AmCham Panama

THE AMERICAN CHAMBER OF COMMERCE
AND INDUSTRY OF PANAMA

DOING BUSINESS IN PANAMA

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ACKNOWLEDGMENTS

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 key information of the country and its development in sectors such as logistics, agro-industry, financial services, tourism and mining, as well as specific issues related to requirements for contracting with the Panamanian State, information about special economic areas, free trade zones among other matters of great interest.

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.

AmCham Panamá

Susana Uranga, Executive Director
Giovanna Troncoso, Marketing & Communication Director
Amparo Rojas, Trade Specialist

KPMG Panamá

Luis Laguerre, Tax Partner
Jair A. Montúfar B., Partner, Tax Services
Andrés Kosmas, Director Tax Department
Luis Delgado, Senior Manager - Deal Advisory
Roberto Arosemena, Manager
Ramón Morales, Lawyer, Tax Services
Adriana Beltrán, Supervising Senior - Deal Advisory

Alfaro, Ferrer & Ramírez - AFRA Attorneys at Law

Luis H. Moreno IV, Associate

Graphic Design

Manuel Domínguez

Independent Economic Consultant

Radu Serrano

Photography Credits

Tourism Authority of Panama (ATP)
Panama Canal Railway Company
Manzanillo International Terminal
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Panama Pacifico
City of Knowledge
Roberto Pereira
Mauro Endara
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Luis H. Moreno IV
President - AmCham Panama

FOREWORD

The coronavirus pandemic has confronted the world with an unprecedented situation, and Panama does not escape from its terrible effects. In addition to the irreparable pain and grief due to the casualties caused by this pandemic, the country´s economy has taken a big hit, with the construction, hotels, restaurants, real estate, tourism, retail and transport sectors being some of the most affected. In an effort to avoid overwhelming the health system and to protect the population, the country implemented strict quarantine measures that significantly restricted movement and commerce, but now, facing the reality that the economy must somehow continue, the government has lifted certain restrictions and different sectors are starting a reactivation process.

In an attempt to support the economy, Panama approved a fiscal package consisting of additional medical spending and support programs for small to medium enterprise. Also, the country was successful in issuing US$2.5 billion worth of sovereign bonds (with orders surpassing three times the amount offered), enabling the government to divert funds to combat the coronavirus, being the first sovereign bond issue from the LATAM region, since the outbreak of the pandemic. Additionally, Panama adopted a Law granting an automatic exemption on payments of capital, interests and surcharges for loans until December 31, 2020.

This merciless pandemic has plunged the world into a health and economic crisis, but as the world starts to recover, Panama is expected to do the same, as its economy depends highly on world trade and maritime transportation. Despite the current world situation, rating agencies have provided optimistic projections to Panama based on specific factors, such as: the implementation of a strict fiscal policy regarding the payment of the debt, the strength of certain government institutions and the government's ability to collect taxes, which will give greater credibility to the country at international level in terms of debt repayment commitment.

Another accomplishment worth mentioning is that Panama adopted its first Public-Private Partnership Law through Law 93 of 2019, regulating the institutional framework and processes for the development of investment projects under PPP category. The government has publicly referred to a pipeline of projects to be developed under the new PPP regime ranging between two and five billion dollars in the next 5 years.

We are confident that this Doing Business Guide will allow its readers to conclude that Panama is the right place to do business, to invest, lo live, and to call home.

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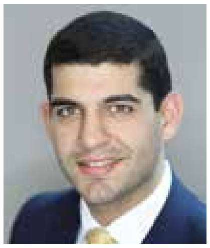

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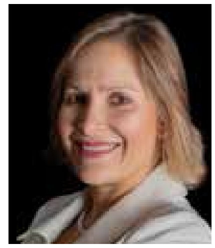
Associate Lawyer

Mariela de la Guardia Oteiza
Vicepresident
Icaza, González Ruiz & Alemán
(IGRA) - Associate Lawyer



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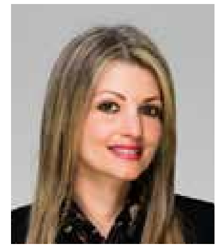
General Manager



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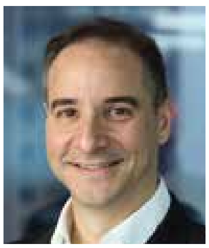

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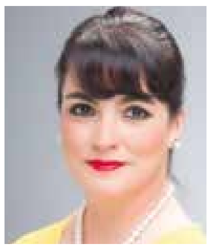
3M Panamá
Managing Director Central
America and Caribbean
Region - Venezuela



Jeannette Díaz Granados
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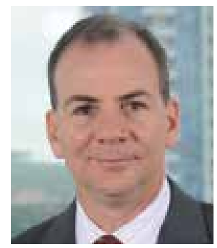
Delta Airlines
Commercial Manager

Giomar E. González M.
Director
BASC Panamá
Director



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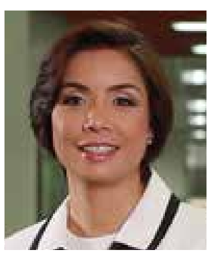
AES Panamá
CEO

Marcelo Gorrini
Director
Citi Panamá
Cluster Head Central America
& Caribbean



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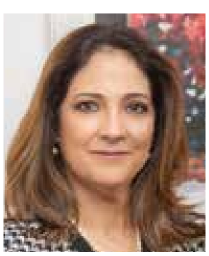
Chevron Panamá
General Manager

Óscar León
Director
Quality Leadership
University (QLU)
President

Adriana Paredes Ferrer
Director
Ricardo Pérez, S.A.
Vicepresident of Corporate
Communications & CSR



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Thomas Kenna
AACCLA Past President
Panama Canal
Railway Company
President

Luis Laguerre
AACCLA Vice President
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Tax Partner

Laura Gimenez
Commercial Counselor
US Embassy Panama

WHY TO INVEST IN PANAMA?

At the end of 2019, Panama presented the following characteristics strategically to attract investors:

- Trade Hub: 8% of global commerce pass through the Panama Canal, with 80 kilometers of distance between the Atlantic and the Pacific Ocean;
- Robust banking system: strong banking system with more than 80 local, regional, and international banks;
- International Financial Center: with total assets of the banking system as of 2019 representing 1.8x the nominal GDP of the country, Panama has been a financial center for the principal financial corporations in Latin America and the world;
- Air connecting hub: 132,000 direct flights per year to 90 destinations in 35 countries;
- Regional platform: Panama has 19 trade agreements, giving direct access to 59 countries in Latin America and 1.3 billion of potential customers;
- Special Regimes: allowing multinationals and niche business (i.e. Research and Development, Administrative, Manufacturing, Corporate services, among others) to have access to competitive tax and administrative benefits;
- Efficient urban mobility system: Panama Metro Line 1 and 2 transport +250,000 people in the metropolitan area;
- Low inflation rates: with an average inflation rate in the last 5 years (2015-2019) of 0.4%, being one of the lowest levels of inflation rate in the world;
- Legal investment stability: 10 years of legal stability of the investments done in the country, in terms of tax and special regimes; and
- Full dollarized economy.

