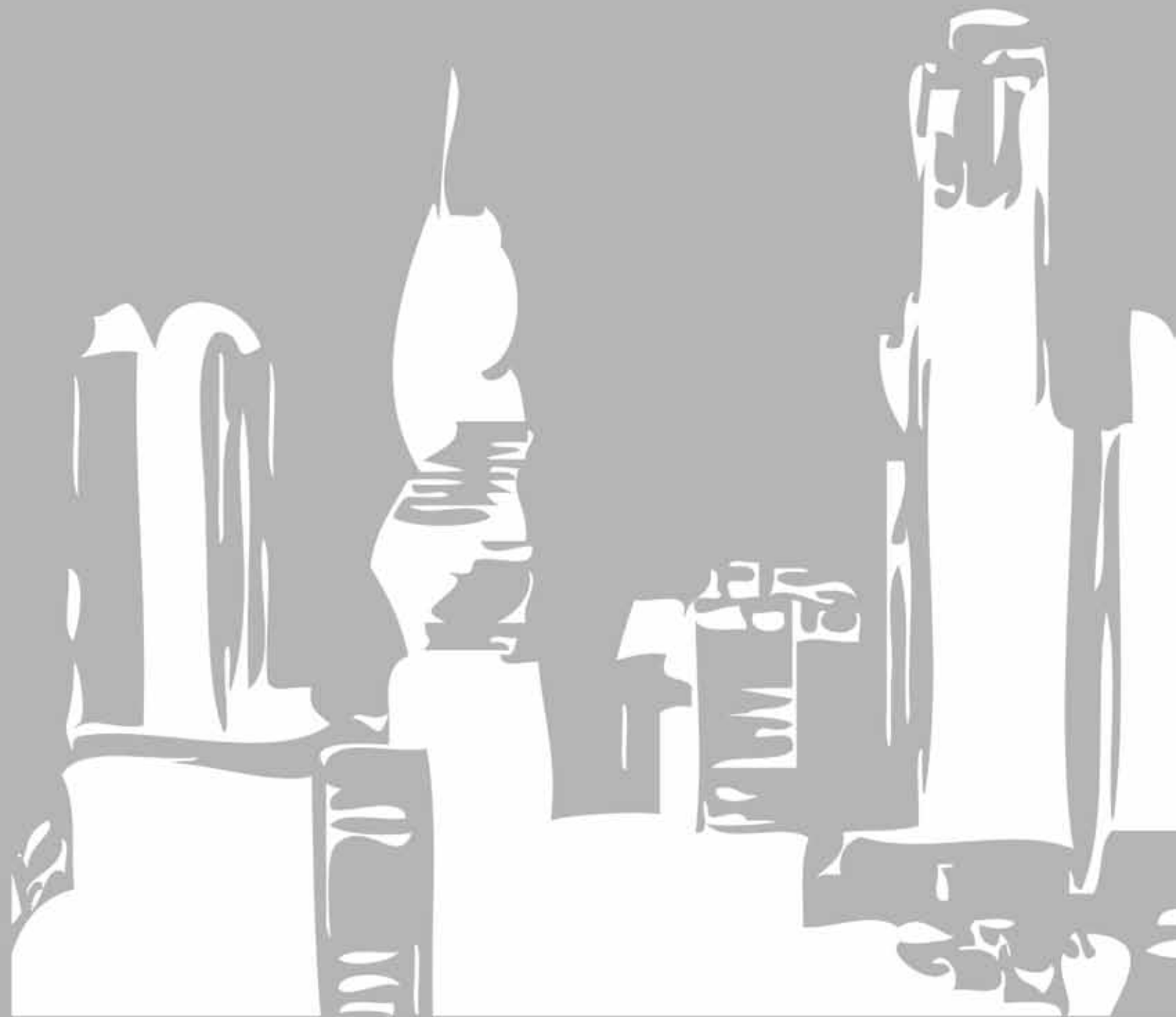
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A.

PANAMA'S OVERVIEW





In Spanish, we refer to Panama as the 3P's "puente, paso, puerta" (bridge, passage, and door). Panama is the bridge between Central/North America and South America, the passage that links the Pacific Ocean and the Caribbean Sea and an open door for everyone.

We are truly the crossroads of the world. From the moment Vasco Nuñez de Balboa discovered the South Sea (Pacific Ocean), we became a logistics hub. Our Pacific Coasts were used as embarkation ports for all exploratory missions to Central and South America, while our Caribbean Coasts were used as trading posts and departure spots for the Old Continent.

Later on, the first inter-oceanic railroad was built, by the US, and proved to be the fastest link between the West and East Coast cities. Panama is also the place that the King of Spain, Charles V, originally recognized as a potential site for creating a water passage, and which was chosen by France in 1881 and later taken over by the US in 1904 for the construction of the Panama Canal. Officially opened on August

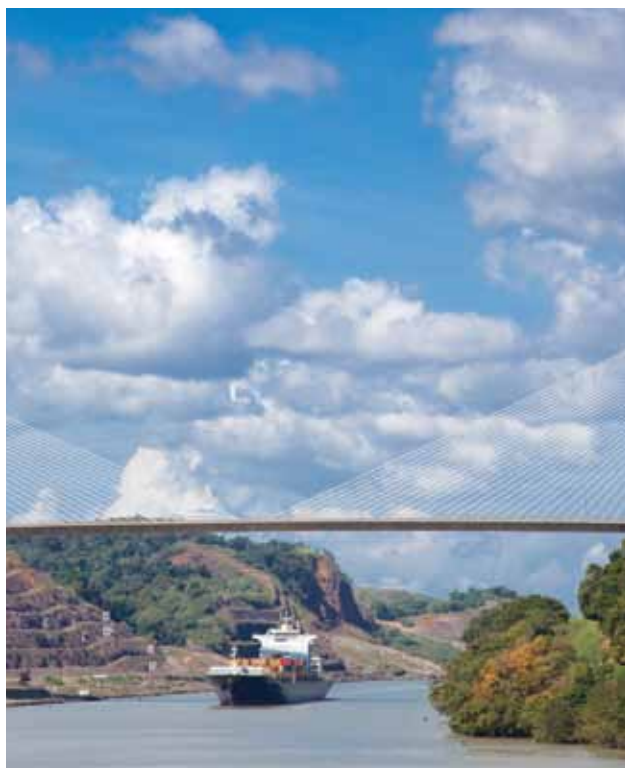
15th, 1914, the Panama Canal greatly reduced the amount of time ships took to travel between the Atlantic and Pacific Oceans, enabling them to avoid the lengthy, hazardous Cape Horn route around the southernmost tip of South America. This route opened new markets and possibilities and helped integrate the nations in and around the Pacific Ocean into the world economy. Recently, the Panama Canal inaugurated a third Set of Locks, which allows the passage of larger sized ships which can carry over twice as much cargo as the previous maximum allowed ships. Infrastructure in Panama has been in constant growth along with the economic growth of the country.

According to the preliminary statistics compiled by the General Comptroller's Office for the first trimester of 2016, there were 1,455 ongoing construction projects in the District of Panama with 147,336m² already built from a total of 869,990m² expected to be constructed. Of these projects, 85 were apartment buildings and 1,283 were individual homes and duplexes. In comparison to last year's trimester, the number of ongoing projects increased by 8%.

The Ministry of Public Works estimates a total of 15,901.82 km of roadways in Panama, of which more than 70% are paved. Panama also has two controlled-access highways, both run by Empresa Nacional de Autopistas (ENA).

Besides the Panama Canal, Panama is a Connectivity Hub due to seven submarine cables: PAC, SAC/LAN, PCCS, PAN-AM, ARCOS, Maya-1 and SAPL (the “ready for service” date of the SAPL system is the third quarter of 2018). This infrastructure, which provides the main network of Latin America, provides us with low costs and easy access to connectivity.

In the course of this report, we will present a snapshot of Panama’s economy through its different sectors.



Geographic & Demographic Data

Population (Estimated)

4,037,043 (2016) inhabitants

Surface

74,177.3 Sq. Km.

Territorial Sea

12 nautical miles wide

Coast extension

2,988.3 Km.

Population Density

53 inhabitants per Sq. Meters (estimated)

Geographic distribution

10 provinces, 3 indigenous reserves classified as provinces and 2 more classified as municipalities.

Provinces with highest population (2016)

Panama: 1,645,048; Panama West: 464,038; Chiriqui: 451,236; Colon: 276,746.

Housing numbers in country (occupied)

896,050 housing (2010 Census)

Housing density in country

12 Houses per Sq. Km.

Population structure according to age (estimated)

11 years or less: 21.8%
12 – 17: 10.6%
18 – 34: 26.8%
35 – 54: 25.3%
55 – 64: 7.7%
65 or more: 7.8%

Languages

Spanish (Official), English (Commercial)



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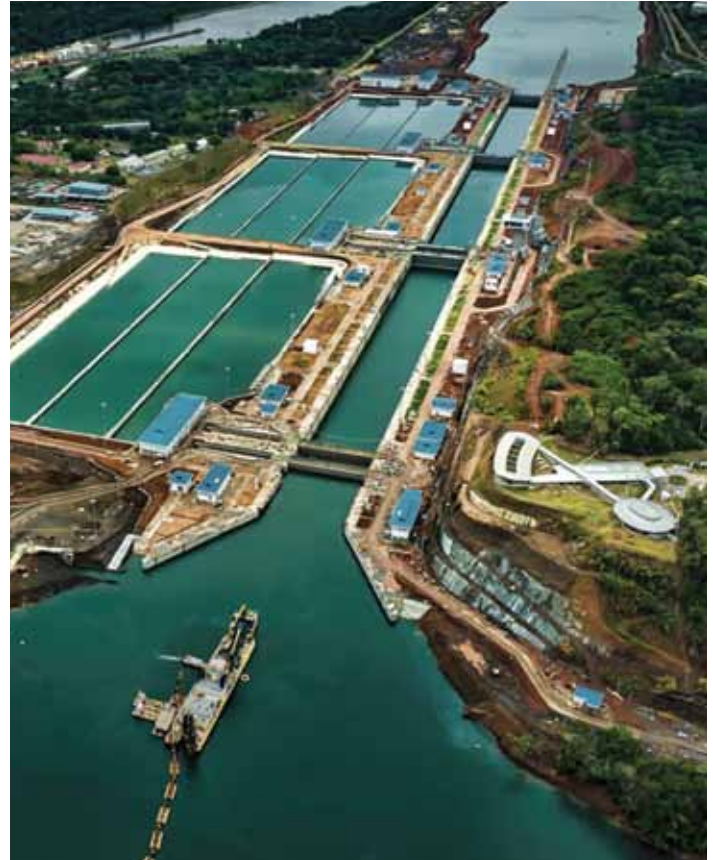
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1. Country Economic Outlook

Panama is an upper-middle income country with an estimated per capita gross national income of US\$12,100 (The World Bank, 2015). During the past 50 years, the real growth of the Panamanian Gross Domestic Product has averaged 5%, which makes Panama one of the fastest growing economies in Central and Latin American. Since 2004 it has grown at a steady pace, and during the 2008-2009 financial crisis, the Panamanian financial sector demonstrated resilience, which helped attain a positive increase in GDP. The following years, our GDP growth capped at almost 11% and the current trend is an average yearly rate of 6%.

The preliminary statistics compiled by the General Comptroller's Office in the first trimester of 2016 report that Panama has a low unemployment level of 5.6%. On the other hand, it also disclosed that the inflation rate reached an all-time low of 0.2% in 2015. The International Monetary Fund (IMF) predicts a strong economic performance in part due to the operations of the Expanded Panama Canal, which are expected to boost the economy during the next years. As a result of the aforementioned conditions, Panama has received investment grade ratings with stable outlooks by major sovereign debt credit rating agencies.



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2. Competitiveness Report

The Global Competitiveness Report 2016-2017 by the World Economic Forum (WEF) assesses the competitiveness landscape of 138 economies, providing insight into the drivers of their productivity and prosperity. This Report contributes to an understanding of the key factors that determine economic growth, helps to explain why some countries are more successful than others in raising income levels and providing opportunities for their respective populations, and offers policymakers and business leaders an important tool for

formulating improved economic policies and institutional reforms. Panama ranks 42 out of 138 countries, with a score of 4.51; an increase from the previous score of 4.38 and a previous rank of 50 out of 140 countries in 2015-2016 Report.

The top ten and Panama's Global Competitiveness Index 2016-2017 rankings are reprinted below:

Global Competitiveness Index 2015 - 2016			
Economy	Rank	Score (1-7)	Previous Rank
Switzerland	1	5.81	1
Singapore	2	5.72	2
United States	3	5.70	3
Netherlands	4	5.57	5
Germany	5	5.57	4
Sweden	6	5.53	9
United Kingdom	7	5.49	10
Japan	8	5.48	6
Hong Kong	9	5.48	6
Finland	10	5.44	8
Panama	42	4.51	50

Source: World Economic Forum

Between 2015 and 2016, Panama improved in rank in both Subindexes A and B, which reflect Basic Requirements and Efficiency Enhancers, and in the 1st (Institutions), 2nd (Infrastructure), 3rd (Macroeconomic Environment), 4th (Health and Primary Education), 6th (Goods Market Efficiency), 7th (Labor Market Efficiency), 8th (Financial Market Efficiency), 10th (Market Size) and 11th (Business Sophistication) Pillars.

The following table shows the most outstanding scores and their changes between the 2015-2016 and 2016-2017 Reports:

Indicator	2016 - 2017 Ranking	2015 - 2016 Ranking
Gross national savings % GDP	4	89
Quality of port infrastructure	5	7
Financial Services meeting business needs	5	16
FDI and technology transfer	5	6
Quality of air transport infrastructure	6	6
Affordability of financial services	6	18
Mobile-celular telephone subscriptions/100 pop	8	15
Prevalence of foreign ownership	8	11
Ease of access to loans	8	13
Business impact of malaria	9	9
Business impact of rules on FDI	10	9
Soundness of banks	11	11
Effect of taxation on incentives to invest	12	16
Country capacity to attract talent	12	14
Effect of taxation on incentives to work	20	33

Source: WEF - The Global Competitiveness Report 2015 - 2016 & 2016 - 2017

3. Country Risk

Country risk refers to a country’s economic and/or political risks that may affect its business, and result in investment losses. These risks may be political, economic, financial, exchange rate related, sovereign related and transfer related, among others. For example, the latter is the risk of capital being locked up or frozen by government action, while sovereign risk refers to the risk that the host government will default on its payment obligations.

Most often investors assess country risk through both country and sovereign risk ratings, which are provided by private rating agencies, as well as multilateral institutions. By taking multiple quantitative and qualitative factors into account, these agencies issue credit and investment ratings for each country. The following sections detail Panama’s country risk ratings and analyses.

3.1. Investment Rating

In 2016, the economy of Panama is expected to grow by 5.8%, according to the 2016 First Semester’s Fiscal Performance review of the Ministry of Economy and Finance, among the fastest in the region. In 2012, Moody’s raised Panama’s sovereign debt rating to Baa2 from Baa3.

The outlook has been revised from positive to stable. Panama’s sovereign debt is also rated as investment grade by Fitch (BBB rating) and Standard & Poor’s (BBB rating).

So far Panama’s debt ratings have remained stable for the last years.

Standard & Poor’s Global Ratings	BBB – Stable
Moody’s Rating	Baa2 – Stable
Fitch Rating	BBB – Stable

Source: Trading Economics

3.2. Fitch Ratings

Fitch’s international credit ratings relate to either foreign currency or local currency commitments and, in both cases, assess the capacity to meet these commitments using a globally applicable scale.

The local currency international rating measures the likelihood of repayment in the currency of the jurisdiction in which the issuer is domiciled and hence does not take account of the possibility that it will not be possible to convert local currency into foreign currency, or make transfers between sovereign jurisdictions (transfer and convertibility [TandC] risk).

Foreign currency ratings additionally consider the profile of the issuer or note after taking into account transfer and convertibility risk. This risk is usually communicated for different countries by the Country Ceiling, which caps the foreign currency ratings of most, though not all, issuers within a given country.

Rated entities in a number of sectors, including financial and non-financial corporations, sovereigns, insurance companies and certain

sectors within public finance, are generally assigned Issuer Default Ratings (IDRs). IDRs opine on an entity's relative vulnerability to default on financial obligations. The threshold default risk addressed by the IDR is generally that of the financial obligations whose non-payment would best reflect the uncured failure of that entity. As such, IDRs also address relative vulnerability to bankruptcy, administrative receivership or similar concepts, although the agency recognizes that issuers may also make pre-emptive and therefore voluntary use of such mechanisms. In aggregate, IDRs provide an ordinal ranking of issuers based on the agency's view of their relative vulnerability to default, rather than a prediction of a specific percentage likelihood of default.

Country Ceilings reflect the agency's judgment regarding the risk of capital and exchange controls being imposed by the sovereign authorities that would prevent or materially impede the private sector's ability to convert local currency into foreign currency and transfer to non-resident creditors — transfer and convertibility (TandC) risk. As such, they are not ratings, but expressions of a maximum limit for the foreign currency issuer ratings of most, but not all, issuers in a given country. Given the close correlation between sovereign credit and TandC risks, the Country Ceiling may exhibit a greater degree of volatility than would normally be expected when it lies above the sovereign foreign currency rating.

Republic of Panama				
Rating Type	Previous Rating	New Rating	Date	New Rating Action
Long Term Issuer Default Rating	-	BBB	19 feb 2016	Affirmed
Short Term Issuer Default Rating	F3	F2	22 jul 2016	Upgraded
Local Currency Long Term Issuer Default Rating	BBB	BBB	22 jul 2016	Affirmed
Local Currency Short Term Issuer Default Rating	-	F2	22 jul 2016	New Rating
Country Ceiling	-	A	19 feb 2016	Affirmed

Source: Fitch Ratings

3.3. Moody's

Moody's issuer ratings are opinions of the ability of entities to honor senior unsecured debt and debt like obligations. As such, Issuer Ratings incorporate any external support that is expected to apply to all current and future issuance of senior unsecured financial obligations and contracts, such as explicit support stemming from a guarantee of all senior unsecured financial obligations and contracts, and/or implicit support for issuers subject to joint default analysis (e.g. banks and government-related issuers). Issuer Ratings do not incorporate support arrangements, such as guarantees, that apply only to specific (but not to all) senior unsecured financial obligations and contracts. While Issuer Ratings reflect the risk that debt and debt-like claims are not serviced on a timely basis, they do not reflect the risk that a contract or other non-debt obligation will be subjected to commercial disputes. Additionally, while an issuer may have senior unsecured obligations held by both supranational institutions and central banks (e.g., IMF, European Central Bank), as well as other investors, Issuer Ratings reflect only the risks faced by other investors.

Moody's assigns a ceiling for foreign-currency bonds and notes to every country (or separate monetary area) in which there are rated obligors. The ceiling generally indicates the highest rating that can be assigned to a foreign-currency denominated security issued by an entity subject to the monetary sovereignty of that country or area. Ratings that pierce the country ceiling may be permitted, however, for foreign-currency denominated securities

benefiting from special characteristics that are judged to give them a lower risk of government interference than is indicated by the ceiling. Such characteristics may be intrinsic to the issuer and/or related to Moody's view regarding the government's likely policy actions during a foreign currency crisis. The country ceiling for foreign-currency bonds and notes is expressed on the long-term global scale.

Moody's assigns a ceiling for foreign-currency bank deposits to every country (or distinct monetary area) in which there are rated bank deposits. The ceiling specifies the highest rating that can be assigned to foreign-currency denominated deposit obligations of 1) domestic and foreign branches of banks headquartered in that domicile (even if subsidiaries of foreign banks); and 2) domestic branches of foreign banks. The country ceiling for foreign-currency bank deposits is expressed on the long-term global scale.



Republic of Panama			
Class	Rating	Date	Rating Action
Senior Unsecured (Foreign)	Baa2	1 dec 2015	Rating Affirmation
LT Issuer Rating (Foreign)	Baa2	1 dec 2015	Rating Affirmation
Senior Unsec. Shelf (Foreign)	(P)Baa2	1 dec 2015	Rating Affirmation
Country's Ceiling for Foreign currency & long- and short-term bonds	A3/P-1	1 dec 2015	Rating Affirmation
Country's Ceiling for bank deposits ceilings	A3/P-1	1 dec 2015	Rating Affirmation

Source: Moody's

3.4. Standard and Poor's (S&P)

The S&P Global Ratings issuer credit rating is a forward-looking opinion about an obligor's overall creditworthiness. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its

standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. Counterparty credit ratings, corporate credit ratings and sovereign credit ratings are all forms of issuer credit ratings. Issuer credit ratings can be either long-term or short-term.

Republic of Panama				
Issuer Credit Rating				
	Rating	Rating Date	Regulatory Identifiers	Last Rating Action
Long Term in Foreign Currency	BBB	2 jul 2012	EE	Sept. 2016 Affirmed
Short Term in Foreign Currency	A-2	2 jul 2012	EE	Sept. 2016 Affirmed
Long Term in Local Currency	BBB	2 jul 2012	EE	Sept. 2016 Affirmed
Short Term in Local Currency	A-2	2 jul 2012	EE	Sept. 2016 Affirmed

Source: Standard and Poor's

Republic of Panama				
Transfer & Convertibility Assessment - Ratings Detail (As Of 22-Oct-2015)*				
	Rating	Rating Date	Regulatory Identifiers	Last Rating Action
Long Term in Local Currency	AAA	1 nov 2005	-	Sept. 2016 Affirmed

Source: Standard and Poor's

3.5. BICRAs (Standard and Poor's)

The strengths and weaknesses of an economy and banking industry are critical factors that underpin the creditworthiness of a country's financial institutions. S&P distills this analysis into a single Banking Industry Country Risk Assessment (BICRA), "designed to evaluate and compare global banking systems" as stated by their criteria. BICRAs are scored on a scale from '1' to '10', ranging from what they view as the lowest-risk banking systems (group '1') to the highest-risk (group '10').

The BICRA methodology has two main analytical components: "economic risk" and "industrial risk."

A BICRA analysis for a country covers all of its financial institutions that take deposits, extend credit, or engage in both activities, whether rated or not. In addition, the analysis considers the relationship of the banking industry to the financial system, and furthermore to its sovereign. For that reason, many of the factors underlying a sovereign rating are important in determining a BICRA score.

Their analysis of economic risk of a banking sector takes into account the structure and stability of the country's economy, including the central government's macroeconomic policy flexibility; actual or potential economic imbalances, and the credit risk of economic participants--mainly households and enterprises.

Their view of industry risk factors in the quality and effectiveness of bank regulation and the

track record of authorities in reducing vulnerability to financial crises, as well as the competitive environment of a country's banking industry--including the industry's risk appetite, structure, and performance--and possible distortions in the market. Industry risk also addresses the range and stability of funding options available to banks, including the role of the central bank and government.

Panama appears in Group 5, in the middle of both risk tables, according to S&P's BICRA latest report, dated December 2015.

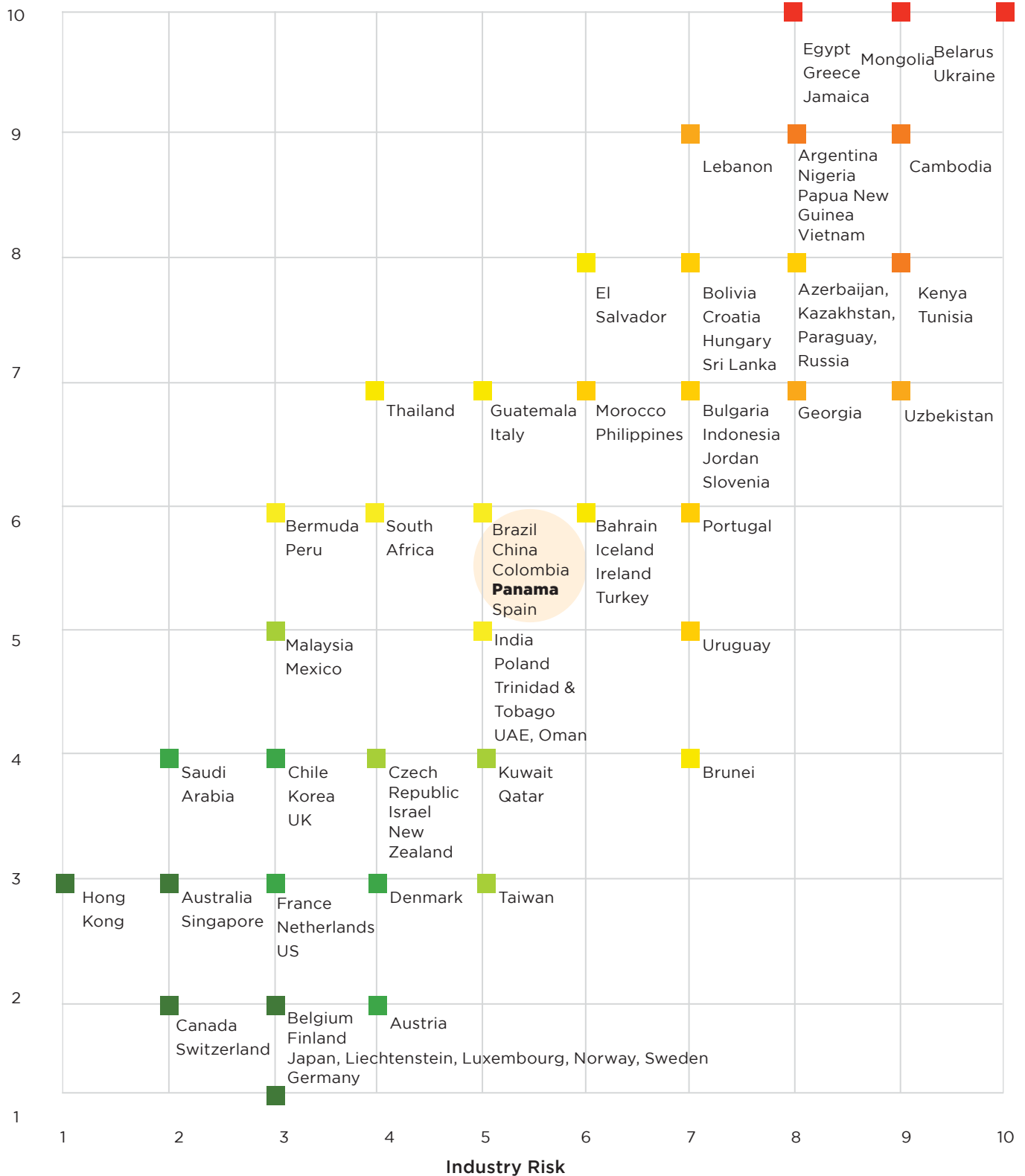


BICRA, Economic Risk, And Industry Risk Scores

BICRA groups: lowest to highest risk

1 2 3 4 5 6 7 8 9 10

Economic Risk



4. Doing Business Rankings

The Doing Business Project, of the World Bank Group, provides objective measures of business regulations and their enforcement across 189 economies and selected cities at the subnational and regional level. Economies are ranked on their ease of doing business, from 1 to 189. A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm. Hence, it measures how easy it is to do business in a

country, according to the difficulties and time in getting paperwork done, the export and import of goods, opening a business, protecting investors, cross border commerce, getting electricity, water and phone services for your business, and receiving the necessary permits.

Panama is in the 69th place in the Doing Business 2016 ranking, and the 6th in Latin America after Mexico, Chile, Peru, Colombia and Costa Rica.

Republic of Panama		
Doing Business 2016 Rank	Doing Business 2015 Rank	Change in Rank
69	66	↓ -3
Doing Business 2016 Distance to Frontier (% Points)	Doing Business 2015 Distance to Frontier (% Points)	Change in Distance to Frontier (% Points)
65.74	65.75	↓ -0.01

Source: *Doing Business*

Topics	DB 2016 Rank	DB 2015 Rank	Change in Rank
Starting a Business	44	37	↓ -7
Dealing with Construction Permits	70	67	↓ -3
Getting Electricity	32	31	↓ -1
Registering Property	84	81	↓ -3
Getting Credit	19	17	↓ -2
Protecting Minority Investors	66	64	↓ -2
Paying Taxes	166	166	No change
Trading Across Borders	54	53	↓ -1
Enforcing Contracts	148	147	↓ -1
Resolving Insolvency	132	131	↓ -1

Source: *Doing Business*

5. World Investment Report

The World Investment Report, published by the UN Conference on Trade and Development (UNCTAD) focuses on trends in Foreign Direct Investment (FDI) worldwide, at the regional and country levels, and emerging measures to improve its contribution to development.

Every issue of the Report includes:

Analysis of the trends in FDI during the previous year, with especial emphasis on development implications.

In-depth analysis of a selected topic related to FDI.

Ranking of the largest transnational Corporations in the world.

Policy analysis and recommendations.

FDI flows, by region and economy, 2012-2015 (Millions of Dollars)								
Region / Economy	FDI inflows				FDI outflows			
	2012	2013	2014	2015	2012	2013	2014	2015
World	1,510,918	1,427,181	1,276,999	1,762,155	1,308,820	1,310,618	1,318,470	1,474,242
Central America	29,647	56,334	36,614	41,913	22,962	13,999	8,929	8,976
Belize	189 [†]	95 [†]	153 [†]	65 [†]	1 [†]	1 [†]	2 [†]	-
Costa Rica	2,258	3,091	2,748	2,850	455	308	83	141
El Salvador	482	179	311	429	-2	3	-	-
Guatemala	1,245	1,296	1,389	1,208	39	34	106	93
Honduras	1,059	1,060	1,144	1,204	208	68	24	91
Mexico	20,437	45,855	26,675	30,285	22,470	13,138	8,304	8,072
Nicaragua	768	816	884	835	65	116	80	51
Panama	3,211	3,943	4,309	5,039	-274	331	329	528
Caribbean	6,164	4,740	5,388	4,739	1,936	1,585	1,449	981

* The 2016 World Investment Report incorporates México as part of Central America in their classification.

† Asset/liability basis.

Panama continues to be an important pole of attraction for FDI. In absolute terms it is the Country which received the most foreign direct investment last year in Central America and the Caribbean. The report also states that in Panama, rising reinvested earnings and greater inflows of intracompany loans to non-financial enterprises supported a 17 per cent increase in FDI inflows

6. Container Port Traffic Index

Published in an Index by the World Bank, port container traffic measures the flow of containers from land to sea transport modes, and vice versa, in twenty-foot equivalent units (TEUs), which refers to a standard-size container. Data refers to coastal shipment as well as international journeys. Transshipment traffic is counted as two lifts at the intermediate port (once to off-load and again as an outbound lift) and includes empty units.

In international commerce, the Asian ports, especially China's, lead the ranking by a wide margin. Brazil and Panama, lead the Latin American and the Caribbean ranking, in TEUs.



Photography courtesy of: Manzanillo International Terminal

Latin America and Caribbean Rank of TEUs Traffic (in TEUs)						
Rank	Country	2010	2011	2012	2013	2014
1	Brazil	8,138,608	8,714,405	9,322,769.271	10,176,613	10,678,564
2	Panama	6,003,297	6,911,324	7,217,794.191	7,447,695	7,942,290
3	Mexico	3,693,956	4,228,873	4,799,367.786	4,900,267	5,273,945
4	Chile	3,171,958	3,450,401	3,595,917.246	3,722,979	3,742,520
5	Colombia	2,443,786	2,584,201	2,991,941.234	2,746,038	3,127,993

Source: World Bank

7. Liner Shipping Connectivity Index (UNCTAD)

The Liner Shipping Connectivity Index (LSCI), published by the United Nations Conference on Trade and Development (UNCTAD), aims at capturing a country's level of integration into the existing liner shipping network, by measuring liner shipping connectivity.

LSCI can be considered a proxy of the accessibility to global trade. The higher the index, the easier it is to access a high capacity and frequent global maritime freight transport system, and thus effectively participate in international trade.

Therefore, LSCI can be jointly considered as a measure of connectivity to maritime shipping and as a measure of trade facilitation.

The current version of the LSCI is generated from five components:

- the number of ships;
- the total container-carrying capacity of those ships;
- the maximum vessel size;
- the number of services; and
- the number of companies that deploy container ships on services from and to a country's ports.

The data are derived from Containerisation International Online and Lloyds List Intelligence. Panama managed to remain the leader in Latin America with the best maritime connectivity, according to the 2016 data found in the Index prepared by the UNCTAD. Panama improved its score from 45.59 in 2015 to 54.42 in 2016.

Liner Shipping Connectivity Index - Latin American and Caribbean						
Rank	Country	2012	2013	2014	2015	2016
1	Panama	42.38	44.88	43.65	45.59	53.42
2	Colombia	37.25	37.49	33.13	42.25	52.98
3	Mexico	38.81	41.80	49.09	42.95	50.88
4	Brazil	38.53	36.88	42.28	41.02	39.93
5	Peru	32.80	32.84	33.60	36.95	37.80

Source: UNCTAD

8. Latin American and the Caribbean Container Port Ranking

The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) publishes a report on Latin American Container Port Ranking, (Actividad portuaria de contenedores en América Latina y el Caribe). According to the latest the movement of containerized cargo through the Latin American & Caribbean ports increased by 1.7% in 2015, due to a slowdown in foreign trade in container terminals.

This slowdown is not only regional but also global, since containerized cargo movement has only grown 1.1% globally. However, Latin America and the Caribbean's annual increase improved compared with previous years (0.8% in 2014 and 0.7% in 2013). In this ranking, Panama's ports of Colon and Balboa are the second and third ranked biggest ports in the region in TEU, behind Santos, Brazil.

Latin American and the Caribbean Container Port Throughput, ranking 2015						
Rank	Port	Country	2013 (TEU)	2014 (TEU)	2015 (TEU)	Change% 2015-2014
1	Santos	Brazil	3,451,123	3,569,870	3,645,448	2.1%
2	Colon	Panama	3,356,060	3,286,736	3,577,427	8.8%
3	Balboa	Panama	3,187,387	3,468,283	3,294,113	-5.0%
4	Cartagena	Colombia	1,987,864	2,236,551	2,606,945	16.6%
5	Manzanillo	Mexico	2,118,186	2,355,149	2,458,135	4.4%

Source: CEPAL



Photography courtesy of: Manzanillo International Terminal

B.

OVERVIEW OF RELATIONSHIP BETWEEN PANAMA AND USA



Since the 1900's Gold Rush, the independence of Panama from Colombia and the construction of the once French-owned Canal, the United States of America and Panama have had strong diplomatic and commercial relationships. The USA and Panama share many common interests for the prosperity of both countries: improving citizen safety, strengthening democratic and governance institutions, cooperating together in order to combat illegal drug trafficking and other criminal activities, and promoting economic, democratic, and social development through U.S. and international agencies (U.S. Department of State, 2012).

Panama has a largely service-based economy, and has historically run a merchandise trade deficit with the United States. According to the United States Census Bureau, in 2015, the United States achieved a \$7,255.3 million trade surplus with Panama, exporting about \$7,663.5 million in goods and importing \$408.3 million. Panama's major exports to the United States include fish and seafood, gold, sugar, and fresh fruits. Major imports from the United States include oil, machinery, aircrafts, consumer goods (corn and wheat), and food preparations.

In 2015, Foreign Direct Investment in Panama reached a total of \$5.039 billion. Opportunities for investment continue to exist in the logistics, tourism, agriculture, financial services, and science & technology sectors.

9. Trade Promotion Agreement

The Trade Promotion Agreement (TPA) between USA and Panama was the product of negotiations that concluded on December 19th, 2006. On March 30th, 2007 President Bush notified the US Congress of the intention to make a trade agreement with Panama. After a long process of investigation and negotiations, the US Congress approved the agreement. Panama and the USA signed the Trade Promotion Agreement on June 28th, 2007. Panama's National Assembly approved the Agreement on July 11th, 2007, but the US Congress approval lingered until 2011. The Trade Promotion Agreement with Panama was signed into law on October 21st, 2011, and entered into force in both countries on October 31st, 2012.