The general objective of this document is to present a country profile of Panama to potential interested parties, from an economic, financial, and legal perspective. The specific purpose is to provide an overview of the benefits that Panama offers, as a key receptor for foreign investment development.

B. PANAMA'S OVERVIEW

Panama is the bridge between Central/North America and South America, the passage that connects the Pacific Ocean and the Caribbean Sea and an open door for everyone. Panama has been considered a strategic logistics hub in the Americas and crossroads of the world since early years.

Back in 1513, Vasco Nuñez de Balboa discovered the narrowest strip of land that separated the Atlantic and Pacific Ocean in Panama. Intrigued by the Isthmus of Panama and the thought of the construction of a potential canal to cross the seas, in 1534, Charles I of Spain issued a decree for the Panama regional governor to survey a route to the Pacific following the Chagres River, which concluded that the ship canal was an impossible endeavor. Late, in the period of 1881 - 1898, the French construction initiated, but failed to progress and the United States took over the Panama Canal Project in 1904 and concluded successfully in 1914.

The Panama Canal officially opened in August 15, 1914, greatly reducing 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 newly created route opened new markets and possibilities and helped integrate the nations in and around the Pacific Ocean into the world economy.

In June 2016, after an intensive construction program, the Panama Canal inaugurated a third Set of Locks for the transit of Neopanamax vessels, which prioritize water savings and contributes to the reduction of CO_2 due to the shorter distance to travel for larger sized ships carrying a higher load capacity than the previous maximum allowed. Besides the Panama Canal, Panama is a Connectivity Hub due to six operational submarine cables: PAC, SAC, PCCS, PAN-AM, ARCOS, and Maya-1; and two upcoming cables: Aurora, and Curie. This infrastructure, which provides the main network of Latin America, presents us with low cost and easy access to connectivity.

Panama is also recognized for operating one the most important air terminals in Latin America in terms of number of destinations and traffic, the Tocumen airport. It operates flights back and forth from more than 90 cities in America and Europe and it is the main hub for important airlines in Latin America.

Geographic & Demographic Data	
Population (estimated for 2020)	4,278,500 inhabitants
Surface	74,177.3 Sq. Km
Territorial Sea	12 nautical miles wide
Coast extension	2,988.3km
Provinces	10
Population Density	58 inhabitants per Sq. Km (estimated)
Geographic distribution	10 provinces, 3 indigenous reserves classified as provinces and 2 more classified as municipalities
Most population located in (estimated for 2020)	Panama & Panama West: 2,262,797; Chiriquí: 464,538; Colon: 298,344
Housing numbers in country (occupied)	896,050 housing (2010 Census)
Housing density in country (estimated)	12 Houses per Sq. Km.
Population structure according to age (estimated)	11 years or less: 20.7% 12 – 17: 10.2% 18 – 34: 26.4% 35 – 54: 25.6% 55 – 64: 8.5% 65 or more: 8.6%
Languages	Spanish (Official), English (Commercial)

Throughout the years, infrastructure in Panama has experienced a robust and constant growth along with the country's economic growth. Currently, the Panamanian Government is in planning and development phase of significant infrastructure projects such as the Fourth Bridge over the Canal, Line 3 of the Metro, road development, among others.

In the private sector, the construction of a copper mine and a natural gas plant in Colon have been successfully concluded.

We will present a snapshot of Panama's economy through different international indicators, rankings, and its various national sectors over this report.

1. Country Economic Outlook

Panama is an upper-middle income country with an estimated per capita gross national income of US$15,731 according to the statistics of The World Bank, 2019, and an estimated gross domestic product of US$66.8 billion in 2019, according to the National Institute of Statistics and Census. During the past 50 years, the real growth of the Panamanian Gross Domestic Product has averaged 5.0%, 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, Panama's GDP growth capped at approximately 11% in 2011, and the current trend, for the last five years, has been an average of approximately 4.6%. The World Bank states that the country's growth is likely to remain one of the highest in Latin America in the medium term. Before the COVID-19 outbreak, the World Bank predicted growth in Panama to be greatly influenced by the momentum generated by the completed copper mine. However, growth could also be affected from protracted international trade disputes or by a global economic turndown. These conditions have led Panama to receive affirmed investment grade ratings, with stable and negative outlooks, by major sovereign debt credit rating agencies.

According to the International Monetary Fund (IMF), unemployment rate has been around a 6% average during the last five years, with a 7.1% rate in 2019. By the end of 2019, inflation rate reached a -0.4% as forecasted by the preliminary statistics compiled by the General Comptroller's Office and the Ministry of Economy and Finances in August 2019 due to soft demand, and it is forecasted to present a deflation of -0.9% in 2020 and an inflation of 0.5% in 2021. In terms of poverty, Panama has been reducing poverty, partly due to the observed economic growth and public transfers. During 2015-2018 poverty decreased from 15.4% to 12.5%, while extreme poverty fell from 6.7% to 5.1%, during the same period. During 2019 poverty has only decreased marginally and is estimated to increase in 2020 as a result of the COVID-19.

2. Competitiveness Report

The Global Competitiveness Report 2019, by the World Economic Forum (WEF), assesses the competitiveness landscape of 141 economies. It provides insights into the factors and institutions identified as determinants in the improvement of productivity, which in turn influences economic growth and prosperity. This report helps to visualize how countries use their available resources to provide opportunities for their respective populations and offers both policymakers and business leaders an important tool for formulating improved economic policies, institutional reforms, and mid- to long-term goals.

In the present publication, Panama ranks 66 out of 141 countries, with a score of 61.6; an increase from the previous score of 61.0 and a decrease from the previous rank of 64 out of 140 countries in the 2018 Report. The current top ten and Panama´s Global Competitiveness Index 2019 rankings are reprinted below:

Global Competitiveness Index 2019

Economy	Rank	Score (1-100)	Previous Rank
Singapore	1	84.8	2
United States	2	83.7	1
Hong Kong SAR	3	83.1	7
Netherlands	4	82.4	6
Switzerland	5	82.3	4
Japan	6	82.3	5
Germany	7	81.8	3
Sweden	8	81.2	9
United Kingdom	9	81.2	8
Denmark	10	81.2	10
Panama	66	61.6	64

Source: World Economic Forum

In the 2019 Report, Panama improved in 10 of 12 of the total pillars. Panama presents the best scores in Latin America and the Caribbean (except for Chile) for Health (5th pillar). Except for Market Size (10th pillar), Panama scores higher in all pillars in comparison the regional average of Latin America and the Caribbean. The following table shows the Panama's rank for its most outstanding indicators, and their changes between the 2019 and 2018 Reports:

Panama's Ranks

Indicator	2019 Report Out of 141	2018 Report Out of 140
Inflation %	1	1
Efficiency of seaport services	7	7
Efficiency of air transport services	9	13
Soundness of banks	16	21
Efficiency of train services	18	31
Trade openness[1]	18	-
Environment-related treaties in force[2]	26	-
Liner shipping connectivity	30	29
Healthy life expectancy	31	32
Time to start a business	32	31
Domestic credit to private sector	33	34
Terrorism incidence	33	32
Complexity of tariffs	37	36
Strength of auditing and accounting standards	39	40
Competition in services	42	39

[1]This is a sub-pillar composed of the following indicators: Prevalence of non-tariff barriers, Trade tariffs, Complexity of tariffs and Border clearance efficiency.
[2]This is a new indicator that appeared in the 2019 Report.

Source: World Economic Forum

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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

Since 2019, Standard & Poor's credit rating for Panama stands at BBB+ with negative outlook. Moody's credit rating for Panama was last set at Baa1 with stable outlook. In both cases, the country risk ratings remain with one of the highest ratings in Latin America and the Caribbean. Regarding the management of public debt, S&P highlights that the country has improved its debt profile and its terms and conditions, maintaining robust indicators that mitigate market risk and minimize the risk of refinancing the Republic. According to Moody's, Panama's “Stable” outlook reflects that economic growth will continue to support the country's credit profile and that it will be stronger compared to its peers, amid the effects of the pandemic crisis.

Fitch's credit rating for Panama was last reported at BBB with negative outlook, supported by the solid and stable macroeconomic performance of Panama, the sustained increase in per capita income, its geographical position and the country's strategic assets, such as the Panama Canal. According to Fitch Ratings, another element in favor of Panama is that the levels of Public Debt in relation to GDP (Debt / GDP) remain below the median of countries with the same rating (BBB).

Standard & Poor's Global Ratings **BBB + – Negative**
Moody's Rating **Baa1– Stable**
Fitch Rating **BBB – Negative**

Source: Fitch Ratings, S&P, and Moody's

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 [T&C] risk).

Foreign currency ratings additionally consider the profile of the issuer or note after considering 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 several 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 (T&C) 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 each country. Given the close correlation between sovereign credit and T&C 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.

In their most recent rating report, dated February 2020, Fitch Ratings affirm all previous ratings, and state that these are supported by Panama's continued strong and stable macroeconomic performance. Nevertheless, the Negative Outlook reflects a marked deterioration in fiscal deficits and an increase in the government's debt burden, related to the accumulation of arrears by the previous administration and higher fiscal deficit targets under the modified Fiscal Responsibility Law. Structural advantages including a strategic location and asset (Panama Canal), trade openness and business-friendly policies have resulted in favorable economic growth.

Similarly, demonstrated access to multilateral lenders and global capital markets supports financing flexibility. The country ceiling is 'A' because of its open current and capital accounts, and the country's integration with the world economy. Ultimately, exchange and convertibility risks are negligible due to Panama's well-entrenched dollarization.

3.3. Moody's

Foreign currency ratings additionally consider the profile of the issuer or note after considering 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.

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Republic of Panama

Rating Type	Current Rating	Date	Rating Action
Long Term Issuer Default Rating	BBB/Negative	06/Feb/2020	Affirmed
Short Term Issuer Default Rating	F2	06/Feb/2020	Affirmed
Local Currency Long Term Issuer Default Rating	BBB/Negative	06/Feb/2020	Affirmed
Local Currency Short Term Issuer Default Rating	F2	06/Feb/2020	Affirmed
Country Ceiling	A	06/Feb/2020	Affirmed

Source: Fitch Ratings

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.

In their most recent rating action, dated September 2019, Moody's Investors Service affirmed all previous ratings that had been updated in March 2019. Moody's upgraded Baa2 rating to Baa1 and A3 to A2 due to the facts that:

1) Panama's economic growth and fiscal metrics exceed that of most Baa-rated peers and prospects remain more favorable over the medium term;
2) The government has strengthened its fiscal policy framework.

The stable outlook reflects Moody's expectation that Panama will continue to grow fast; outpacing growth achieved by most Baa-rated peers. The outlook also incorporates Moody's expectations that Panama's fiscal metrics will only register a moderate decline as the government builds a track record under the new fiscal rules.

Republic of Panama			
Rating Type	**Rating**	**Date**	**Rating Action**
Senior Unsecured (Foreign)	Baa1/Stable	04/Sept/2019	Affirmed
LT Issuer Rating (Foreign)	Baa1/Stable	04/Sept/2019	Affirmed
Senior Unsec. Shelf (Foreign)	(P)Baa1/Stable	04/Sept/2019	Affirmed
Country's ceiling for foreign currency & long - and short - term bonds	A2/P-1	04/Sept/2019	Affirmed
Country's ceiling for bank deposit ceilings	A2/P-1	04/Sept/2019	Affirmed

Source: Moody's

3.4. Standard and Poor's

Standard and Poor's (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 consider 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.