Panama sought the TPA in order to make trade rules with the United States permanent, and perhaps more significantly, to promote foreign investment in the country. The United States has stressed that the TPA with Panama, in addition to enhancing trade by giving the United States greater access to Panama's growing market, would also provide greater access to Panama's large service sector. According to U.S. officials, Panama's strategic location as a major shipping route (with about 10% of U.S. international trade passing through the Canal), enhances the significance of the TPA for the United States. The TPA established a bilateral free trade area that eliminates tariffs on the vast majority of goods which satisfy the Agreement's rules of origin. There are specific provisions in the

Agreement on customs administration and trade facilitation, which would simplify the bilateral trade of goods. The TPA also liberalizes cross-border trade in virtually all services, with specific chapters focused on financial and telecommunication services. It builds upon existing WTO agreements, as well as other agreements and international commitments, by strengthening the rules that govern investment, intellectual property rights, labor, the environment, and government procurement.

U.S. firms will have better access to Panama's service sector, compared to those that Panama provides to the other WTO members under the GATS (The General Agreement on Trade in Services). All service sectors are covered under the TPA, except where Panama has made specific exceptions. Moreover, Panama agreed to become a full participant in the WTO Information Technology Agreement.

The TPA changes rules for U.S. exporters to Panama. More than 99% of Panama's agricultural exports enter the U.S. market duty-free, and approximately 40% of U.S. agricultural exports enjoy duty-free access to the Panamanian market. The TPA eliminates duties on half of U.S. farm exports, including on high-quality beef, frozen turkeys, sorghum, soybeans, soybean meal, crude soybean and corn oil, almost all fruit products and tree nuts, wheat, most peanuts, whey, cotton, and many processed products. It also eliminates nearly all of remaining tariffs on U.S. farm exports within 15 years and it immediately provides duty-free access through Tariff Rate Quotas (TRQs) for specific volumes

of standard grade beef, chicken leg quarters, pork, corn, rice, and dairy products.

Over 87% of U.S. exports of consumer and industrial products to Panama become duty-free immediately, with remaining tariffs phased out over a period of ten years. U.S. products which gained immediate duty-free access include: information technology equipment, agricultural and construction equipment, aircraft and replacement parts, medical and scientific equipment, environmental products, pharmaceuticals, fertilizers, and agro-chemicals.

In addition to the favorable market access provisions, the Agreement resolves significant sanitary and technical issues. Panama, for example, will recognize the meat inspection system of the United States as equivalent to its meat inspection system.

Due to the small size of the Panamanian economy the impact of U.S. Goods Exports to Panama will be significant. However, since Panama has had a traditional service market oriented economy; chapter 11 of the TPA means a tremendous window of opportunity for Panamanians wishing to exports this type of services to the U.S market.

The Agreement also established a bilateral Free Trade Commission to supervise the implementation and the work of all committees and working groups established under the Agreement. Furthermore, there are numerous provisions throughout the Agreement that promote bilateral consultation and cooperation,

procedural and substantive due processes, administrative and judicial review, transparency, and the rule of law. Finally, the TPA contains a transitional safeguard measure and a mechanism for settling disputes.

In 2015, Panama imported US\$3.141 million from the USA, which represents 25% of the total imports of the country.



Among the most important products that benefit from the TPA are:

Petroleum oils & oils	Obtained from bituminous minerals (other than crude) - In 2015, the United States, exported US\$262,606,144 to Panama.
Petroleum spirit for motor vehicles	In 2015 the export figure from USA to Panama was over 138,000,000.
Corn	In 2015, the United States exported nearly US\$69 million of corn to Panama, without counting seeds. The Agreement provides immediate duty-free access for a specific volume of U.S. corn through a 298,700 metric ton TRQ, with 3% compound annual growth. Panama will phase-out the out-of-quota tariff of 40% over 10 years with tariff reductions beginning after 5 years.
Oil cake & other solid residues	In 2015, the United States exported over \$70 million to Panama, from extraction of soybean oil. The Agreement locks in duty-free treatment for U.S. soybeans, soybean derivatives and crude soybean oil. Panama will phase-out the 20% tariff on crude soybean oil over 15 years beginning after 5 years.
Telephones and portable automatic data processing machines	In 2015, the United States exported to Panama over US\$60 million of telephones for cellular networks, central processing units, keyboards and displays.
Vehicles	In 2015, the USA exported to Panama over US\$56 million in vehicles, principally designed for the transport of persons.
Food preparations	In 2015, the United States exported over US\$40 million in food preparations to Panama.
Wheat	In 2015, the United States exported over US\$35 million of wheat to Panama. The Agreement locks in duty-free for U.S. wheat.
Rice	In 2015, the United States exported US\$3,800,000 of rice to Panama. The Agreement provides immediate duty-free access for a specific volume of rice through two TRQs totaling 12,190 metric tons, with 6% compound annual growth. Panama will phase-out the out-of-quota tariff of 90% over 20 years beginning after 10 years.
Horticulture and Horticultural Products	In 2015, the United States exported US\$29 million worth of horticulture and horticultural products to Panama (including fresh and processed fruits and vegetables, nuts, coffee and tea). Panama's tariffs on these products range from zero to 81%. Under the Agreement, Panama will provide immediate duty-free access on nearly 80% of these products. With a few exceptions, Panama will phase-out tariffs on most of the remaining products over 5 years.

Poultry	In 2015, USA exported US\$4,865,000 worth of poultry to Panama.
Industrial goods	Currently face an average tariff of 7% in Panama, with some tariffs as high as 81%.
Agricultural goods	Face an average tariff of 15%, with some tariffs as high as 260%, because there is a high governmental protection over some local productions.

Some of the most relevant aspects of the Trade in Services sections are:

Telecommunication Services

This chapter regulates the access and use of public telecommunication services, covers obligations regarding public services providers and independent regulatory organisms, submarine cables systems and conditions relating to the supply of information services. Based on the actions agreed under the TPA, the parties will have a non-discriminatory access to networks and essential resources. It is worth mentioning that mobile services have been excluded from some sections of the chapter.

Professional Services

The professional services provisions will contribute to increased market access and national treatment for U.S. professional services, practitioners engaged in cross-border trade, especially in such services historically reserved for Panamanian nationals. Certain professional services should benefit from a process whereby agreements on mutual recognition could be accomplished over time, such as in Engineering.

Retail Services

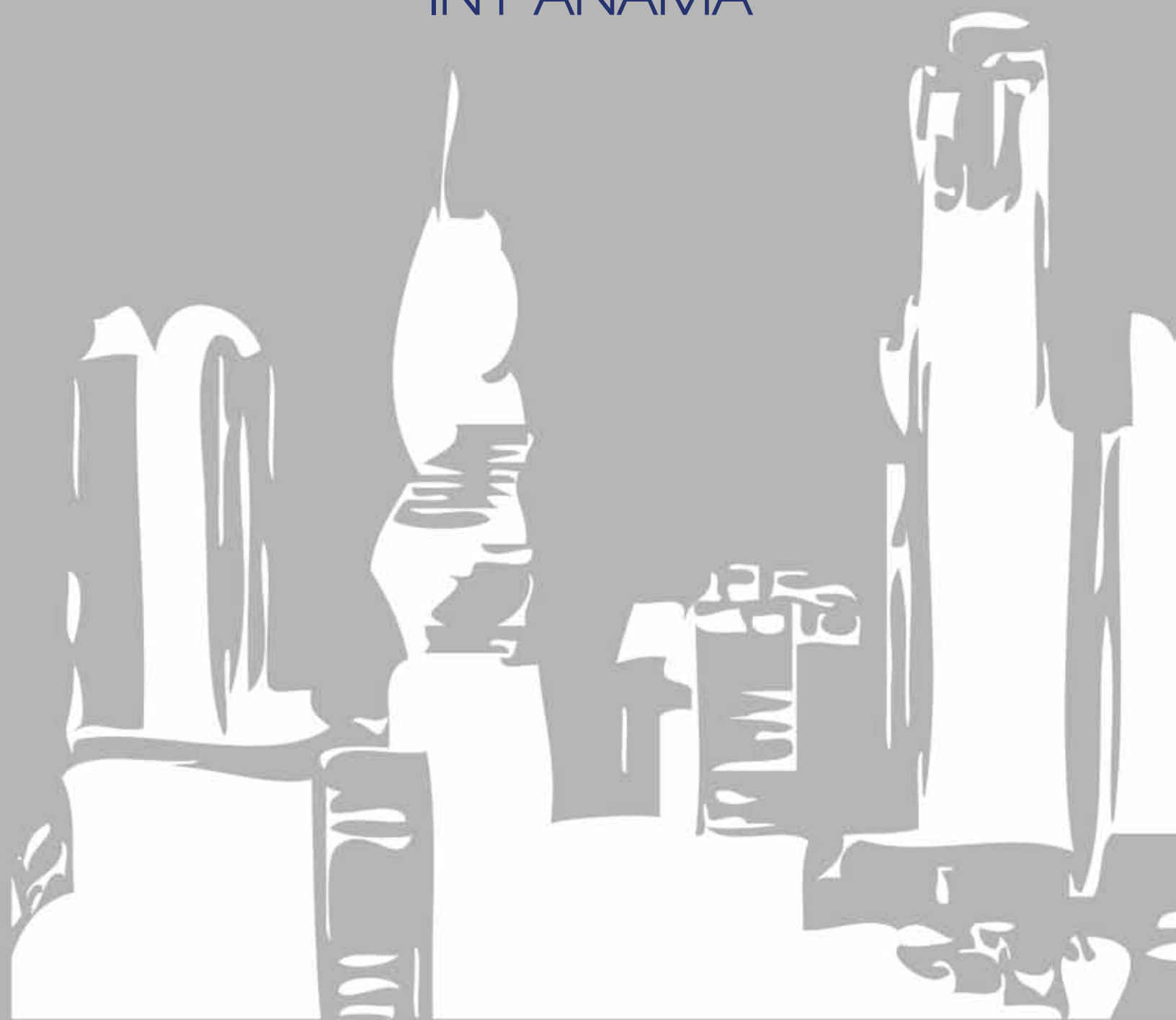
Retail service provisions will improve conditions of market access and national treatment.

Financial Services

The financial services provisions will lead to increased penetration of the Panamanian market by U.S. firms.

C.

BUSINESS
OPPORTUNITIES
IN PANAMA



10. Logistics

Even though there is no separate category for logistical services in the WTO Services Sectorial Classification List, elements related to logistics are included under various headings: for example, in the "Transport Services" sector (freight transportation, cargo-handling services, storage and warehouse services, freight transport agency services, etc.) and the "Business Services" sector (inventory control, order processing, etc.). Other related elements, such as customs clearance services, container station and depot services, and maritime agency services, were in fact introduced over time, thus WTO Members generally recognized the specific characteristics and the importance of those elements in achieving the unfettered delivery of goods.

The express delivery service sector is believed to be taking on ever greater importance in issues related to logistics and inventories. A clear linkage is also seen between logistical services and other activities, such as electronic commerce and customs and health procedures; areas in which Panama has strengthened its institutional framework and implemented speedier procedures.

In addition, Panama has the largest merchandise redistribution free zone in the Western Hemisphere - the Colon Free Trade Zone - as well as the Panama Pacifico Special Economic Area (Área Económica Especial Panamá Pacífico), an area reserved for the product of high technology

services as well the import, export and re-export of merchandise and other goods. Another recently added Special Economic Area is Vaguil S.A., also known as the World Jewelry Hub, the only one in Latin America for the exchange of diamonds and gems.

The Panama Canal is the principal component of the logistical hub that also contains a system of container terminals between the Pacific and the Caribbean, supported by the inter-oceanic railway, a maritime hub with ports on both the Atlantic and the Pacific Coasts, and an International Air Transportation Platform. Panama's geographical position enables it to offer a modern logistical platform via sea, land, and air to both domestic and foreign investors, which has been one of its most valuable assets, presently serving as a natural access center for the markets of over 3.5 billion people.

Before the Panama Canal Expansion, only 20% of sea traffic coming from Asia took the Canal, because it takes 21.6 days to complete the route; the rest went through the Suez Canal, to the US east coast, taking 21 days. The impact of having Post Panamax ships, which carry as much cargo as 16 trains, on commodities traffic is important. The Panama Canal Expansion project ended, and started operations in late June 2016. The Expanded Panama Canal is expected to increase the overall transit to 42 vessels per day and 51 vessels per day in 2020, in order to handle the expected 8.4% yearly increase of containerized cargo commerce.

The Expansion will also make the US economy more efficient, since it has greater value for the transportation of commodities to get from the West Coast to the East Coast faster and with greater value. Moreover, it relieves congestion from the LA/Long Beach port, and might double the traffic in big east coast ports like Savannah, Charleston, New York/New Jersey. These are the reasons the East Coast ports are having a huge expansion process.

The Panama Canal's capacity is complemented by the container ports in the Atlantic and the Pacific Coasts that function as merchandise transshipment and redistribution centers, moving more than 4 million TEUs annually, which it might sky rocket in the next years due to the expansion and increasing port facilities. Balboa Port is expected to grow annually to 4.5 million TEUs. Expanded traffic might need an increase in the logistic support to ships in the Panama Canal ports including ship repair facilities like shipyards and dry docks.

These ports are considered among the most modern in Latin America and are part of the largest Logistical Center in the region. The Panamanian government is expected to continue to invest in the construction of a very well developed transportation and communication infrastructure.

The projects approved by the Maritime Authority of Panama are:

Puerto Verde Panamá Atlántico

Located in Isla Largo Remo, Colón, under concession, approved in 2014. The project is a mega port of 127 hectares with an estimated cost of \$7.97 billion over 7 years. The promoter is Linden Partners, a Spanish enterprise.

The main purpose is to offer logistics services and fuel NeoPanamax or SuperPostPanamax ships. It will also offer a container, bulk carrier, liquid cargo, fishing and passenger terminals, a shipyard, warehouses, office buildings, touristic center and an energy plant.

Mystic Rose Terminal

Located in Balboa, Panama, under concession, approved in 2013. Next to the Puente de la Americas bridge, developed by Port & Harbour Marine Service Corp. at a cost of 17 million over 9.5 hectares.

It's a dock for resupply and refueling, for cargo and passenger transportation, for ship repair and maintenance, for the disposal of solid and liquid trash, and other auxiliary services.

Muelle 3

Located in Cristóbal, Colon, under concession, approved in 2012, for 20 years to Termini Financing Group, S.A. It will handle general cargo, resupplying, and storage of fuel, oil, lubricants and other petroleum based products needed for ships, shuttle boats, barges and tugboats, in an area of 2.4 hectares.



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Panama Colon Container Port (PCCP)

Located in Coco Solo, Colon, under concession, recently approved. It is the former US naval station of Fort Randolph of 37 hectares with four docks. The terminal will handle up to 2 million TEUs after a \$600 million investment. The docks are designed for NeoPanamax or SuperPostPanamax ships, containers, refrigerated containers, multipurpose ships, and general cargo ships. The builder is a Chinese enterprise.

The New Corozal Terminal

A new proposal under negotiation, presented by the Panama Canal Authority (ACP). This project will cover 118 hectares. It will be a mixed ownership concession between the ACP and undisclosed private partners. It will have docks capable for five simultaneous PostPanamax ships, railroad access, a container Park, and should be able to manage up to 5 million TEUs when fully completed.

Regarding mass transit and sanitation infrastructure, the government has announced plans to:

Construct the Metro Line 2 from San Miguelito to Nuevo Tocumen, covering the northeast part of the city.

Expand the Panama-Arraijan highway;

Expand the Chorrera-San Carlos highway;

Build a Third Bridge over the Panama Canal in Colon (currently under construction);

Build a Fourth Bridge over the Panama Canal (it will be a road-rail bridge);

Construct water plants in Santiago, Gatún, and La Arenosa.

Expand the Chilibre and Sabanitas water plants.

Expand the sewage networks in Santiago, David and Panama City.



Photography by: Maria Maarbes /Shutterstock.com

Another major project is the expansion of the Tocumen Airport, to be inaugurated in 2017. The new terminal consists of a building of 80,000 square meters and 20 boarding gates, at an estimated cost of US\$679.4 million. The project also includes an expanded immigration, commercial and retail space, parking lots, access roads and bridges.

Lastly, the Panama Canal Railroad Company (PCRC) provides an efficient high-volume transshipment system, connecting the Pacific Intermodal Terminal, located contiguous to the Port of Balboa, and the Atlantic Intermodal Terminal, located next to the Port of Manzanillo International Terminal and the Colon Free Zone. Currently it handles 650,000 containers per year, but it has a maximum capacity of 2,000,000 containers per year.



Photography courtesy of: Panama Canal Railway Company

The PCRC also offers transportation to passengers, with a capacity of 310 passengers per trip. With passenger stations on both sides, people can travel next to the Canal and through the rainforest. The Corozal Passenger Station is located at the Pacific side, while the Atlantic Passenger Station is located at Monte Esperanza in the city of Colon, near the Cristobal Port.

11. Agroindustry

In the agro-industrial sector, Panama has an exceptional natural advantage that makes it different from the other countries in the region. The high amount of daylight hours, the absence of extreme summers, and high soil and water quality contribute to the fruit's greater sweetness, allowing Panama to position its exportable goods into markets such as the United States, Central America and Europe.

This sector is mostly locally oriented and needs more investment in areas other than the traditional rice and banana sector. The biggest opportunities are the so called non-traditional products which include: pineapples, melons, cucurbits, tubers, coffee, flowers, orchids, plantains, and salmonid, among others.

Panama's Ministry of Commerce and Industry (MICI for its acronym in Spanish), through the National Export Program, conducts Agro-Export Seminars where attendees are instructed in export logistics, market analysis, management of international prices, certifications, and how to negotiate international standards contracts.

These are some of the concepts that Panamanian producers must handle, in order to enter the market of agro-exports.

12. Financial Services

The Panamanian Financial Centre, consisting largely of banking services, insurance, and securities, is one of the key strategic areas of the country's economy. According to the statistics of the General Comptroller's Office, financial intermediation corresponded to the 7.7% of 2015's GDP.

In recent years, the regionalization of banking and insurance in Latin America has redefined the structure of the Panamanian Financial Centre, which seeks to expand and diversify its operations in the region. For this reason, Panama is promoting open trade practices in the sector, in order to achieve greater access to other markets.

Since 1904, Panama has used the US Dollar as its legal tender; thus allowing it to enjoy low inflationary pressures and zero exchange risks for American investors. Also, Panama does not have a Central Bank and enjoys international trustworthiness in its Banking System. The lack of a Central Bank means that there is no mandatory central currency. Therefore, technically, business can be transacted in Euros, gold, silver, and other currencies.

This has created a small but growing niche market for those interested in creating alternatives for

businesses and savings accounts, and who do not want to use traditional currencies because of the threat of inflation.