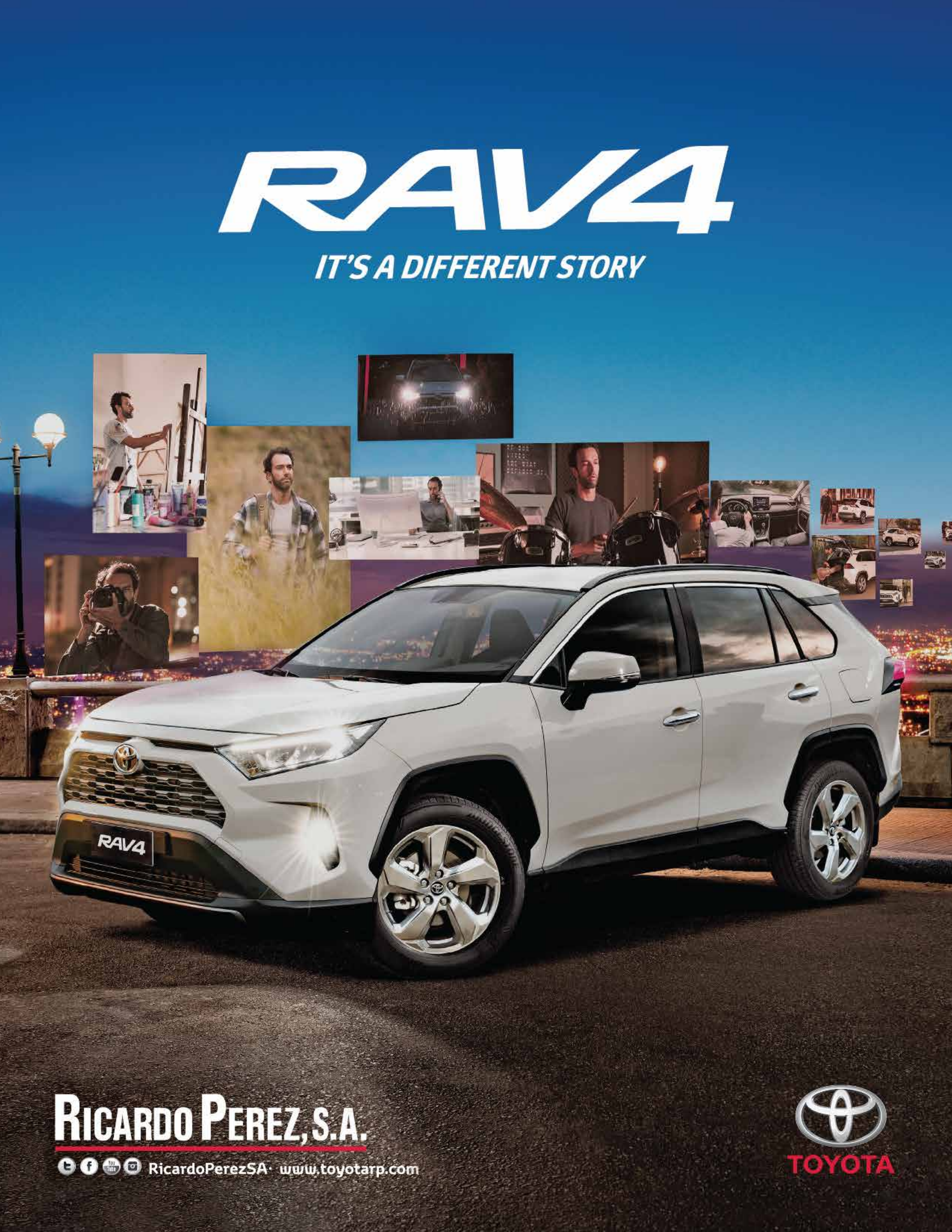
In their most recent rating action, dated April 2020, S&P Global Ratings affirmed Panama's long-term sovereign credit ratings to BBB+, but revised their outlook to negative, and affirmed the country's short-term ratings at A-2. The ratings reflect the country's persistently high GDP growth, which has contributed to an increasingly diversified and resilient economy. However, the negative outlook reflects the pressures on Panama's economic, fiscal, and debt trajectories, exacerbated by the COVID-19 pandemic.

S&P projections expect the GDP to contract in 2020 by 2% and unemployment to rise to 9% (from 7% in 2019). The projections also anticipate an economic recovery in 2021. GDP could grow around 4.2%, led by a recovery in private consumption, investment, and exports, with the completion of large infrastructure projects and other investments sustaining growth momentum in the next couple of years.

Finally, their T&C assessment is 'AAA' due to the low likelihood that Panama would cease to use the U.S. dollar as its local currency.

Republic of Panama			
Rating Type	**Current Rating**	**Date**	**Rating Action**
Long-Term in Foreign Currency	BBB+/Negative	24/April/2020	Affirmed
Short-Term in Foreign Currency	A-2	24/April/2020	Affirmed
Long-Term in Local Currency	BBB+/Negative	24/April/2020	Affirmed
Short-Term in Local Currency	A-2	24/April/2020	Affirmed
Transfer & Convertibility Assessment	AAA	24/April/2020	Affirmed

Source: Standard and Poor’s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3.5. BICRAs (S&P)

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."

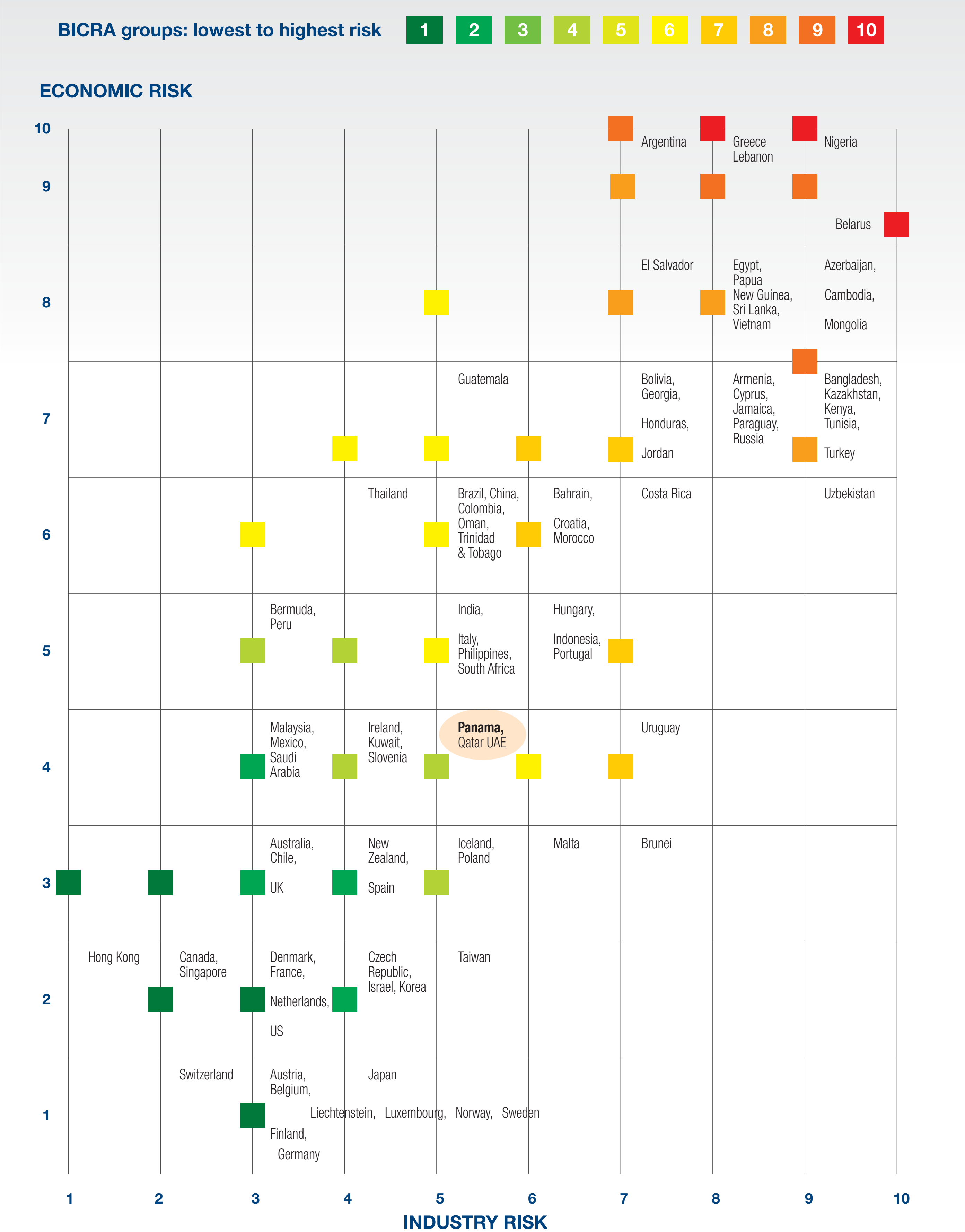
A BICRA analysis for a country covers all its financial institutions that take deposits, extend credit, or engage in both activities, whether rated or not. In addition, the analysis considers the relationship of the banking industry to the financial system, and furthermore to its sovereign. For that 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 considers 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 maintains its position in the middle of both risk tables, in Group '5', with its economic risk equal to its industry risk, according to S&P´s BICRA latest report, dated September 2019.