The aforementioned conditions have contributed to the development of the prestigious International Banking Center, made up of more than 90 financial institutions including banks with general licenses, with international licenses, and with representative offices. Panama's Banking Superintendence estimates that in April 2016 its total assets added up to more than US\$117,827 million. Moreover, it is strictly governed by the principles of the Basel II Convention, which represent an international standard for banking regulators on the control of how much capital banks need to guard against the types of financial and operational risks, they (and the whole economy) face. In January 2016, Panama started to apply Basel III Convention regulations gradually, according to the 2015-2019 plans.

Panama has subscribed with the US the "Agreement to Improve International Tax Compliance and to Implement the Foreign Account Tax Compliance Act (FATCA)", known as Intergovernmental Agreement or IGA Model 1 as discussed in the following pages. Furthermore, Panama has committed to subscribe to many other financial agreements with the Organization for Economic Co-operation and Development (OECD), in order to improve tax transparency to tax administrations overseas. In 2015, Panama enacted a legislation to meet the current Financial Action Task Force on Money Laundering (FATF) Standards.

13. Tourism

Tourism evolution in Panama has grown in the past 10 years reflecting an annual average growth rate of 18.9% and corresponding to 11.5% of 2015's GDP. Due to the increasing relevance that the tourist sector is achieving each year in Panama, the government, through its Tourism Authority (ATP for its acronym in Spanish), considers essential the implementation of a strategic framework for the continuing development of this sector. This instrument, known as the Sustainable Tourism Master Plan 2007-2020, is driven by both the government and private sector of Panama, and is funded by the Inter-American Development Bank (IDB) with the support of the World Tourism Organization (UNWTO). The regulation of this sector is a necessary step that streamlines its development and allows the strengthening of tourist institutions. Likewise, the Plan establishes as a development priority the institutions of the public and private sector and their inter-institutional coordination.

This Master Plan also includes the airline connectivity, which accounts for more than 72 destinations by way of more than 10 international airlines. COPA Airlines, the flagship airline, is responsible for the operation of the HUB of the Americas that offer over 50 destinations to more than 25 countries in the Americas, with excellent connections and in some cases with a frequency of up to three daily flights to the most important cities of Latin America.

Other operating companies are: KLM, Avior Airlines, Air France, Avianca, AeroMexico,

Spirit, TAP Portugal, American Airlines, Delta, Condor, Geteca Aviation, United Airlines, Venezolana, Aruba Airlines, Air Canada, SBA Airlines, Iberia, Conviasa, Turkish Airlines and Lufthansa. Emirates Airlines announced that flight operations between the cities of Dubai and Panama, which would be the longest flight in the world, would start in 2017.

Panama City and Colon City tourism is still mostly commerce oriented. However there are also various cultural activities such as: the Panama Jazz Festival, the International Film Festival, "The Day After" Festival, ballet, theatre, concerts and many local festivals.

The development of cultural tourism has increased in the past years with the help of the government. New direct flights from Europe, the upcoming expansion of Tocumen Airport, the rehabilitation of the old airport in Rio Hato, and an upgraded road network, has opened new opportunities for tourism investment in the central region of Panama. Hotels in Panama vary according to their size, renown and cost.



Total visitors of Panama through the main ports of entrance

Port of Entrance	January - May		Variation	
	2015	2016	Absolute	Relative
Total	1,155,038	1,122,135	-32,903	-2.8
Tocumen International Airport	814,469	821,158	6,689	0.8
Paso Canoas Frontier	68,732	65,094	-3,638	-5.3
Cruise Ports	182,099	130,740	-51,359	-28.2
Other Ports	89,738	105,143	15,405	17.2

Sources: Comptroller of the Republic of Panama, ATP



Photography courtesy of: Tourism Authority of Panama

14. Mining and Oil Prospects in Panama

Mining, in the early 2010s, became one of the leading sectors of the Panamanian economy after a recording growth of 25% in 2013. Mining activity has grown at a yearly rate of 18% and the share of the national GDP has reigned steady at approximately 2%. In early 2014, the government announced that identified mineral reserves are valued at an estimated US\$200,000 million, according to 2014 prices. According to the Executive President of the Mining Chamber of Panama, Zorel Morales, the new reserves include 50 billion pounds of copper, 12 meter ounces of gold, 25,000 ounces of silver and 250 tons of molybdenum. Copper mining still has a long term potential because Panama has Cerro Colorado and Petaquilla, two of the largest untapped copper deposits in the world. Incidentally, there are around 152 nonmetallic mining permits that are active and 15 metallic mining permits projects approved.

Cobra Panama, one of the world's largest open-pit copper mines, is under development by Minera Panamá, a subsidiary of Canadian-based First Quantum Minerals. The concession is located 120 km west of Panama City and 20 km from the Caribbean Sea coast, in the district of Donoso, Colon province, in the Republic of Panama. The concession consists of four zones totaling 13,600 hectares.

In the Los Santos province in south-western Panama, 255 km from Panama City, is the

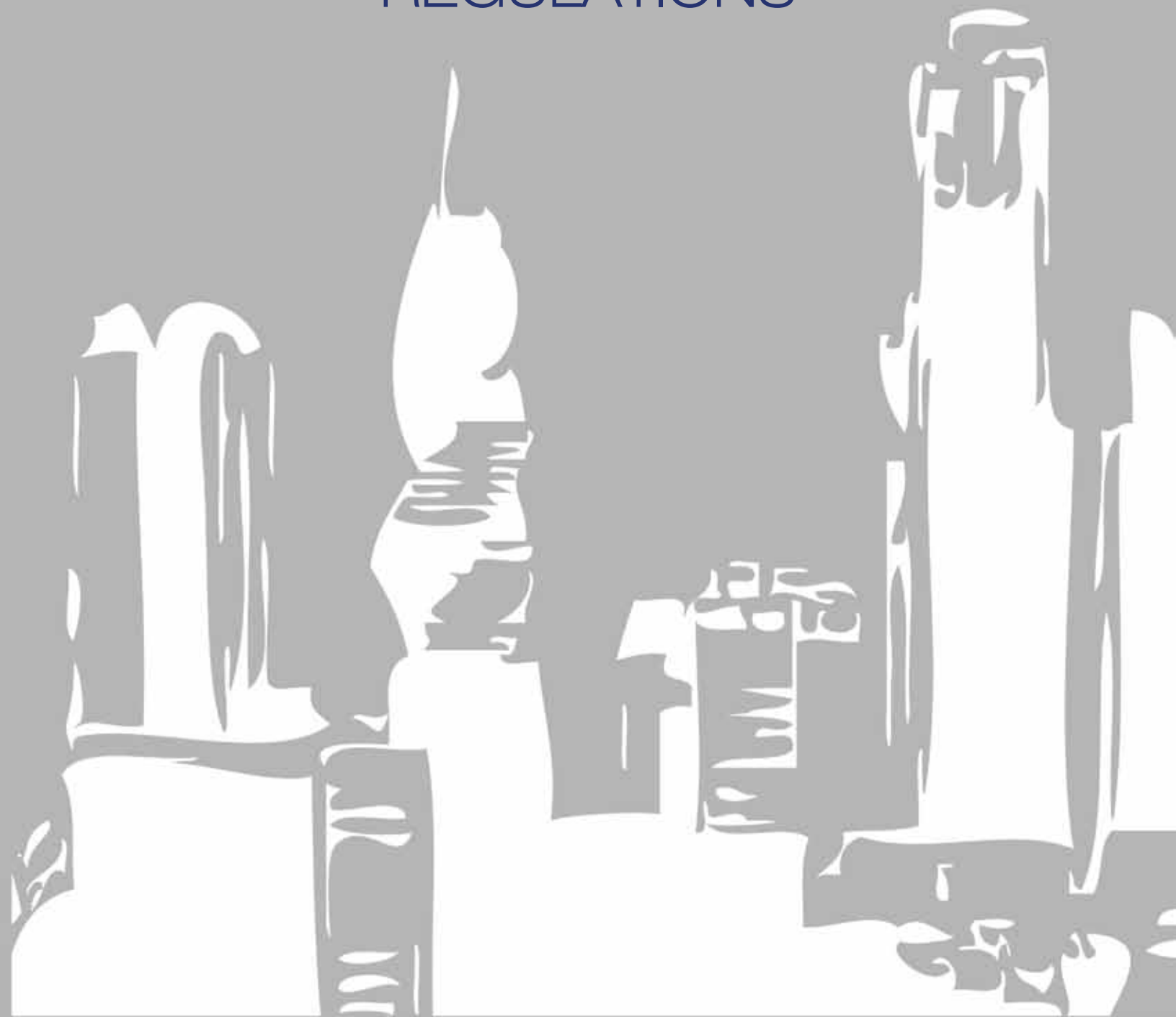
Cerro Quema project – a smaller, five-year lifespan mine owned and managed by Canadian company Pershimco Resources. The concession grants Minera Cerro Quema, a wholly-owned Panamanian subsidiary of Pershimco, the exclusive rights for the extraction of gold and silver for 20 years, over an area of 768 hectares.

The National Secretariat of Energy announced in 2011 that in the Darien province there are around 900 million barrels of hydrocarbons. They also announced in 2015 that preliminary exploration of oil in the Panamanian Caribbean will be retaken in the upcoming years.



D.

PANAMA BUSINESS REGULATIONS



15. Corporations and Legal Entities

The Panamanian legislation provides for various types of legal entities through which economic activities can be carried out in the country, such as Partnerships and Limited Liability Companies. However, the Panamanian Corporation is the most widely used business entity. It is flexible and versatile for both local and foreign investors. Panamanian Corporations (known in Spanish as “Sociedades Anonimas”) are governed by Law No. 32 of 1927, which is based on the General Corporation Laws of the State of Delaware, enacted in 1899. Two or more persons of legal age, not necessarily Panamanian citizens or residents of the Republic of Panama, may form a Corporation for any lawful purpose by subscribing in Panama or abroad, in any language, to the articles of incorporation. Panamanian Law requires a minimum of three (3) directors and three (3) officers for Corporations.

The directors may also act as officers of the company, i.e. President, Secretary and Treasurer, or other positions as desired. Directors and Officers do not need to be shareholders and they may be non-resident foreigners. Also, Directors may be legal or natural persons. Panamanian Corporations may engage in all lawful business activities, in any country, and may conduct transactions in whatever currencies they choose. The charter documents must be registered in the Public Registry of Panama (Registro Público de Panamá). Once registered, the Corporation

attains full legal rights and powers to carry out its activities.

According to Panamanian tax laws, no income tax is paid for the following activities performed by Corporations:

Invoicing the sale of goods and merchandise through a Corporation’s office located in Panama, at a price greater than the one invoiced to the Corporation located in Panama for the same goods or merchandise, as long as those products or goods remain outside of the country.

Directing, through a Corporation located in Panama, transactions that will become effective, consummated or performed outside of Panama.

Distributing dividends and expatriating profits from Panamanian Corporations or other legal entities when said income is not produced in Panama.

In addition to the tax benefits above, Corporations also have advantages regarding stockholders and directors. These benefits include:

Stockholders may be Panamanians or foreigners or foreign legal entities.

There is no requirement on nationality or residency for directors and officers.

Board of Directors or Stockholders Meetings can be held in any country.

The Commercial Code (Law No. 2 of 1916) offers other types of associations or partnerships:

General Partnerships (Sociedades Colectivas)
- In this association, partners' liabilities are unlimited, unless the partnership agreement states that a partner will be liable for a limited sum, which may never be lower than the contribution to the partnership.

Simple Limited Partnerships (Sociedad en Comandita Simple) - They consists of general and limited partners. General partners share management responsibilities and are jointly and severally liable for the partnership's debts. Limited partners are liable only up to the amount of capital they have invested.

Limited Liability Companies (Sociedades de Responsabilidad Limitada) - In this type of entity, the liability of partners is limited to the individual's capital participation.

Joint-stock Partnerships (Sociedad en Comandita por Acciones): Similar to simple limited partnerships, but with the partners' capital represented by shares.

Private Interest Foundations (Fundaciones de Interes Privado) - Foundations used primarily for estate planning, which allows the transfer of assets of the deceased founder without the need to go to court. These entities are regulated by Law No. 25 of 1995.

The previously stated legal entities must register in the Public Registry of Panama in order to attain full legal rights and powers to carry out their activities. The process involves filling a Public Deed, issued by a Panamanian Notary Public, through minutes prepared by a Panamanian licensed lawyer.

On account of the FACTA legislation and the Financial Action Task Force on Money

Laundering Standards, Panama must automatically disclose the end beneficiaries of Panamanian corporations and trust funds. Moreover, Law No. 18 of 2015 does not allow the free issue of bearer shares unless it is a publicly traded company subject to stock exchange information, or the bearer shares are tied to a licensed securities custodian. There are also expanded obligations to perform due diligence procedures, found in Law No. 23 of 2015.

“Tying” bearer shares allows them to exist while permitting some measure of transparency for law enforcement agencies.

Laws discussed:

Law No. 32, February 26th, 1927, Regarding Corporations – Ley 32, de 26 de febrero de 1927, Sobre Sociedades Anónimas

Commercial Code – Law No. 2, August 22nd, 1916, Whereby the Penal, Commercial, Mine, Fiscal, Civil and Judicial Codes, prepared by the Assessment Committee, are approved – Ley 2, de 22 de Agosto de 1916, Por la cual se aprueban los Códigos Penal, de Comercio, de Minas, Fiscal, Civil y Judicial, elaborados por la Comisión Calificadora

Law No. 25, June 12th, 1995, Whereby Private Interest Foundations are Regulated – Ley 25, de 12 de junio de 1995, Por la cual se Regulan las Fundaciones de Interés Privado

Law No. 18, April 23rd, 2015, That Modifies Articles of Law No. 47 of 2013, Whereby a Custody Regime, Applicable to Bearer Issued Shares, is Adopted – Ley 18, de 23 de abril de 2015, Que modifica artículos de la Ley 47 de 2013, Que adopta un régimen de custodia aplicable a las acciones emitidas al portador

Law No. 23, April 27th, 2015, Which Adopts Measures in Order to Prevent Money Laundering, the Financing of Terrorism and the Financing of the Proliferation of Weapons of Mass Destruction, and Dictates Other Provisions – Ley 23, de 7 de abril de 2015, Que adopta medidas para prevenir

el blanqueo de capitales, el financiamiento del terrorismo y el financiamiento de la proliferación de armas de destrucción masiva, y dicta otras disposiciones

16. Operation Notice

Law No. 5 of 2007 created a new on-line system known as “Panama Emprende” (www.panamaemprende.gob.pa) which facilitates the establishment and operation of companies. The new system replaces the use of commercial licenses with the Operation Notice (Aviso de Operación, in Spanish). In addition, since April 24th, 2012, the Ministry of Commerce and Industries (MICI, according to its Spanish acronym) and the City Hall of Panama City have become interconnected through Panama Emprende.

As a result, it is no longer necessary to visit City Hall to obtain a taxpayer number. Now entities can receive the municipal taxpayer number together with the operation permit through Panama Emprende automatically.

This new system eliminates the inconvenience of permit applications and state authorizations required to operate a business in Panama, thus motivating entrepreneurs to accelerate the execution of their projects as well as adding stimulus to the country’s economy.

The main advantages of the Operation Notice are:

It is an online process performed through the MICI's specialized web page, www.panamaemprende.gob.pa, which eliminates long queues, office visits and waiting periods.

It is the only requirement that the MICI stipulates enterprises need to begin most commercial activities. (There are certain businesses that require other special permits.)

The Operation Notice's system informs the user if other special permits are required, or if its line of business is of special concern.

When you obtain the Operation Notice, the system automatically informs City Hall. In order to complete your registration, you must provide the City Hall with some physical documents.

It establishes a fixed rate for legal or natural persons, without distinction or additional charges related to the businesses they operate.

The Operation Notice fee can be paid at the National Bank of Panama (Banco Nacional de Panama, in Spanish) or online with the use of a credit card.

The system allows the printing of the Notice and the user can sign the document, thereby formalizing it.

The basic information that is needed in order to fill the Operation Notice is:

The company name and registration information.

General information on the Company's managers and directors.

An office address.

Contact information, such as phone numbers, emails, etc.

The type of business or related activities, as well as an initial investment figure.

After filling, printing and signing the Operation Notice, it must be kept visible at all times in the company's office or workplace.

Laws discussed:

Law No. 5, January 11th, 2007, Which Streamlines the Process of Opening Businesses and Establishes other Provisions - Ley 5, de 11 de enero de 2007, Que agiliza el proceso de apertura de empresas y establece otras disposiciones



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PANAMA'S LEADING IMMIGRATION LAW FIRM

Our firm specializes in visas/residences and work permits in Panama, providing comprehensive Immigration services to a diverse range of organizations and their employees who have chosen Panama to set either local operations or international ones as Multinational Headquarters.

OUR LAW FIRM SPECIALIZES IN PROVIDING:

- Protocols for hiring foreign employees.
- Tourist and Business Visas.
- Comprehensive analysis of the organization's employees immigration status, current risks, and solutions to ensure compliance with existing local immigration laws and requirements.
- Quota calculations, temporary residences, and work permits under local 10% or 15% quota regulations.
- Setting a strategic immigration and work permit plan for new companies moving to Panama.
- Consular services and document procurement
- Special Immigration residences processes such as: Multinational Headquarters (SEM), Panama Pacifico Agency, City of Knowledge and Free Zone with a highlight of benefits, timing, company requirements, and labor/fiscal analysis for those special procedures.
- Monitor expiration dates of visa/work permits in order to make certain that extensions are started in a timely manner, and/or cancellation of work visa is completed once assignment is over, as per local regulations.
- Permanent residences under special regulations, such as Specific Countries, Panama-Italy Treaty, and Professionals.

KNOWLEDGE AND COMPLIANCE

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17. Income Taxation

According to the Panamanian Constitution, no tax or contribution can be levied unless such tax has been previously legally established. The Panamanian tax system is based on the territoriality principle, which means that all income derived from local operations is subject to income tax, unless otherwise stipulated in special laws, while foreign sources of income are exempt. The Panamanian-source income is considered to be all income arising from any service or activity, which benefits any person located in Panama, including fees, interests and royalties. In cases where such income is derived through individuals or legal entities located outside of Panama, the amount of the tax to be withheld is one-half of the sum which would normally be taxable as Panamanian-source income. Income earned either from activities or transactions performed abroad is considered to be of foreign source and isn't taxable.