BICRA, Economic Risk, And Industry Risk Scores



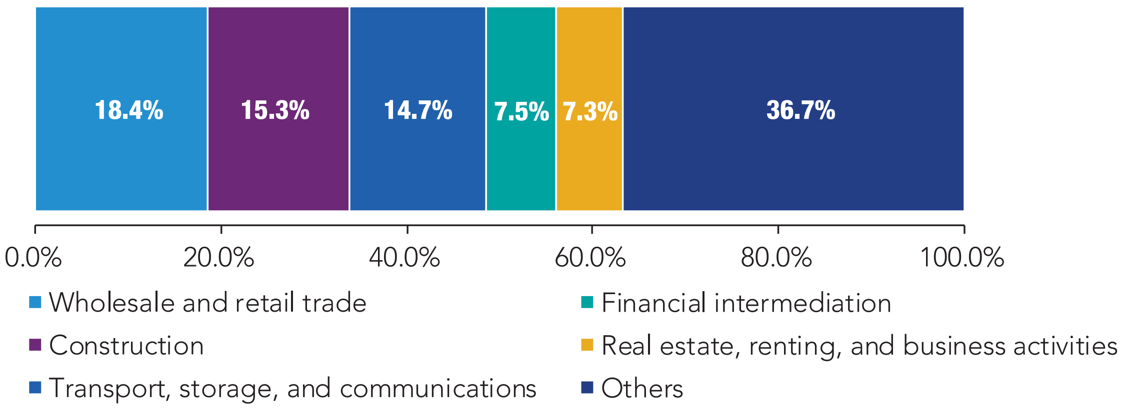
Source: Standard and Poor's

4. Sustainable Growth (IMF)

Panama has a strategic geographic position and innovative trade policies that allow it to serve as a regional and global center. In April of 2020, the International Monetary Fund (IMF) published a Country Report, about Panama, as background documentation for the periodic consultation session. The previous report acknowledged that real GDP growth averaged over 6.5% over the last decade, significantly higher than Latin America and the Caribbean (2.4%) and the group of emerging markets and developing economies (5.4%).

The latest report states that the economy slowed in 2018–19 and growth is estimated to have reached 3.0% in 2019. The Panamanian economy is remarkably diversified with more than 15 industries. As shown in the following graph, as of December 2019, more than half of GDP is composed of the following sectors: wholesale and retail trade, construction, transportation, storage and communications, financial intermediation, and real estate, rental and commercial activities.

GDP Composition by Economic Activity - 2019



Source: Instituto Nacional de Estadística y Censo (INEC).

According to the IMF, without the COVID-19 impact, growth was expected to rebound in 2020, and economic activity was projected to recover after a slowdown in 2018-19, supported by full-scale copper production and robust private investment. However, growth in 2020 is expected to contract significantly due to the Coronavirus pandemic to a -2.0%, majorly impacting employment industries such as services and construction.

Nonetheless, positive contributions are expected from public expenditures, while increasing fiscal deficit. Growth over the medium-term is expected to remain at its potential and the fintech sector holds potential in the presence of an appropriate regulatory framework. Additionally, existing policies attract knowledge-intensive industries and research activities to special economic zones.

Finally, a realignment of fiscal revenue and expenditures is imperative to sustain growth. Adopting cybersecurity and fintech regulatory frameworks while capitalizing on Panama's digital and mobile connectivity could place the country as a regional fintech hub, enhancing financial inclusion, and lowering intermediation costs.

Macroeconomic Outlook						
	Est.		Fcst.		Fcst.	
	2016	2017	2018	2019	2020	2021
Macroeconomic developments[a]						
Real GDP growth	5.0	5.6	3.7	3.0	-2.0	4.0
Inflation	0.7	0.9	0.8	-0.4	-0.9	0.5
Unemployment	5.5	6.1	6.0	7.1	8.8	8.4
Demand components (at constant prices)[b]						
Public consumption	10.1	6.5	7.5	8.6	2.2	5.7
Private consumption	7.1	3.1	2.3	3.4	3.9	5.0
Public investment	49.0	-20.7	7.0	-5.2	1.2	4.6
Private investment	-5.5	14.9	-0.1	1.4	1.8	3.8
Exports	-4.3	5.0	5.0	-0.4	7.9	5.3
Imports	-4.8	4.7	2.8	-0.4	4.2	4.6
Total public debt[b]						
Debt of the Non-financial public sector	34.8	34.8	36.8	40.8	41.5	41.5

a. Indicators are projected considering COVID-19 impact.
b. Indicators are projected prior to COVID-19 impact.

Source: IMF

5. Doing Business Rankings (The World Bank)

The Doing Business Project, of the World Bank Group, provides objective measures of business regulations and their enforcement across 190 economies and selected cities at the subnational and regional level. Economies are ranked on their ease of doing business, from 1 to 190. 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 86th place in the Doing Business 2020 ranking, and the 7th in Latin America and the Caribbean, after Chile, Puerto Rico, Mexico, Colombia, Costa Rica and Peru. Showcased in the report was Panama's high score on 'getting credit', 'starting a business', 'trading across borders', and 'getting electricity'. Improvements are required for 'enforcing contracts', 'paying taxes' and 'resolving insolvency'.

Republic of Panama		
Doing Business 2020 Rank	**Doing Business 2019 Rank**	**Change in Rank**
86	**79**	**↓ -7**

Source: Doing Business Report, World Bank

Topics	DB 2020 Rank	DB 2020 Score	DB 2019 Score
Starting a Business	51	92.0	92.0
Dealing with Construction Permits	100	68.2	68.2
Getting Electricity	51	83.5	86.6
Registering Property	87	65.2	65.2
Getting Credit	25	80.0	80.0
Protecting Minority Investors	88	56.0	56.0
Paying Taxes	176	46.7	46.7
Trading Across Borders	59	85.5	85.5
Enforcing Contracts	141	49.0	49.0
Resolving Insolvency	113	39.5	39.6

Source: Doing Business Report, World Bank

6. World Investment Report (UNCTAD)

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. It also supports policymakers by monitoring global and regional FDI trends and documenting national and international investment policy developments.

Every issue of the Report includes:
- Analysis of the trends in FDI during the previous year.
- Ranking of the largest transnational Corporations in the world.
- In-depth analysis of a selected topic related to FDI.
- Policy analysis and recommendations.

Panama continues to be an important pole of attraction for FDI. In absolute terms, it is the country that received the most foreign direct investment, in Central America and the Caribbean. Additionally, the country extended its fiscal incentives for the tourism industry until 2025, in order to promote investment in hotels and recreation activities.

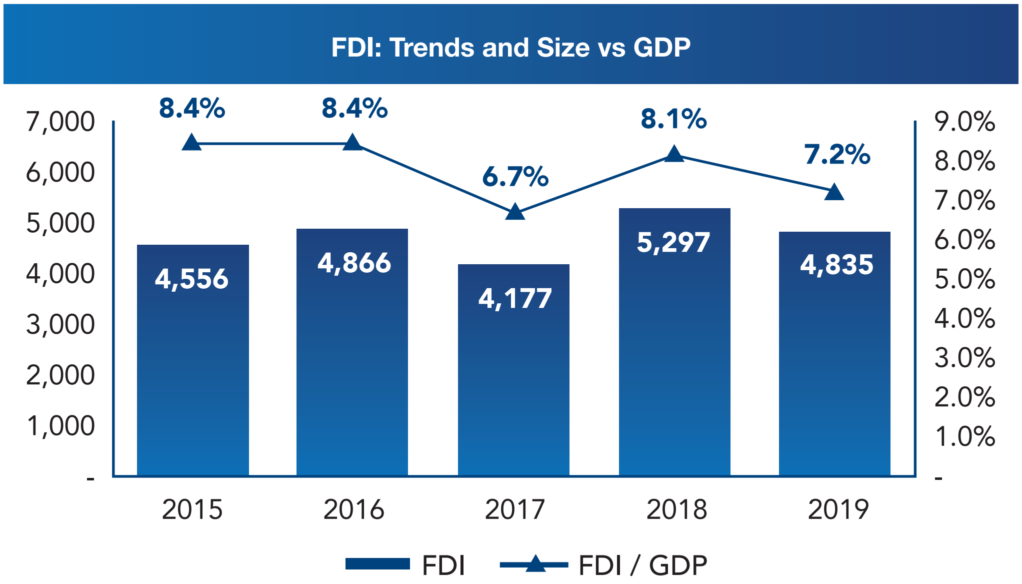
FDI Flows, by Region and Economy, 2016-2019 (Millions of Dollars)

Region/Economy	FDI inflows				FDI outflows			
	2016	2017	2018	2019	2016	2017	2018	2019
World	1,983,478	1,700,468	1,495,223	1,539,880	1,543,239	1,600,984	986,351	1,313,770
Latin America and the Caribbean	136,610	156,193	148,920	164,236	10,818	38,249	127	41,598
Central America*	41,674	45,115	45,551	43,069	1,196	4,590	7,962	9,916
Belize	44[a]	24[a]	122[a]	103[a]	2[a]	0.3[a]	1[a]	2[a]
Costa Rica	2,204	2,742	2,237	2,536	77	159	53	117
El Salvador	347	889	826	662	-0.4	0.2	-	0.4
Guatemala	1,185	1,170	1,003	998[a]	117	169	218	181[a]
Honduras	1,139	1,176	961	498	239	141	66	-1
Mexico	30,989	34,165	34,746	32,921	482	3,919	7,712	10,228
Nicaragua	899	772	359	515	65	65	75	23
Panama	4,866	4,177	5,297	4,835	214	138	-163	-634
Caribbean	3,416	4,377	2,713	3,983	200	35	78	752

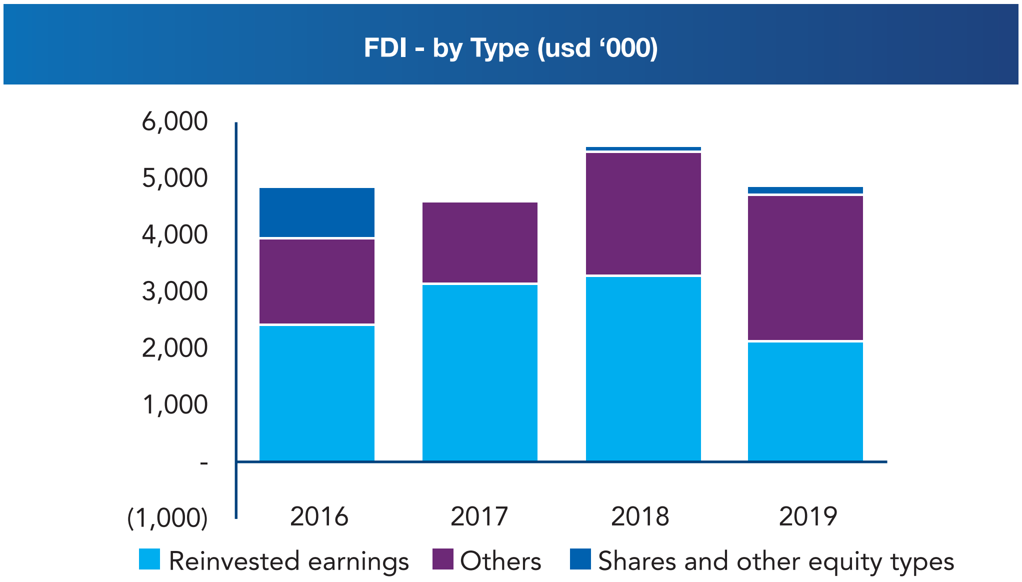
* The 2020 World Investment Report incorporates México as part of Central America in their classification.
[a] Assets / liability basis.

Source: UNCTAD

The Foreign Direct Investment in Panama is a key driver of the economy, representing an average of 7.8% of the country's GDP for the last 5 years (2015-2019):



A significant part of the FDI net inflows come from the reinvestment of earnings generated by foreign companies in the country, which is a sign of the confidence that foreign companies have had in the country and future growth:



7. Container Port Traffic Index (The World Bank)

Published by the World Bank, this indicator 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-sized container. Data references coastal shipments 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.

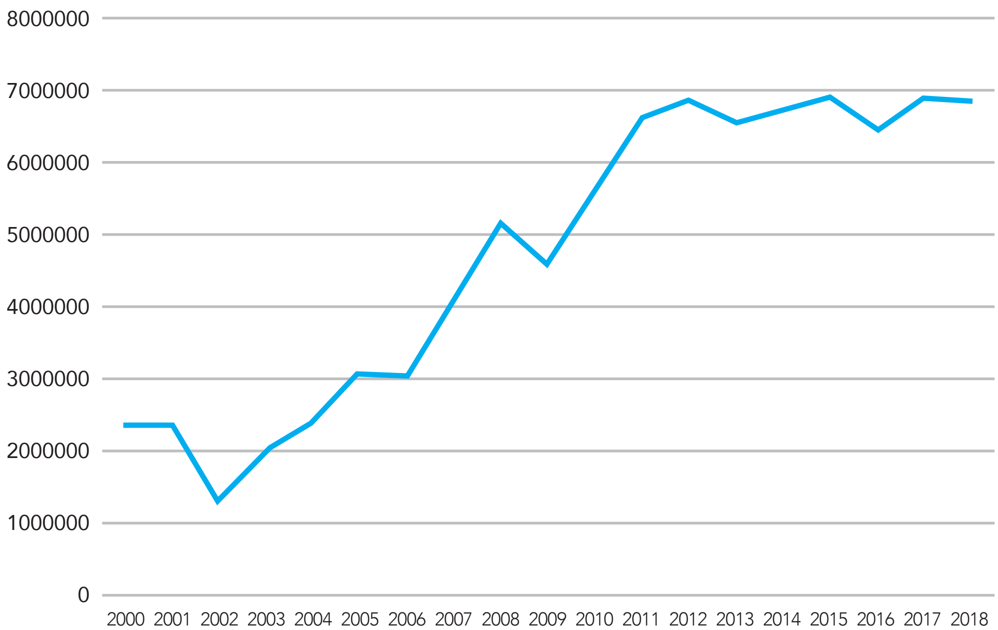
In international commerce, the ports in Asia, especially China's, and in the U.S., lead the ranking by a wide margin. Brazil, Mexico and Panama, lead the Latin American and the Caribbean ranking, in TEUs.