In 2013, Panama started negotiations with the US government to implement the 2010 Foreign Account Tax Compliance Act (FATCA), aimed at identifying US fiscal residents, who generate income from foreign sources. FATCA compels Panamanian banks and defined entities to send information to the US Internal Revenue Service (IRS). This agreement requires local banks and other financial institutions to determine which depositors are US fiscal residents, and thus share this information with the IRS. These entities will also act as tax agents for the IRS, retaining 30% of payments from the accounts of enterprises,

who fail to comply with the FATCA regulations. Specifically, any U.S. taxpayer with assets over \$50,000 placed in financial institutions in Panama will have their finances reported to the IRS.

The U.S Department of the Treasury states that the Agreement between the Government of the United States of America and the Government of the Republic of Panama to Improve International Tax Compliance and to Implement FATCA entered into effect June 30th, 2014. The General Directorate of Revenues (DGI, according to its Spanish acronym) informed in August 2016 that Panama should be sending the first FATCA report in September 2017, should the Agreement and its rules of implementation be ratified by the National Assembly before December 31st, 2016.

18. Double Taxation Treaties

Double taxation occurs when the same transaction or income source is subject to tax by two or more taxing authorities. This can occur within a single country, when multiple independent governmental units have the power to tax a single transaction or source of income, or may result when different sovereign states impose separate taxes, in which case it is called international double taxation. A country can unilaterally offer tax credits for foreign taxes paid, or outright exemptions from taxation of foreign-source income.

Many countries have signed treaties to mitigate the effects of double taxation through Double Tax Agreements, which may cover income tax and capital tax.

Panama has double taxation agreements with many countries, which allow residents of the contracting states to obtain relief from double taxation when doing business in Panama. The countries that have signed double taxation agreements or Exchange of Information Agreements with Panama are: Barbados, Canada, South Korea, United Arab Emirates, Spain, Finland, France, Greenland, Iceland, Faeroe Islands, Luxembourg, Mexico, Norway, Portugal, the Netherlands, Sweden, and Vietnam.

In April 2011, Panama approved a tax information agreement with the USA and thereafter the TPA was passed by the US Congress on October 12th, 2011 as discussed above.

19. Information Exchange

Complementing FATCA and bilateral agreements, Panama passed Law 23 of 2015. The aforementioned law created the Intendence of non-Financial Subjects (Intendencia de Sujetos no Financieros, in Spanish) and took measures to strengthen the Financial Analysis Unit (Unidad de Análisis Financiero). Law 23 creates several government agencies to look out for money laundering, to receive reports from banks, loan, insurance and securities companies, and stock exchanges on suspicious activities and to exchange information

regarding crimes. Monitored enterprises include:

Law firms
Pawn shops
Real Estate agencies
Factoring agencies
Leasing agencies
Plastic or e-money issuing agencies
Free Zones enterprises
Casinos
Construction firms
Stock and bonds custodians
Money transfer agencies
Gold, silver and other bullion metal dealers
Gems dealers
Saving and loans societies
Some government agencies like state banks and lotteries

All of these businesses must have proper due diligence measures in order to identify the end beneficiaries and must report any suspicious activity, when not covered by professional confidentiality laws. In the case of lawyers and banks, they must also ensure the compliance of their clients on long business relationships. The law also regulates asset forfeiture of suspected money launderers.

Laws discussed:

Law No. 23, April 27th, 2015, Which Adopts Measures in Order to Prevent Money Laundering, the Financing of Terrorism and the Financing of the Proliferation of Weapons of Mass Destruction, and Dictates Other Provisions – Ley 23, de 7 de abril de 2015, Que adopta medidas para prevenir el blanqueo de capitales, el financiamiento del terrorismo y el financiamiento de la proliferación de armas de destrucción masiva, y dicta otras disposiciones

20. Immigration

Panamanian immigration law, Decree-Law No. 3 of 2008, classifies foreign nationals in four (4) general categories: non-residents, temporary residents, permanent residents, and foreigners under the protection of the Republic of Panama.

Non-Residents

Foreigners who enter Panama on an occasional basis and who are unwilling to take up residency in this country or to abandon the residency in their country of origin. They must rely on their own economic resources to finance their stay in Panama, and to leave at the expiration of the authorized period. Tourists, transit passengers and sailors are included in this classification. All travelers who wish to enter Panama must carry the equivalent of US\$500 or a credit card, and a return ticket. The stay of foreigners in any case may not exceed 90 days. If any foreigner wishes to initiate a procedure for obtaining a long-stay visa when in Panama, they may request an exceptional extension of 60 days by demonstrating to the immigration authorities, with supporting documentation, the seriousness of their claim.

Among the tourists, there are two classifications:

The nationals of countries having concluded an agreement or agreements with Panama on abolishing visas for tourism (for example, citizens of the Schengen area).

The nationals of countries that have not entered into such agreement (for example, Canada).

All the types of visas for non-residents can be obtained through Panamanian Consulates, Embassies or directly at the National Migration Service. All foreign relevant documentation needed to apply for visas must be legalized by Apostille and translated into Spanish.

The Executive Decree 320 of 2008 establishes visas with specific requirements for the following individuals: seamen, entertainment workers, transient or eventual workers, domestic workers, passengers and crew members of recreational or tourism vessels. The latter allows the passengers and crew members of recreational or touristic yachts and sailboats to stay 3 months (if the vessel is registered under a foreign flag) or 1 year (if the vessel is registered under the Panamanian flag).

Another interesting aspect of the Executive Decree 320 of 2008 is the introduction of the short-stay visa (Visa de Corta Estancia, in Spanish), which regulates the entry of individuals related to one of the following categories: business, family visit, research and science, medical treatment, trade and investment through special laws, international humanitarian assistance, and banking sector. The stay cannot exceed 9 months and this period cannot be extended. This visa would allow those who would not necessarily need or want to establish themselves immediately in Panama, to get to know the country and its investment opportunities. The commerce related activities that this visa allows are: establishing foreign subsidiaries, analyzing investment opportunities, executing transactions in Special Economic

areas, Call Centers or special areas designated for the development of the Film and Audiovisual Industry, and, for banking institutions, giving or receiving training, attending meetings, conventions, workshops, seminars, courses, internships, audits, verifications and inspection programs.

Temporary Residents: foreigners who come to Panama for a longer stay, but do not exceed six (6) years, due to work, exploration, family ties, study or religious reasons. Some of the professional related permits are geared toward: Employees of multinational companies with a subsidiary in Panama, as part of the policy regarding headquarters of multinational companies;

- Employees of entities or companies active in the technology sector of the City of Knowledge;
- Employees working for companies contracted by the Canal Authority or public institutions;
- Employees of companies established in the Colon Free Zone (CFZ) or Panama Pacifico (minimum wage of US\$ 2,000 for the CFZ);
- Foreigners employed by private companies within the 10% limit allowed for ordinary personnel or the 15% limit allowed for technical personnel (minimum wage of US\$ 850);

Temporary residents also include students, church members and religious congregations. Moreover, spouses or family members not wishing to reside permanently can apply for a permit in this category.

All the types of permits for temporary residents can be obtained through Panamanian Consulates, Embassies or directly at the National Migration Service. All foreign relevant documentation needed to apply for permits must be legalized by Apostille and translated into Spanish.

Permanent residents: These are foreigners who come to Panama with the intention of staying permanently. The Executive Decree 320 of 2008 states that these permits may be acquired for economic reasons, due to special policies and for family reunification.

In 2012, the Executive Decree No. 343 was issued, declaring that citizens of 22 friendly nations could apply to become permanent residents in a fast track manner. Since then, other Decrees have increased the number of friendly nations to 50. The formal wording of this permanent residency permit is for “citizens of friendly nations with professional and economic ties with the Republic of Panama.” This means that citizens of these countries must establish professional or economic relationship with Panama. This can be accomplished by starting a new business or purchasing an existing business or being hired to work for a Panamanian company.

Foreigners under the protection of the Republic of Panama: This category includes refugees, asylum seekers, stateless persons and persons under temporary humanitarian protection status. The recognition of such status is subject to national law and international treaties ratified by Panama.

Laws discussed:

Decree-Law No. 3, February 22nd, 2008, Which Creates the National Migration Service, the Migratory Career and Dictates Other Provisions – Decreto Ley No. 3, de 22 de febrero de 2008, Que crea el Servicio Nacional de Migración, la Carrera Migratoria y dicta otras disposiciones

Executive Decree No. 320, August 8th, 2008, Which regulates the Decree Law No. 3 of February 22nd, 2008, Which Creates the National Migration Service and Dictates Other Provisions – Decreto Ejecutivo No. 320, de 8 de Agosto de 2008, Que reglamenta el Decreto Ley No. 3 de 22 de febrero de 2008, Que crea el Servicio Nacional de Migración y dicta otras disposiciones

Executive Decree No. 343, May 16th, 2012, Which creates within the Permanent Resident Migratory Category, the Subcategory of Permanent Residents for Foreigners, Nationals of Specific Countries that maintain Friendly, Professional, Economical and Investment Relations with the Republic of Panama – Decreto Ejecutivo No. 343, de 16 de mayo de 2012, Que crea dentro de la Categoría Migratoria de Residente Permanente, la Subcategoría de Residente Permanente en Calidad de Extranjeros Nacionales de Países Específicos que mantienen relaciones Amistosas, Profesionales, Económicas y de Inversión con la República de Panamá

21. Investor Permits & Visas

Investor Permits and Visas are regulated under multiple decrees. Requesting permission for a temporary or permanent residence must be done through a legal representative to the National Migration Service.

Some of the visas and permits available to investors are:

Macro-Business Investor Visa: requires a minimum investment of US\$160,000.00 in any new business or corporation. If the Investor has dependents, the investment amount must increase by US\$2,000.00 for each dependent. Additionally, a commercial business license and a social security registration are needed, and five Panamanian employees must be hired under the conditions aforementioned in the Small Investor Visa Program. After this 2-year temporary resident visa expires, the individual is granted a permanent residence permit.

Panama Pacifico Special Economic Area Investor Visa: for foreigners that invest a minimum of US\$250,000.00 in a company registered in the Special Economic Area of Panama Pacifico. The investments funds must come from abroad.

Permits for Foreign Personnel Hired by Businesses in the Colon Free Zone: applicable only to foreigners that have been hired to lend functions in executive, confidence and management positions, or as specialized technicians, in businesses authorized to operate

in the Colon Free Zone. In order to apply for this permit, the monthly salary must not be inferior to US\$2,000.00.

Agrarian Investment Permits: allow individuals to become temporary residents. Foreigners, themselves or through a legal entity, must invest a minimum of US\$60,000.00, in a Panamanian agroindustry business or aquaculture industry. If the Investor has dependents, the investment amount must increase by US\$500.00 for each dependent. The investments must be made in areas that the Ministry of Agricultural Development (MIDA, by its Spanish acronym) assesses to be of national interest for the country.

Economic Solvency Permanent Residence Permits: for foreigners investing a minimum of US\$300,000.00 in real estate, in a fixed term deposit of a bank located in the country, or a combination of the previous options. The funds must come from abroad and for every dependent, the financial reliability must increase by US\$2,000.00 for each one.

Reforestation Investor Visa: achieved through a minimum investment of US\$80,000.00 in at least twenty hectares of a government certified reforestation project. For any additional dependents, an additional investment of US\$2,000.00 must be made.

Free Trade Zones Investors Visa: for foreigners investing US\$250,000.00, with funds from abroad, in a duly authorized promoter or operator of a Free Trade Zone. After this 2-year

temporary resident visa expires, the individual is granted a permanent residence permit.

Call Center Investor Visa: for foreigners investing US\$250,000.00, with funds from abroad, in a duly authorized Call Center.

Film and Audiovisual Industry Investor Visa: for foreigners that invest a minimum of US\$150,000.00, with funds from abroad, in the film industry.

22. Labor Law

The Labor Code of 1971 establishes the labor relationships, rights and duties of both employers and employees. It also states that every employer can hire foreign workers, if they meet a set of specific conditions. Panama restricts the hiring of foreign personnel. Foreigners can be hired in proportion that doesn't exceed 10% of the total workforce, while foreign specialists or technical workers can be hired as long as they do not exceed 15% of the total workforce. These restrictions don't apply to foreign spouses of Panamanian citizens and fall in the category of 90% of the workforce.

The Law states that in some cases the Ministry of Labor and Employment Development (MITRADEL, by its Spanish acronym) will allow the hiring of a higher proportion of foreign specialists or technical personnel, but only for a specified period of time and for specific cases. When hiring foreign personnel, the employer will always need to get an authorization from

MITRADEL. This authorization will be restricted to the term of one year, renewable for a maximum of five years. The foreign employee's requisites are varied and depend on each specific case.

The Trade Promotion Agreement signed between Panama and the United States agreed upon the commitment to protect labor rights. The Agreement commits both countries to adopt and maintain in their laws and practice the five fundamental labor rights as stated in the 1998 ILO Declaration. Both countries are also required to effectively enforce – and may not waive – labor laws related to fundamental labor rights.

The official national holidays and mourning days enforced by law in Panama are:

Month	Day and Celebration
January	01/01 – New Year's Day 09/01 – Martyr's Day
February March	Tuesday of Carnival (This varies from year to year between February and March)
March April	Holy week – Good Friday and Holy Saturday (This varies from year to year between March and April)
May	01/05 – Labor Day
July	01/07 – Presidential Inauguration (Every five years)
November	03/11 – Separation of Panama from Colombia 05/11 – Patriotic Celebration in Colon 10/11 – Cry of Independence of La Villa de los Santos 28/11 – Independence Day of Panama from Spain
December	08/12 – Mother's Day 25/12 – Christmas

Should a holiday fall on a Sunday, it is common for the following Monday to become the day off.

In Panama, the minimum wage hourly rates are divided into two regions (I and II) and each one covers different locations throughout the country. The following table presents some of the minimum wages according to the latest decree, Executive Decree No. 293 of 2015. It is recommended to constantly check with MITRADEL for updates.



Maximum Wage in Panama (per hour)*		
Composed by Sector or Activity	Region I	Region II
	Districts of Panamá, Colón, San Miguelito, David, Santiago, Chitré, Aguadulce, Penonomé, Bocas del Toro, La Chorrera, Arraiján, Capira, Chame, Antón, Natá, Las Tablas, Bugaba, Boquete, Taboga, San Carlos, Chepo, Guararé, Los Santos, Pedasi, Dolega, San Felix, Barú, Boqueron, Portobelo, Donoso, Santa Isabel, Santa María, Parita, Pese, Atalaya, Changuinola, Chiriqui Grande.	The rest of the country.
Average minimum wage hourly rate	US\$2.66	US\$ 2.40
Agriculture, Cattle Raising, Hunting, Forestry, Aquaculture, Fishing. Small Business.	US\$1.46	US\$1.46
Agriculture, Cattle Raising, Hunting, Forestry, Aquaculture, Fishing. Large Business (11+ employees).	US\$1.76	US\$1.76
Agroindustry. Processing. Small Business.	US\$2.11	US\$1.77
Agroindustry. Processing. Large Business.	US\$2.55	US\$2.10
Manufacturing Industry. Small Business.	US\$2.11	US\$1.77
Manufacturing Industry. Large Business (16+ employees).	US\$2.68	US\$2.21
Construction	US\$2.95	US\$2.77
Wholesale Trade	US\$2.55	US\$1.76
Retail Trade, Small Business	US\$2.11	US\$1.76
Retail Trade, Large Business	US\$2.55	US\$2.09
Free Trade Zones Special Economic Areas	US\$3.26	US\$2.18
Hotels Small Business	US\$2.16	US\$1.76
Hotel Large Business (11+employees)	US\$2.55	US\$2.09
Restaurants, Small Business	US\$2.11	US\$1.77
Restaurants. Large Business (11+ employees).	US\$2.68	US\$2.20
Transportation	US\$2.68	US\$2.20
Financial and Insurance Activities	US\$2.98	US\$2.98
Real Estate	US\$2.95	US\$2.63
Teaching	US\$2.68	US\$2.18
NGO's	US\$2.55	US\$2.09
Arts, Entertainment and Creativity	US\$2.68	US\$2.68

* Please remember that these are only a small part of the minimum wages, for illustrative purposes. We recommended to constantly check with MITRADEL for updates.

Laws discussed:

Labor Code – Cabinet Decree No. 252, December 30th, 1971, modified by Law No. 44, August 12th, 1995 – Código Laboral – Decreto de Gabinete No. 252, de 30 de diciembre de 1971, modificado por la Ley No. 44, de 12 de Agosto de 1995

1998 ILO Declaration on Fundamental Principles and Rights at Work – Declaración de la OIT de 1998, Relativa a Los Principios y Derechos Fundamentales en el Trabajo

Executive Decree No. 293, December 22nd, 2015, Which sets the New Minimum Wage Rates Throughout the National Territory – Decreto Ejecutivo No. 293, de 22 de Diciembre de 2015, Que fija las nuevas tasas de salario mínimo en todo el territorio nacional

23. Intellectual Property

Panama's first Intellectual Property Law was enacted as Law No. 35 of 1996. It contains norms that protect inventions, utility models, industrial designs, trade secrets and trademarks of products and services, collective and certification marks, indications of source, appellations of origin, trade names and advertising slogans and signs.

Law No. 35 of 1996 provides twenty years of patent protection from the submission date of the application. Pharmaceutical patents are granted for 15 years, but could be renewed for an additional ten, if the patent owner licenses a national company (with a minimum of 30% Panamanian ownership) to exploit the patent. It also provides specific protection for trade secrets.

In order to meet the requirements of the TPA, Panama amended and updated Law No. 35 of 1996 through Laws No. 61, No. 63 and No. 64 of 2012. The latter allows officials to impose fines of up to \$100,000 for copyright infringements without a trial or civil suit.

Additionally, these Laws also authorize the office of Intellectual Property of the Ministry of Commerce and Industry to impose larger fines and to act as the prosecutor's assistant in criminal law cases. Panamanian Customs can also act inside the free trade zones, when there is the suspicion that some merchandise might be in violation of copyright laws.

The TPA provides improved standards for the protection and enforcement of a broad range of intellectual property rights. Such improvements include state-of-the-art protections for digital products such as software, music, text, and videos and stronger protections for patents, trademarks and test data, including an electronic system for the registration and maintenance of trademarks.