Latin American and the Caribbean Rank of TEUs Traffic (In TEUs)						
Rank	**Country**	**2014**	**2015**	**2016**	**2017**	**2018**
1	Brazil	10,321,436	10,300,068	9,925,574	9,649,331	10,312,431
2	Mexico	5,057,313	5,402,867	5,402,867	6,370,950	6,980,300
3	**Panama**	**6,774,700**	**6,894,700**	**6,477,000**	**6,899,000**	**6,872,400**
4	Chile	3,785,938	3,738,600	3,920,200	4,571,400	4,662,910
5	Colombia	3,378,000	3,659,300	3,665,300	3,935,500	4,125,200

Source: World Bank

The following chart details the trend of the container port traffic index in Panama for the period of 2000 to 2018.

Container Port Traffic - Panama



Year	TEU
2000	2369681
2001	2376045
2002	1344790
2003	1991659
2004	2428762
2005	3063832
2006	3027788
2007	4022513
2008	5129499
2009	4597112
2010	5588702
2011	6633265
2012	6854200
2013	6564900
2014	6774700
2015	6894700
2016	6477000
2017	6899000
2018	6872400

Source: World Bank

8. Liner Shipping Connectivity Index (UNCTAD)

The Liner Shipping Connectivity Index (LSCI), published by the United Nations Conference on Trade and Development (UNCTAD), measures, liner shipping connectivity. This indicator permits to capture a country's level of integration into the existing global liner shipping networks. As a proxy of the accessibility of global trade, the higher the index means that it is easier to access a high capacity and continuous global maritime freight transport system, and thus efficiently participate in international trade. Thus, the index reflects the duality of being considered a measure of connectivity to maritime shipping and a measure of trade facilitation.

The LSCI was improved upon in 2019, including a larger number of countries and adding an additional component for the calculation of the score. The current version of the LSCI is calculated from six components:

The current version of the LSCI is calculated from six components:

a) The number of scheduled ship calls per week in the country;

b) Deployed annual capacity in TEU: total deployed capacity offered at the country;

c) The number of regular liner shipping services from and to the country;

d) The number of liner shipping companies that provide services from and to the country;

e) The average size in TEU of the ships deployed by the scheduled service with the largest average vessel size;

f) The number of other countries that are connected to the country through direct liner shipping services.

Panama remains at the lead in Latin American and the Caribbean, with the best maritime connectivity, according to data from 2019. In the last five years, its score has improved, from 44.1 in 2015 to 48.9 in 2019.

Liner Shipping Connectivity Index - Latin American and the Caribbean

Rank	Country	2015	2016	2017	2018	2019
1	**Panama**	**44.15**	**48.19**	**47.39**	**50.06**	**48.94**
2	Mexico	42.43	46.31	43.99	46.11	45.49
3	Colombia	42.86	49.60	46.57	48.49	45.41
4	Peru	31.91	32.61	37.68	39.39	38.91
5	Dominican Republic	27.45	30.49	36.38	39.57	38.78

Source: UNCTAD

9. Latin American and the Caribbean Container Port Throughput (ECLAC)

The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) updates their data on Latin American Container Port Throughput yearly. The ECLAC tables show that the region's data largely maintained the heterogeneity seen in throughput behaviour in the previous year, both in reference to ports and countries. In this regard, Panama's ports of Colon and Balboa are the first and fifth ranked biggest ports in the region in TEU throughput.

Latin American and the Caribbean Container Port Throughput

Ranking	Port	Country	2017 (TEU)	2018(TEU)	2019 (TEU)	% Change
1	**Colon**	**Panama**	**3,891,209**	**4,324,478**	**4,379,477**	**1.3%**
2	Santos	Brazil	3,578,192	3,836,487	3,904,566	1.8%
3	Manzanillo	Mexico	2,830,370	3,078,505	3,069,072	- 0.3%
4	Cartagena	Colombia	2,678,005	2,862,787	2,933,808	2.5%
5	**Balboa/Rodman**	**Panama**	**2,986,617**	**2,520,587**	**2,898,977**	**15.0%**

Source: ECLAC

10. Travel & Tourism Economic Impact 2019

(World Travel & Tourism Council)

The World Travel & Tourism Council (WTTC) is the body that represents the Travel & Tourism private sector globally. It has been quantifying the economic and employment impact of travel and tourism for more than 25 years. The WTTC provides Annual Economic Reports that present the compiled current data. According to its 2019 Economic Impact Report, the direct global contribution of travel and tourism to GDP in 2018 was US$2,750.7 bn (3.2% of GDP). This is forecast to rise by 3.6% to US$2,849.2 bn in 2019. This primarily reflects the economic activity generated by industries such as hotels, travel agents, airlines and other passenger transportation services (excluding commuter services). But it also includes, for example, the activities of the restaurant and leisure industries directly supported by tourists.

The Annual Report establishes that travel and tourism's contributions to an economy are much greater (US$8,811 bn in 2018 equivalent to 10.4% of the global GDP and is expected to grow by 3.6% to US$9,126 bn in 2019), and thus attempt to quantify the direct, indirect and induced impacts through their research. The direct contributions refer to those sectors that deal directly with the tourists. Indirect and induced contributions are added up in order to calculate the total impact on a country's GDP. The 'International Spending' indicator references spending within the country by international tourists for both business and leisure trips, including spending on transport. The 'Domestic Spending' indicator alludes to the spending within a country by that country's residents for both business and leisure trips. 'Business Spending' and 'Leisure Spending' aggregate the spending of both residents and international visitors on business and leisure travel, respectively.

Panama's 2019 key highlights can be summarized as follow: travel and tourism contributed to 14.5% of the total economy, 2.1% above 2018. Regarding employment, they contribute with 277,800 jobs, or 14.4% of total employment. Most inbound arrivals were from the U.S., Venezuela, Colombia, Brazil and Ecuador, while most outbound departures left for the U.S., Costa Rica, Colombia, Dominican Republic and Nicaragua.