Panama has been a member of the World Intellectual Property Organization (WIPO) since 1997, and is a member of the Geneva Phonograms Convention, the Brussels or Satellite Convention, the Universal Copyright Convention, the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, and the International Convention for the Protection of Plant Varieties. In addition, Panama was one of the first countries to ratify the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. As an example and due to these international treaties, Panama upgraded regulations on computer software and extended the intellectual property rights from 50 to 70 years.

Laws discussed:

Law No. 35, May 10th, 1996, Whereby Provisions on Industrial Property are Issued – Ley No. 35, de 10 de mayo de 1996, Por la cual se dictan disposiciones sobre la propiedad industrial

Law No. 61, October 5th, 2012, Which Amends Law No. 35 of 1996, Whereby Provisions on Industrial Property are Issued – Ley 61, de 5 de octubre de 2012, Que reforma la Ley 35 de 1996, por la cual se dictan disposiciones sobre la propiedad industrial

Law No. 63, October 5th, 2012, Which Amends Articles of Law No. 23 of 1997, On Rules for the Protection of Plants Varieties – Ley No. 63, de 5 de octubre de 2012, que reforma artículos a la Ley N° 23 de 1997, Sobre normas para la protección de las obtenciones vegetales

Law No. 64, October 10th, 2012, On Copyrights and Related Rights – Ley No. 64, de 10 de Octubre de 2012, Sobre el derecho de autor y derechos conexos

24. Customs Laws

The Ministry of Economy and Finances (MEF by its Spanish acronym) is the entity duly authorized to issue the Import Tariff of the Republic of Panama, which establishes an entry regime for all types of merchandise.

When Panama joined the WTO in 1997, the government lowered tariffs to a maximum of 15%, except for a few agricultural products, and to an overall average of 12%, the lowest in the region. The revised import duty structure was significantly lower than the one negotiated for the WTO accession, and represented a substantial commitment to trade liberalization.

Today, Panama's nominal tariff duties are the lowest in the region, with an average of 9% in tariffs rates.

Panama assesses import duties on an ad valorem basis. The ad valorem system uses the declared CIF value as the basis for import duty calculations. In addition to the duty, all imports into Panama are subject to a 7% Transfer or Value Added Tax (ITBMS, by its Spanish acronym), levied on the CIF value and other handling charges. Pharmaceuticals, foods and school supplies are exempt from VAT.

In October 2012, the Trade Promotion Agreement between the United States and Panama came into effect, eliminating import duties for 87% of the products in the tariff, with the exception of some food and agricultural products, whose duties will gradually decrease over the course of the next years.

Since there are a number of exceptions under the TPA, it is important to check which products come under the duty free regime. We suggest that U.S. exporters go through the following processes to determine duties today and in the future:

[Customs Database](https://ana.gob.pa/index.php/ct-menu-item-68/ct-menu-item-70) shows the tariffs/duties that Panama is currently assessing. You can access this database by simply visiting <https://ana.gob.pa/index.php/ct-menu-item-68/ct-menu-item-70>.

[Tariff Tool for Free Trade Agreements](#) shows how tariffs will be phased out for any particular

good in any country that has a Free Trade Agreement (current or pending) with the U.S. Cautionary note: this tool does not show agricultural products. In addition, it is not completely accurate for current tariff rates; instead, it shows what Panama is allowed to charge, a value which in reality may be higher.

Visitors entering Panama may bring with them personal items such as jewelry, and professional equipment, including cameras, computers, and electronics, as well as fishing and diving gear, for personal use; all of which are permitted duty-free.

25. Unfair Business Practices Regulation

Law No. 45 of 2007 was introduced in order to comply with the requirements of the World Trade Organization. This law helps protect the national production and industry against uncompetitive foreign trade activities, which threaten their development.

The General Directorate for the Defense of Trade of the Ministry of Commerce and Industries (MICI, by its Spanish acronym) is the current entity responsible for safeguarding the commercial interests of the country's industry. The Directorate conducts negotiations on issues pertaining to safeguards and unfair practices, monitors the trade of goods, initiates investigative procedures and reviews relevant information.

The anti-dumping and countervailing proceedings are governed by Decree-Law No. 7 of 2006, and the Marrakesh Agreement was adopted through Law No. 23 of 1997, which also enacted the rules for trade protection and defense. The General Directorate for the Defense of Trade and the adoption of the relevant legislation have strengthened the institutional capacity, thus ensuring the credibility of trade reforms needed for the domestic liberalization in Panama.

Laws discussed:

Law No. 45, October 31st, 2007, Which issues Rules on Consumer Protection and Defense of Competition and Another Provision – Ley No. 45, de 31 de octubre de 2007, Que dicta normas sobre protección al consumidor y defensa de la competencia y otra disposición

Decree-Law No. 7, February 15th, 2006, Which Establishes the Rules for the Protection and Defense of the National Production and Issues Other Provisions – Decreto Ley No. 7 de 15 de febrero de 2006, Que establece normas para la protección y defensa de la producción nacional y dicta otras disposiciones

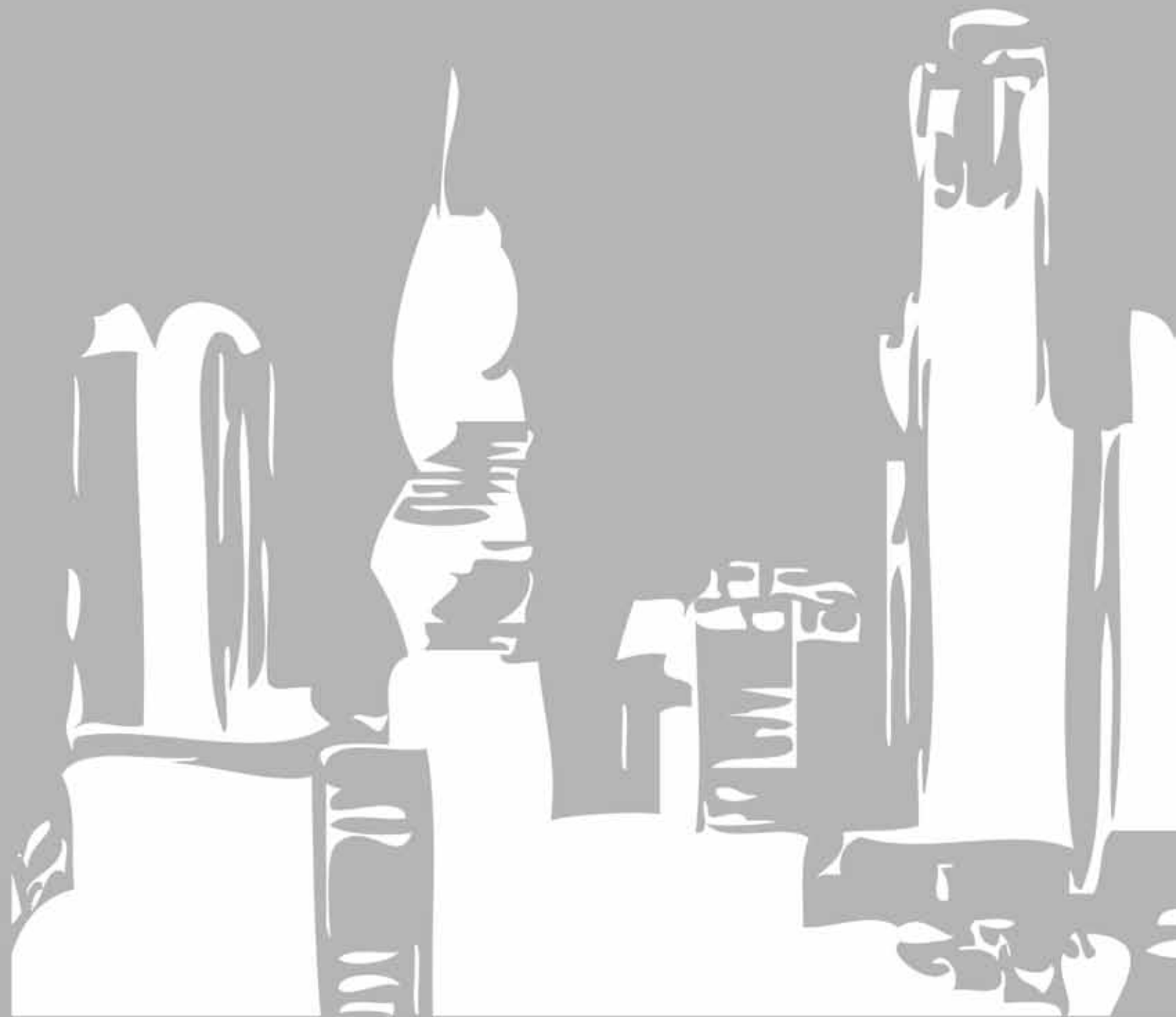
Law No. 23, July 15th, 1997, Which approves the Marrakesh Agreement, Establishing the World Trade Organization, the Panama's Accession Protocol to said Agreement, together with its Annexes and Commitment List, Adapts the internal legislation in Regards with the International Standards and Issues Other Provisions – Ley No. 23 de 15 de Julio de 1997 por la cual se aprueba el Acuerdo de Marrakesh

constitutivo de la Organización Mundial de Comercio, el protocolo de Adhesión de Panamá a dicho Acuerdo junto con sus Anexos y Lista de Compromisos, se adecúa la legislación interna a la normativa internacional y se dictan otras disposiciones



E.

INCENTIVE LAWS



26. Multinational Headquarters

The government, along with the private sector, has created the necessary conditions for Panama to become a destination for Multinational Companies. Law No. 41 of 2007, also known as the Multinational Headquarters Law, was enacted and subsequently amended by Law No. 45 of 2012.

Law No. 41 created the framework for setting up the administrative offices of Multinational Companies and provides a centralized governmental office, which handles company licensing, employee visa processing and foreign employee benefits, all under one roof through the Investment One Stop Shop of the Ministry of Commerce and Industries.

For the purposes of these Laws, a “Multinational Company” is a legal entity that:

- (i) having its headquarters in another country, develops activities in more than one, or
- (ii) having its activities in only one country, operates in its different regions and wishes to establish a subsidiary in the Republic of Panama.

The Headquarter of a Multinational Company (SEM, by its acronym in Spanish) is permitted to provide the following services, among others, to its business group:

The direction and/or administration of company operations either globally or in a specific geographical area.

Logistic and/or storage services of components or spare parts required for the fabrication or assembly of manufactured products.

The accounting of the business group.

The developments of blueprints regarding designs and/or constructions, which constitute part of the ordinary course of business of the group.

Technical assistance to companies of the business group, as well clients that have acquired a product or service from these companies.

Consulting, coordination and monitoring of market guidelines, and advertising of the goods and services produced by the business group.

The electronic processing of any activity, including the consolidation of operations for the business group.

The financial management of the business group.

Operational support, research and development of products and services for the business group.

Any other similar service previously approved by the Cabinet Council.

Fiscal Incentives:

- Exemption from income tax and VAT for services provided to the business group outside the country.
- Exemption from dividend withholding tax or profit repatriation tax.
- Exemption from income tax and social security quotas for salaries of executives originating from a foreign source.
- For services provided to entities located in Panama, income tax rates are reduced by 50%.

The Companies with SEM Licenses must submit their income tax return at the end of the fiscal year.

Labor Incentives:

- SEMs may hire an unlimited number of foreign executives, if deemed necessary to carry out their activities, for high and mid-level positions.

Migratory Incentives:

- Permanent Visas - issued to executives and their dependents for a term of five years, renewable.
- Temporary Visas - granted to technical personnel whom the company requires on a temporary basis.

Laws discussed:

Multinational Headquarters Law - Law No. 41, August 24th, 2007, Which creates the special Regime for the Establishment and Operation of Multinational Headquarters and the Licensing Commission for Multinational Headquarters and

Issues other Provisions - Ley No. 41, de 24 de agosto de 2007, Que crea el Régimen Especial para el Establecimiento y la Operación de Sedes de Empresas Multinacionales y la Comisión de Licencias de Sedes de Empresas Multinacionales y dicta otras disposiciones

Law No. 45, August 10th, 2012, Which Amends Law No. 41 of 2007, Which creates the special Regime for the Establishment and Operation of Multinational Headquarters and the Licensing Commission for Multinational Headquarters - Ley No. 45, de 10 de agosto de 2012, Que reforma la Ley 41 de 2007, Que crea el Régimen Especial para el Establecimiento y la Operación de Sedes de Empresas Multinacionales y la Comisión de Licencias de Sedes de Empresas Multinacionales

27. Investments Made Under the Investment Stability Law

The objective of the Law No. 54 of 1998, also known as the Investment Stability Law, is to promote and protect foreign investment in Panama. This Law guarantees equal rights for all foreign and international investors, in terms of investments and business practices, with that of national investors. In other words, foreign investors have the same rights and duties as national ones. It also guarantees the free availability of the resources generated by their investment, the free repatriation of capital, dividends, interests and utilities derived from the investment, and the free commercialization

of their production. Moreover, the right of ownership of foreign investors has no limitations other than those established by the political Constitution and the Law.

All activities must be approved by the National Directorate for Business Development (DINADE, by its Spanish acronym) of the Ministry of Commerce and Industries (MICI, by its Spanish acronym), and more activities can be added by recommendation of MICI.

In order to be eligible for the guarantees, mentioned below, the investor must submit to DINADE a plan to invest the minimum sum of US\$2,000,000.00 within a maximum term of two years or otherwise established by DINADE.

Permitted Activities and Sectors:

Tourism

Agricultural Exports

Mining

Commercial and Oil Free Zones

Constructions

Electrical Energy Generation

Industrial Forestry

Free Trade Zones

Telecommunications

Development of Ports and Railroads

Projects regarding Irrigation and Efficient Use of Hydraulic Resources

Activities under the Multinational Headquarters Incentives

Activities under Panama Pacifico Special Economic Area Law

Guarantees:

Juridical Stability, unless the provisions are related to reasons related to public utility or social interests;

Tax Stability within the National order, with exception of indirect taxes (i.e ITBMS, ISC, etc.);

Tributary Stability within the Municipal order;

Customs Regimes Stability derived from Special Laws.

The aforementioned guarantees are valid for a period of ten years. The Law also provides the investor with a compensation mechanism should the State, for reasons related to public utility or social interests, expropriate an investment protected by this Law.

Laws discussed:

Law No. 54, July 22nd, 1998, Whereby Measures for the Legal Stability of Investments are Issued - Ley No. 54, de 22 de Julio de 1998, Por la cual se Dictan Medidas para la Estabilidad Jurídica de las Inversiones



Photography courtesy of: Panama Pacifico

28. Panama's Film and Audiovisual Industry Incentives

The government created stimulus for the film and audiovisual industry by enacting Law No. 16 of 2012. The Law:

- Creates the Panama Film Commission and its Technical Secretariat.
- Creates the National Movie Register for foreigners.
- Regulates the film and audiovisual industry throughout the national territory.
- Grants fiscal, customs, labor and migratory incentives for foreign productions in national territory, with special areas being assigned for the development of the film and audiovisual industry.
- Eliminates of bureaucracy and guarantees efficient process for productions.

The benefits for foreign productions, granted by the Technical Secretariat of the Panama Film Commission, are:

- A “One-Stop-Shop” for all paperwork;
- Expeditious processing of Migratory Permits for foreign personnel;
- Labor Permits for foreign personnel;
- Temporary customs custody of equipment without bonded guarantee;
- Fiscal incentives for special assigned areas, as part of the development of the film and audiovisual industry;
- Permits for public locations throughout the entire national territory;

- Assistance with paperwork required by the public services;
- Associating with national producers, technicians, casting agencies and personnel.

Laws discussed:

Law No. 16, April 27th, 2012, Whereby the Film and Audiovisual Industry Special Regime is Established – Ley No. 16, de 27 de Abril de 2012, Que establece el régimen especial de la industria cinematográfica y audiovisual

29. Call Centers

Since Panama has become a digital hub with the installation of seven sub-maritime optical fiber cables, fully compatible with the US and the UK, with minimal risk of interruption by natural disasters, it is becoming the place of choice for telecommunication companies and data centers. Companies take advantage of this great connectivity in order to provide high quality internet services to the international market.



Law No. 54 of 2001 provides fiscal and other special economic zone benefits to call centers established in Panama for commercial operations by foreign investors. Additionally the Law treats such call centers as “Free Trade Zones” entitled to special benefits and subject to special obligations. International calls made by Call Centers are exempt from direct and indirect taxes, fees, contributions and charges, with the exception of those established in this Law and the fees charged by the Public Services National Authority (ASEP, by its Spanish acronym).

However, to apply for the special tax exemption, Companies must have commercial call centers based in Panama and must own an operating concession for commercial export purposes, granted by the ASEP. Call Centers can be registered in the General Directorate of Free Zones, of the Ministry of Commerce and Industries, and thus benefit from the incentives of the Special Economic Areas Law, discussed in the next pages.

Other tax incentives relate to the recruitment, selection and training of local Panamanian employees and future prospects. Special labor provisions are more flexible than those for Companies that operate in the rest of the Panamanian territory.

Fiscal Incentives

Tax and import fee exemption on raw materials, semi-fabricated products, reinvestments and on the purchase and sale of equipment, construction material, machinery, spare parts, tools, accessories, packing materials and all the goods or services required for their operation.

Exemption from Operation Notice or property taxes.

Exemption from income tax on certain services related to storage and warehouse services, high technology companies, scientific research centers, high education centers, health and environmental services, among others.

Migratory Incentives

Permanent Residence Permit for investors;

Temporary Residence Permit for personnel, executives, experts and/ or technicians, applicable for the term of the contract;

Short-stay Visa for business associates and investors;

The respective permits of visas for the dependent spouse and children of the applicant.

Laws discussed:

Law No. 54, October 25th, 2001, Which Modifies Article 3 of Law No. 88 of 1961, Creates a Tax for Overseas Phone Calls, and Issues Other Provisions – Ley No. 54, de 25 de octubre de 2001, Que modifica el artículo 3 de la Ley 88 de 1961, que crea un gravamen por llamadas telefónicas al exterior, y dicta otras disposiciones

30. Tourism Incentives

Law No. 80 of 2012 dictates various incentive policies for the promotion of tourism in Panama. The Panamanian Tourism Authority (ATP, by its acronym in Spanish) offer fiscal, land and customs tax incentives and exemptions to:

- builders of hotels and hostels outside Panama City;
- existing hotels with less than 50 rooms that obtain a quality certificate;
- enterprises that offer touristic products like conventions, exhibitions, travel promotions, cruises, ecotourism, among other (each activity requires a minimum number of foreign attendants or passengers);
- enterprises that offer nautical tourism and own cruises, yachts, marinas and/or docks;
- enterprises that offer nature, adventure and beach tourism;
- enterprises that offer special touristic products approved by the National Tourism Council;
- investors of tourism businesses that aren't directly involved in managing such activities; travel and tour agencies.

The requirements and the application expiration dates vary according to the tourist activities. All permits are granted by the ATP and all necessary documentation must be delivered to them.

Law No. 2 of 2006 governs all concession related to touristic investment. This framework dictates all of the requirements and obligations needed to invest in large tourist projects that

require an extensive portion of land. In order to qualify for this type of investment, all necessary documents must be submitted to the Ministry of Economy and Finances (MEF, by its Spanish acronym). Subsequently, the MEF will analyze the project and either accept or decline it.



Laws discussed:

Law No. 80, November 8th, 2012, Whereby the Rules for Panamanian Tourism Promotion Incentives are Issued – Ley No. 80, de 8 de noviembre de 2012, Que dicta normas de incentivos para el fomento de la actividad turística en Panamá

Law No. 2, January 7th, 2006, Which Regulates the Concessions for Touristic Investment and the Disposition of Island Territory for its Touristic Development, and Issues Other Provisions – LEY No. 2, de 07 de enero de 2006, Que regula las concesiones para la inversión turística y la enajenación de territorio insular para fines de su aprovechamiento turístico y dicta otras disposiciones

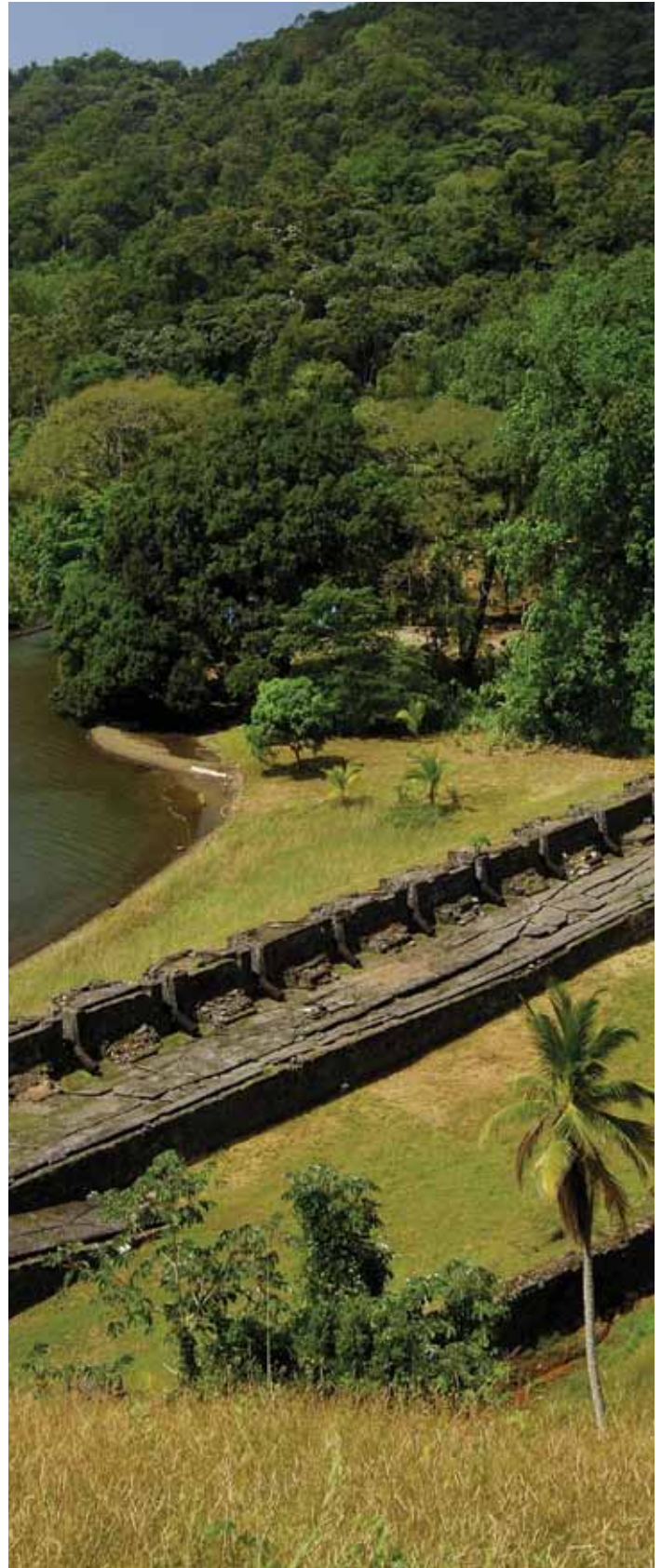
31. Reforestation

Under Law No. 24 of 1992, every reforestation project initiated between November 1992 and November 2017 is income tax exempt. This law also decrees that the introduction of equipment and materials needed for reforestation, handling and/or exploitation of forest plantations, is import tax free. Moreover, some migratory and fiscal incentives are offered for reforestation activities.

Panamanian law grants reforestation visas based on ownership of a minimum of 5 hectares (about 12.4 acres) of timber land under the investor's own name or the name of a corporation in which the investor has at least a 51% share. A type of reforestation visa has been previously discussed in the "Investor Permits and Visas" section.

Laws discussed:

Law No. 24, November 23rd, 1992, Which Establishes Incentives and Regulates the Reforestation Activity in the Republic of Panama - Ley No. 24, de 23 de noviembre de 1992, Por la cual se establecen incentivos y reglamenta la actividad de reforestación en la República de Panamá



*Fort San Jeronimo, Colon, Panama
Photography courtesy of: Tourism Authority of Panama*

F.

SPECIAL ECONOMIC AREAS





Photography courtesy of: City of Knowledge

Panama has established several free trade zones and special economic areas that have specific legislations designed to attract investors and businesses; hence, all the infrastructure, operational organization and administrative management has been designed so that companies from around the world can operate efficiently and viably. Some of the activities allowed in these territories are: the production of goods and services, the manufacture and assembly of semi-processed or finished goods, high technology, scientific research, higher education, and logistical, environmental, health and general services.

32. The Colon Free Trade Zone

The Colon Free Trade Zone (CFZ) is the main distribution center of the hemisphere and the second largest in the world after Hong Kong. All routes in the world lead to the CFZ, which is located at the Caribbean entrance of the Panama Canal. It was established through Decree-Law No. 18 of 1948, and occupies more than 700 acres of businesses and warehouses.



Photography courtesy of: City of Zona Libre de Colon

Some of the advantages it offers are:

Privileged geographical position

Political stability

Located just steps from the Panama Canal and the Expanded Panama Canal.

Tourism services

Three nearby cruise terminals

A strong banking center consisting of national and international banks.

The US dollar as a circulating currency;

Airport for passengers and cargo close to the Free Zone.

Many maritime ports, and more under construction (as mentioned in the "Logistics" section)

Less taxes and more opportunities for investors

Over 3,000 established companies with an excellent assortment of products.

One of the biggest generators of direct jobs nationwide, around 30,000.

A digital 24/7 surveillance system

Multinational Companies provide cargo services 24/7

Special Prosecutor's Office for Violations of Intellectual Property Rights and Money Laundering on premises.

CFZ is an Institution certified under ISO 9001:2008.

The permitted activities in the Colon Free Trade Zone are:

Importation

Exportation

Re-exportation

Manufacture

Sale, commercialization and distribution

Refining and processing of goods

Operations, transactions, negotiations or incidental activities appropriate to establishment and operation of international free trade zones.

The rendering of services related with aviation and the airports, including the transport, handling and warehousing of cargo in general.

Construction of ports, docks, boatyard, ports or places of loading and unloading.

SEM entities, companies incorporated under the City of Knowledge regime and Call Centers can establish its offices within the Colon Free Zone.

Fiscal Incentives

Tax exemption on sales tax and production tax

Tax exemption on overseas income

Tax exemption on imports to the CFZ or re-exports from the CFZ to foreign countries

Tax exemption on income re-export

5% capital gains tax

1% Interest Compensation Fund tax (FECI, by its Spanish acronym)

Tax exemption on capital investment

5% on dividends regardless of the source of income

Income tax is the same as at the national level

0.5% of Operation Notice Tax from January 1st, 2016.



Photography courtesy of: Manzanillo International Terminal

Here is a table with a summary of taxes, fees and charges by the CFZ.

Taxes paid by the CFZ Companies	
Dividends tax	5% over utilities
FECI tax	1%
Licenses and Patents tax	1% of the capital up to US\$50,000. From 2016, the applicable rate is 0.5%
Municipal Improvement tax	2% over the improvement
Share Transfer tax	5% over the value of the transaction
Personal Property Transfer tax	2% over the transfer and 3% over capital gains
Real Property tax	2% of the ratable value
ITBMS	0% the transfer of goods within the CFZ and the provision of logistic and ancillary services related to the cargo.
Income tax	25% over sales to Panama and local operations
Fees and Charges CFZ Companies must pay	
Operation Permit	US\$2,400
Operation Code	US\$5,000
Warranty Deposit (which equals to a 3-month rent)	US\$3,000; US\$5,000; US\$10,000; US\$20,000 or more depending on the area.
Cleaning Charge	US\$30 - US\$200 depending on the m ² area.
Security Charge	US\$100 - US\$1,200 depending on the m ² area.
Commercial Movement Electronic Document (DMCE, by its Spanish acronym)	\$15 per form
DMCE Deposit	US\$300
BL of container entry	US\$165
Warranty Deposit for sub-rent	US\$5,560
Storage Contract for a Public Warehouse	US\$2,500 monthly

Source: CFZ User Association

Migratory Incentives:

Special migratory procedures are granted for foreign executives and investors.

For more information, please check the “Immigration” and “Investor Permits & Visas” sections of this magazine.

Laws discussed:

Decree-Law No. 18, June 17th, 1948, Whereby the Colon Free zone is Created, as an Autonomous State Entity – Decreto Ley No. 18, de 17 de junio de 1948, Por el cual se crea la Zona Libre de Colon como Entidad Autónoma del Estado.

33. Panama Pacifico

The Panama Pacifico Special Economic Area (“Panama Pacifico”) is a mixed-use real estate development in the former US Howard Air Force Base and was established pursuant to the Law No. 41 of 2004, and amended by Law No. 31 of 2009. It is located 13km away

from Panama City, and its internationally-renowned center is the most competitive and stable in the region.

Since 2007, Panama Pacifico has quickly become a vital world class business and logistics center for multinational enterprises seeking competitive advantages. Currently, there are over 200 companies, Fortune 500 and Fortune Global 2000 multinationals already calling Panama Pacifico their home. Built to the standards of international development, the International Business Park and the Pan-American Corporate Center are known for having next generation installations.

There are also residential projects that includes houses and apartments, about 20,000, built in a natural environment. Panama Pacifico is planning to develop 1 million square meters for commercial space and at the same time creating 40,000 new jobs. The master plan also includes the development of luxury and business hotels, retail and lifestyle centers, hospitals and clinics, universities and schools, public art centers, cinemas, and parks, among other.



Photography courtesy of: Panama Pacifico

Panama Pacifico is designed to encourage the following activities:

Main Office corporate operations

Back Office operations

Call Centers

Multimodal and logistics services

High technology products and manufacturing processes

Aircraft maintenance, repair and reconditioning

Offshore services

Movie-making industry

Data, radio, television, audio and video transmission

Inventory transfer between Panama Pacifico companies

Transfer of goods and services to ships, airplanes and their passengers

Sale of merchandise, not manufactured in Panamá Pacifico

Labor Incentives

Fixed rates for overtime pay at 25%; on Sundays, holidays and designated days an increase of 50% over the regular rates.

Flexibility in assigning employees' holidays.

Companies can be open on Sundays and holidays.

Hiring foreign employees can exceed the percentage rule listed in the Panama Labor Code. Companies can request additional expatriate employees in excess of 15%, if local labor is unavailable.

Training Center for College level education.

Justified cause for dismissal due to losses and/or market fluctuations.

Fiscal Incentives

Exemption from any import tax, levy, rate, fee or duty on any merchandise, product, equipment, service or other general goods that are introduced into Panamá Pacifico.

Value Added Tax (ITBMS, by its Spanish acronym) Exemption

Exemption from any movement or storage tax, levy, rate, fee or duty regarding fuel or other hydrocarbons and their byproducts.

Exemption from any commercial or industrial license, or registration tax

Stamp Tax Exemption

Real Estate Tax and Real Estate Transfer Tax Exemption on land and commercial/industrial improvements.

Export and re-export Tax Exemption on any merchandise, product, equipment, goods or services.

Exemption from any tax, levy, rate, fee, duty or other charges applied to foreign creditor payments including: interests, commissions, royalties and other financial charges generated by the financing or refinancing granted to companies of Panama Pacifico, and by the financial lease of the equipment necessary for the development of activities, businesses and operations that take place within Panamá Pacifico.



Photography courtesy of: Panama Pacifico

Migratory Incentives:

Panama Pacifico's One Stop Shop is a branch of the Panama-Pacific Special Economic Area Agency (APP, by its Spanish acronym), formed by the Executive Decree No. 77 of 2006, which streamlines the procedures for conducting business in the area, including all procedures related to visas and work permits for employees.

Among the migratory incentives there are:

- Special visas available for investors and Company personnel (for 3 to 5 years);
- Visa benefits extended to immediate relatives: spouses, dependent children up to 25 years of age, if they are studying in college, and dependent parents over 62 years of age;
- One time tax-free import of any personal and domestic belongings (up to \$100,000).

For more information, please check the "Immigration" and "Investor Permits & Visas" sections of this magazine.

Other Privileges:

- Panama Pacifico's One Stop Shop helps expedite the establishment of Companies. This process centralizes over 17 government entities in one location allowing the companies to save both time and money.

As of September 2016, some of the companies operating in Panama Pacifico are:

Dell Panama S. De R. L.

Petrolera Nacional S.A.

I. P. Leather Corp.

Canarias Logística Panamá S.A.

London & Regional (Panama) S.A.

Naas Panamá S.A.

Albacrome S.A. (Panamá)

Aggreko International

Yermont Enterprises Inc.

Gianfranco Agency S.A.

Manantial Química S.A.

Howard Child Development Center Corp.

3M Panama Pacifico S. De R.L.

Universidad Del Caribe S.A.

Cabo Drilling Panamá-Pacífico Corp.

Global Cold Chain System Corporation

Ingeniería Y Consultoría Pp S.A.

Ecócnica Agroindustrial S.A.

Panco Constructions Consultants Inc.

Imtech Marine Panama S.A.

Laws discussed:

Law No. 41, July 20th, 2004, Which creates a Special Regime for the establishment and Operation of the Panama-Pacific Special Economic Area, and an Autonomous State Entity, called Panama-Pacific Special Economic Area Agency – Ley No. 41, de 20 de Julio de 2004, Que crea un régimen Especial para el establecimiento y operación del Área Económica Especial Panamá-Pacífico, y una Entidad Autónoma del Estado, denominada Agencia del área Económica Especial Panamá-Pacífico.

Law No. 31, June 22th, 2009, Which Modifies and Adds Articles to Law No. 41 of 2004, On the Panama Pacífico Special Economic Area, and Issues Another Provision – Ley No. 31, de 22 de junio de 2009, Que modifica y adiciona artículos a la Ley 41 de 2004, sobre el Área Económica Especial Panamá-Pacífico, y dicta otra disposición

Executive Decree No. 77, June 1st, 2006, Whereby an Integrated Procedure System in the Panama-Pacific Special Economic Area Agency is Established – Decreto Ejecutivo No. 77, de 1 de junio de 2006, Por medio del cual se establece un Sistema integrado de trámites en la Agencia del Área Económica Especial Panamá-Pacífico

Law No.3, February 3rd, 2015, Which Modifies and Adds Articles to Law No. 41 of 2004, that creates the Panama Pacífico Agency – Ley No. 3, de 10 de febrero de 2015, Que modifica y adiciona disposiciones a la Ley 41 de 2004, que crea la Agencia Panamá- Pacífico



Photography courtesy of: Panama Pacifico

34. City of Knowledge

The City of Knowledge is a scientific, technological and entrepreneurial park located alongside the Panama Canal. It is located in what used to be the United States Army South Headquarters, Fort Clayton. It has become an excellent model of how to transform a military installation into a center dedicated to science, technology and education, which pursues the creation of synergies among international universities, research institutes and organizations.

This area has an International Technology Park, which seeks innovative companies that produce or process high-tech goods. It also functions as a host for data storage companies, which in turn has allowed Panama to become a world-class data storage service provider.

The City of Knowledge operates pursuant to the Decree-Law No. 6 of 1998, as a contract between the State and the City of Knowledge Foundation. To be able to operate in this area, the authorization of the Board of Trustees of the Foundation is required.

The allowed activities must relate to the following areas:

- Science
- Technology
- Human Development
- Culture

Establishing in the City of Knowledge provides the following benefits:

Tax and immigration incentives by affiliating to the City of Knowledge Foundation project

Telecommunications, IT and educational technology services, including an intelligent high-tech center with the required capacity for teleconferences, distance learning, fast internet connections, and other services.

A Point of Presence (POP) with direct access to the land portion of 5 International Fiber Optic cables that cross Panama (PAC, SAC, ARCOS, Pan-American and MAYA).

Infrastructure and buildings in well maintained condition, easily adaptable to various uses

Availability of in-house technical, administrative and consulting services

Constant electricity flow with redundant power supply from the Panama Canal thermal plant, located 300m (328 yards) away in the Miraflores locks.

Complementary accommodations and catering services

Sports and recreational facilities

Access to the major higher learning and scientific research centers in the country

Access to the Panama Canal Basin, a living laboratory for scientific research and technological innovation on advanced tropical ecosystems management.

Central location - next to the Panama Canal, 15 minutes from downtown Panama City, 10 minutes from Amador resort and 45 minutes from Colón City.



The City of Knowledge has these additional facilities:

Convention Center

Training and Business Center

Office Space Centre

Video Conference Rooms

Digital Classrooms

Kiwanis Sports City

Schools and kindergartens

Restaurants, bakeries and clinics



Photographs courtesy of: City of Knowledge

The Fiscal Incentives, which have a duration of 25 renewable years, include:

- For companies affiliated to the City of Knowledge:

Import Tax Exemption on goods necessary for the project development;

Value Added Tax (ITBMS, by its Spanish acronym) Exemption on the acquisition of goods necessary for the project development;

Real Estate Tax Exemption;

Overseas Remittances Tax Exemption.

- For specific activities related to high-technology:

Income Tax Exemption and other direct and national taxes;

Capital Tax Exemption (Operation Notice Tax).

Labor incentives:

International personnel can be hired, as seen fit by each entity to fulfill their needs, and special visas are granted to foreign employees, their spouses and dependent children, of affiliated entities. For more information, please check the “Immigration” and “Investor Permits & Visas” sections of this magazine.

As of September 2016, some of the companies operating in the City of Knowledge are:

Absorption Systems Panama	NRC – Norwegian Refugee Council
Spanish Agency for International Development Cooperation (AECID, by its Spanish acronym)	UN and its entities such as: UNHCR, UNDSS, UN Women, UNICEF, UNFPA, UNODC, UNISDR, FAO, UNDP, UNOP, among others
ChildFund International	Florida State University
Latin American Council for Social Sciences (CLACSO, by its Spanish acronym)	International Federation of Red Cross and Red Crescent Societies.
COPA Airlines	Peace Corps
WWF – World Wildlife Fund	GSK – Glaxo Smith Kline
HP – Hewlett Packard	OAS – Organization of American States
Organization of Ibero-American States (OEI, by its Spanish acronym)	Save the Children

Laws discussed:

Decree-Law No. 6, February 10th, 1998, Whereby the Contract between the State and the City of Knowledge Foundation, for the Establishment and Development of the City of Knowledge, is Approved – Decreto Ley No. 6, de 10 de febrero de 1998, Por el cual se aprueba el contrato entre el Estado y la Fundación Ciudad del Saber para el establecimiento y desarrollo de la Ciudad del Saber

35. Baru Special Economic Area

The Baru Special Economic Area was established pursuant Law No. 29 of 2010, in the District of Baru, Chiriquí Province. It was enacted to encourage and ensure the free movement of goods, services and the flow of capital, in order to attract and promote investment and generate employment, with emphasis agro-business industry and the refining of petroleum.

Immigration Incentives:

Investors who have invested at least \$500,000.00 in the Special Economic Area will have the right to apply for an Investor Resident Visa, which is valid for five years and allows multiple exits and re-entries to the country. For more information, please check the “Immigration” and “Investor Permits & Visas” sections of this magazine.

The Fiscal Incentives this area promotes are:

Import and Re-export Tax Exemption on any finished products, materials, construction materials, equipment, furniture, accessories, appliances, or services that will be used in the operation of the company, and any other products related to the agro-industrial activity.

Export and Re-export Tax Exemption of any merchandise, product, equipment, goods or services

Exemption from all taxes on all kind of products introduced into the area (excluding the vegetable oils and fats)

Exemption from any movement or storage tax, levy, rate, fee or duty regarding fuel or other hydrocarbons and their byproducts

Operation Notice Tax Exemption

Stamp Tax Exemption

Value Added Tax (ITBMS, by its Spanish acronym) Exemption

Real Estate Tax and Real Estate Transfer Tax Exemption on land and commercial/industrial improvements

Exemption from any tax, levy, rate, fee, duty or other charges applied to foreign creditor payments including: interests, commissions, royalties and other financial charges generated by the financing or refinancing granted to companies in the Baru Special Economic Area, and by the financial lease of the equipment necessary for the development of activities, businesses and operations that take place within this Special Economic Area.

Dividend Tax Rate at 5%

Laws discussed:

Law No. 29, June 8th, 2010, Which Creates a Special Regime for the establishment and Operation of the Baru Special Economic Area – Ley No. 29, de 8 de junio de 2010, Que crea un regimen especial para el establecimiento y operación del Área Económica Especial de Barú.

36. Tourist and Multimodal Logistics Support Zone in Baru

In the Baru region of Chiriquí, overlooking the Pacific Ocean and next to the Costa Rican border, the Baru Free Zone (BFZ) was created pursuant to Law No. 19 of 2001. BFZ is a free enterprise designed zone focused on manufacturing activities, assembly, processing of finished or semi-finished products, logistical services, higher education, scientific research, high technology, environmental services, health services and general services.

Law No. 19 of 2001 also established in the Baru Zone an Export Processing Zone, governed by the Free Trade Zones Law, and a Petroleum Free Zone, governed by the Oil Free zones legislation. Both latter laws are discussed in more detail in the following sections of this magazine.

The Fiscal Incentives this area promotes are:

- Exemptions granted by Law 32 of 2011, would be applicable to companies incorporated within the Baru Free Zone.
- Income Tax Exemption on all national or international operations, and applicable to Companies offering logistical services, high technological services, scientific research, higher education, general utilities, health care and environmental services.
- Custom Duties and VAT Exemption on the introduction of merchandise and other goods within the special zone.

As of September 2016, some of the companies operating in the Baru Free Zone are:

Granjas Atuneras de Panama

Biogas y Energia S.A.

Tecno-Empresarial, S.A.

Aqua Adventure Panama Inc.

Caracin International Corp.

Otilatam de Panama S.A.

Inversiones UBAKOY S.A.

Panama Control Service

Laws discussed:

Law No. 19, May 4th, 2001, Which Creates a Fiscal and Special Customs Regime of a Tourist and Multimodal Logistics Support Free Zone in Baru – Ley No. 19, de 4 de mayo de 2001, Que crea un Régimen Fiscal y Aduanero Especial de Zona Franca Turística y de Apoyo Logístico Multimodal en Barú

37. Free Trade Zones

Free Trade Zones (FTZ), except the ones previously discussed, are governed pursuant Law No. 32 of 2011. These zones are exempt from all direct and indirect taxes, fees, levies and charges. All Free Trade Zones must have a minimum of 2 hectares (with exceptions approved by the FTZ Commission). Investors can either establish their own FTZ, thus becoming licensed FTZ Operator or Promoters, or they can establish their business in an pre-existing FTZ.

All of the required documentation must be delivered to the Ministry of Commerce and Industries (MICI, by its Spanish acronym).

The Fiscal Incentives available for all Free Trade Zones are:

Dividend Tax rate of 5%, regardless of the source of the funds, and a complementary tax of 2% in cases where there is no distribution of income.

An Annual Tax of 1% of the business' capital, with a minimum payment of \$100.00 and a maximum payment of \$50,000.00. From 2016, the Operation Notice Tax would be levied at the reduced 0.5% rate, with a minimum payment of \$100.00 and a maximum payment of \$50,000.00.

Custom Duty and Tax Exemption on all raw materials, semi-finished products, purchases and imports of equipment and construction materials, machinery, spare parts, tools, accessories, consumables, packing materials and any property or service required for the business' operations.

Income Tax Exemption on the lease and sublease for free zone promoters.

Income Tax Exemption on all foreign operations of service companies, logistics and high technology businesses, scientific research center, higher education centers, general and environmental services enterprises, and specialized centers for the provision of health.

It is important to emphasize, that income tax is not levied on certain services and products provided and/or sold overseas (external operations); however, it is levied on all services or products provided and/or sold within Panama (internal operations). Among the services that are exempted are: storage and warehouse, high technology, scientific research, higher education, health and environmental services

that produce their effects abroad.

Regarding the immigration regime, free zones have the following advantages:

- Foreigners who have invested at least \$250,000.00 in a free trade zone or in one of the Companies established within it are entitled to apply for a Permanent Residence Permit;
- Company Personnel in trustworthy, executive, technical and expert positions, working in free trade zones, are entitled to apply for a Temporary Residence Permit, valid for the duration of their employment contract;
- Teachers, Students and Researchers in Higher Education and Scientific Research Centers can apply for Special Temporary Permits;
- All aforementioned permits will be extended, under equal condition, to the spouse and dependent children of the main applicant.

For more information, please check the “Immigration” and “Investor Permits & Visas” sections of this magazine.

Companies established in free trade zones have a special labor regime, allowing them to negotiate special vacation and resting days with employees based on seasonal industry demands.

As of April 2016 and according to MICI’s ViceMinistry of Foreign Trade there are 18 Free Zones registered in Panama. Eleven are currently active, with 155 registered companies; these mainly operate in Vaguil S.A. Free Zone (51), Corozal Free Zone / Marpesca, S.A. (33),

Panexport (21) and the Albrook Processing Zone (20). Most of the companies established in Free Zones are dedicated to foreign trade services activities.

No.	Free Zones	Companies
1	Panexport	21
2	Isla Margarita Development	8
3	Zona Franca Estatal de Davis	6
4	Zona Franca de Albrook	20
5	Zona Franca Corozal - Marpesca S.A.	33
6	Eurofusión	1
7	Zona Franca de Chilibre	4
8	Colon Maritime Investor	6
9	Hewlett Packard Global Services Panama	1
10	Parque Industrial y Corporativo Sur, S.A. (Parque Sur)	0
11	Vaguil, S.A.	51
12	Export Pacific Panama, S.A. (**)	0
13	Zona Franca del Istmo (**)	0
14	Zona Franca de las Américas	4
15	Zona Franca Cobol Due (**)	0
16	Zona Franca Framorco (**)	0
17	Espanam Iberoamérica (*)	0
18	Free Zone Logistics Center in Tocumen (**)	0

Note: (*) Inactive (**) In development

Source: Ministry of Commerce and Industries

Laws discussed:

Law No. 32, April 5th, 2011. Which Establishes a Special, Integral and Simplified Regime for the establishment and Operation of Free Trade Zone, and Issues Other Provisions - Ley No. 32, de 5 de abril de 2011, Que establece un régimen especial, integral y simplificado para el establecimiento y operación de zonas francas y dicta otras disposiciones

38. Petroleum/Fuel Free Zones

Panama's original Petroleum Free Zones legislation was passed back in 1992. However, the global oil industry has changed dramatically in the last 25 years and important national factors have also changed, forcing the restructuring of the industry and thus requiring a revised legislation.

By enacting the Cabinet Decree No. 36 of 2003, Panama adopted a new National Policy on Hydrocarbons. This policy was designed to address those industry changes, develop the ground rules for a national petroleum policy and drive the development of the Petroleum Free Zones into the next stage.

The new law amended the previous one, while at the same time, embraced many prior provisions, creating the legal framework necessary to advance the market liberalization of all petroleum derived products and to offer new investment opportunities for local and foreign companies, who could now take advantage of the country's strategic geographical position. Cabinet Decree No. 36 of 2003 has in turn been amended or supplemented by many laws. These can be viewed in the web page of the National Secretariat of Energy: <<http://www.energia.gob.pa/Legislaciones-Hidrocarburos>>. While a full analysis is beyond the scope of this summary, some general guidelines are detailed below.

Within any Petroleum/Fuel Free Zone, individuals or Corporations, national or foreign,

may perform the following operations under a special tax free regime, including:

- a) Introducing, storing, manufacturing, bottling, refining, purifying, mixing, marketing, transporting, transferring, pumping, processing, transforming, selling or in any other way disposing in the domestic market, exporting, re-exporting, providing and, in general, operating and managing crude or semi-processed oil, or any of its by-products;
- b) Building, installing and operating petroleum refineries and other transformation or processing means of crude semi-processed oil, storage tanks, oil pipelines, gas pipelines and poly-pipelines, pumping installations and pipes; introducing machinery, equipment, spare parts, containers, bottles, vehicles, furniture, equipment for fire or spill prevention; constructing buildings for offices, warehouses, workshops for the use of the contractors in order to operate in the Petroleum Free Zones, for any of the activities mentioned in subsection (a) hereinbefore;
- c) Leasing, acquiring or in any other manner using lands, easements, rights of way and other real or personal rights in regard to bona mobilia located in the areas designated as Petroleum Free Zones;
- d) Establishing water services, electrical power, gas, energy, heat, refrigeration or

any other kind of services, upon previous coordination with and approval from the respective public entities;

e) Building ports, piers, dry docks, shipping and unloading places for ship and airplanes, railroad stations for loading and unloading on land, or granting contracts for the construction and exploitation of such works.

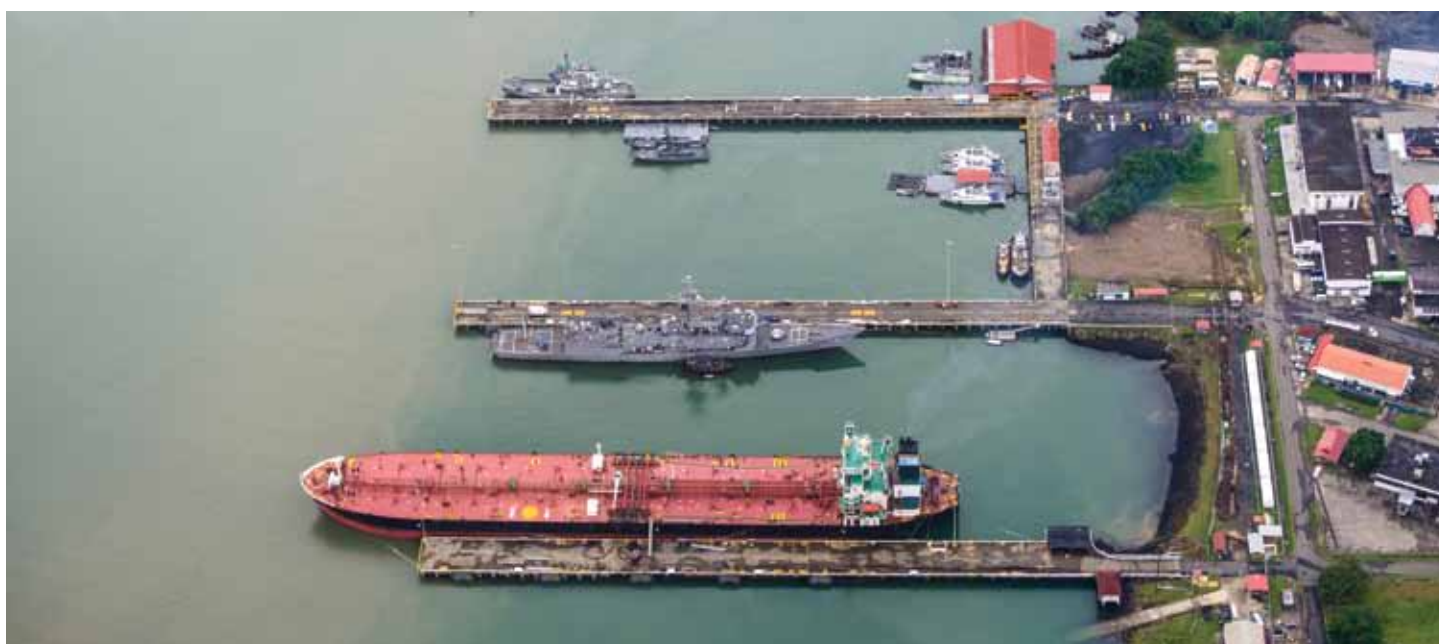
f) In general, all kinds of operations or activities proper or incidental to the establishment and operation of Petroleum Free Zones for the introduction, storage, pumping, transference, distribution, marketing and crude refining of petroleum and its byproducts.

A Petroleum/Fuel Free Zone Contractor is granted the following benefits:

- Income tax exemption on profits derived from the sale or supply of crude oil, semi-processed

oil or oil products which have entered into the Petroleum Free Zone or leave such area for the activities stated in the Law (export and re-export).

- Import Duty Exemption on machinery, equipment, parts, and any other items, necessary for the execution of the aforementioned activities;
 - VAT Exemption of the import of machinery, equipment, parts, and any other items, necessary for the execution of the aforementioned activities;
 - Import Duties and VAT Exemption on the introduction of fuel and other petroleum derivatives within the Free Zone;
- Special carry-over provisions for income tax purposes;
- Special depreciation schedules for machinery and equipment.



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Some of the Fuel Free Zones available nationwide are:

Melones Oil Terminal Inc. (MOTI): Panamanian company dedicated to the storage of oil products. It is located at Isla Melones, in the Pacific coast of Panama and has a storage capacity of 2,100,000 million barrels of HFO and DIESEL.

Decal Panama, S.A.: provides bunker services to tankers and local vessels. It is located in the Pacific Ocean and its unique strategic position simplifies the supply to ships passing through the Canal. The terminal has a storage capacity of 355,000 cbm

Colon Oil & Services, Inc. (COASSA) - Oiltanking Colón S.A. located near the Panama Canal in the Atlantic side, within the breakwater at Coco Solo Bay. The objective of the terminal is to accommodate the increasing demand for marine fuels by vessels transiting the Panama Canal and calling the ports in the area. It has a storage capacity of 120,000 cbm.

Petroport, S.A. Telfers Island: a Panamanian business dating back to 1994, when the doors to imports opened for the purpose of providing alternatives to supply the need for Liquefied Petroleum Gas (LPG) in the country. The LPG terminal has a total storage capacity of 68,570 barrels.

Petroamérica Terminal, S.A. (PATSA): a logistics center for oil products with storage facilities for 1.1 million barrels, situated at the Pacific Ocean entrance to the Panama Canal.

Assign Panama, S.A.: stores and handles aviation fuel for the Tocumen International Airport. It has storage capacity 15,000 barrels.

Petroterminal of Panama S.A. (PTP): includes facilities for the storage and handling of crude oil products and by-products on the Atlantic and Pacific coasts of the Republic of Panama, a 131-kilometer pipeline that runs through the Panamanian Isthmus and a General Cargo Dock on the Atlantic coast. PTP was born from a joint venture between the Panamanian Government and the private industry. Its storage capacity equals 8.9 million barrels.



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Colon Free Zone http://www.zolicol.gob.pa/	Panama Maritime Authority http://www.amp.gob.pa/
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Ministry of Foreign Affairs http://www.mire.gob.pa/	Ministry of Labor and Workforce Development http://www.mitradel.gob.pa/

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- To encourage the maintenance of high standards of ethics in bi-lateral business relations.
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