Panama	2019 % of Total
Total GDP indirect contribution	14.5
International spending	82
Domestic spending	18
Leisure spending	88
Business spending	12
Total contribution to employment	14.4

Source: WTTC

C. Relationship Overview Between Panama and US

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11. 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 U.S. 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 U.S. 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 most 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 export 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 Agreemnt.

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.

According to the statistics of the General Comptroller´s Office, in 2016 Panama imported US$3,084 million from the USA, which represents 24% 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 (excluding crude) – In 2017, the United States, exported US$2,373,265,000 to Panama.

Corn – In 2017, the United States exported around US$82.5 million in 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 2017, the United States exported over US$72 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 2017, the United States exported to Panama over US$110 million in telephones for cellular networks, central processing units, keyboards and displays.

Vehicles – In 2017, the USA exported to Panama approximately US$123 million in vehicles.

Food preparations – In 2017, the United States exported over US$44 million in food preparations to Panama.

Wheat – In 2017, the United States exported approximately US$31 million in wheat to Panama. The Agreement locks in duty-free for U.S. wheat.

Rice – In 2017, the United States exported over US$14.4 million in 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 – 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.

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.

Poultry meat – In 2017, USA exported approximately US$24.5 million worth of poultry to Panama.

Industrial goods – currently face an average tariff of 7% in Panama, with some tariffs as high as 81%.

The previously statistics were compiled from the Trade Map database of the International Trade Center, the joint agency of the World Trade Organization and the United Nations.

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.

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

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.

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

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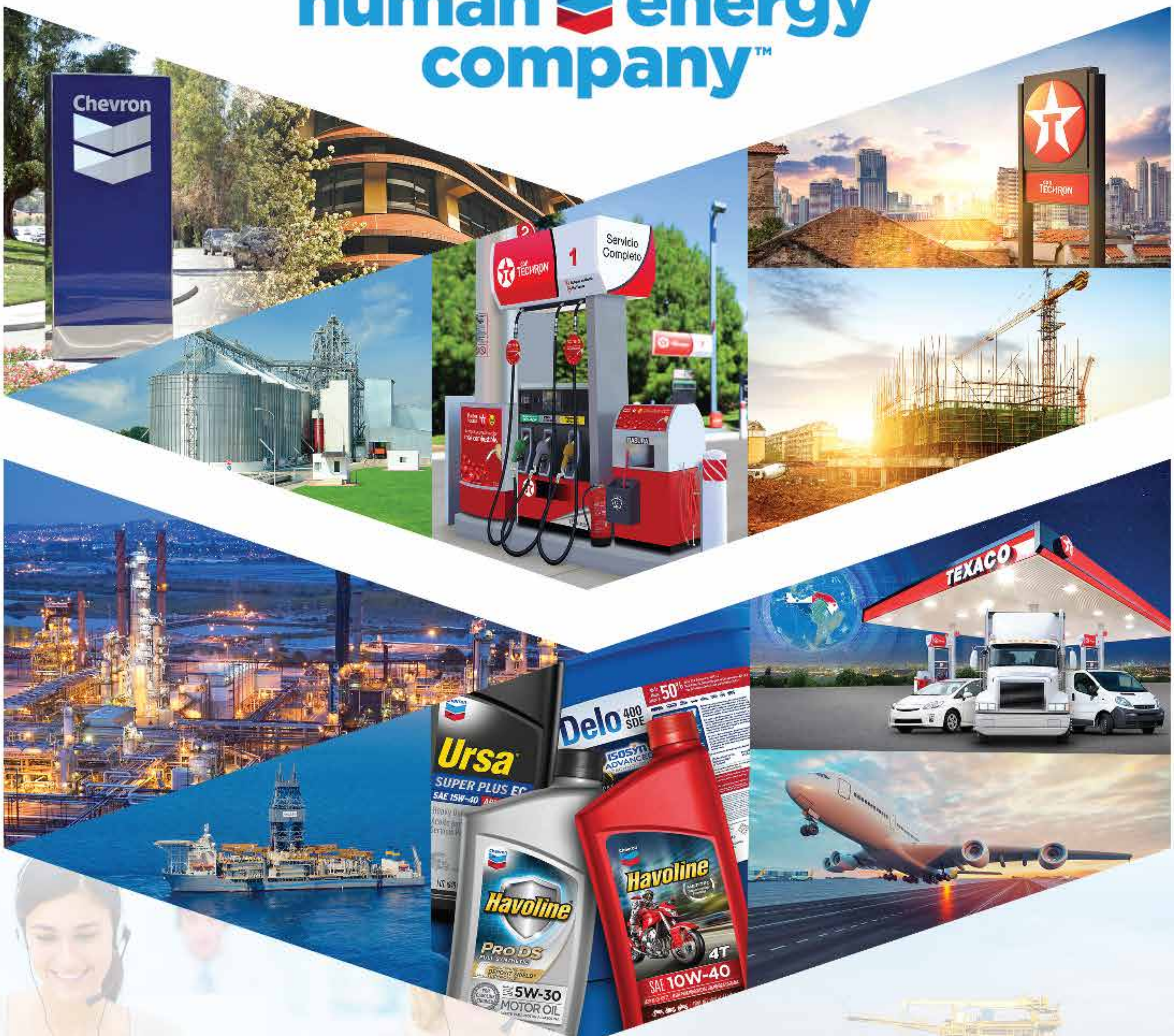

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D. Business Opportunities in Panama

12. 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 Panamá-Pacífico Special Economic Area (Área Económica Especial Panamá Pacífico), an area reserved for the production of high technology services, as well the import, export and re-export of merchandise and other goods.

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 started operations in June 2016. The Expansion is making 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 6 million TEUs annually, which it might skyrocket in the next years due to the expansion and increasing port facilities. 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, Colon, under concession, approved in 2014. The project is a mega port of 127 hectares with an estimated cost of US$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 US$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.

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 US$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.

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.

The New Corozal Terminal: A new proposal under negotiation, presented by the Panama Canal Authority (PCA). This project will cover 118 hectares. It will be a mixed ownership concession between the PCA 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 3 from Albrook to Ciudad del Futuro, covering the southwest part of the city and connecting to the Panama Oeste province (project has already been tendered and contracted).
- Build a Fourth Bridge over the Panama Canal (project has already been tendered and contracted).
- Expand the Panama-Arraijan highway.
- Expand the Chorrera-Santa Cruz highway.

Another major project is the expansion of the Tocumen airport, which was inaugurated in 2019. The new terminal consists of a building of 80,000 square meters and 20 boarding gates, at an estimated cost of more than US$800 million.

The project also includes an expanded immigration, commercial and retail space, parking lots, access roads and bridges.

Lastly, the Panama Canal Railway 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 500,000 containers per year, but it has a maximum capacity of 2,000,000 containers per year. 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.

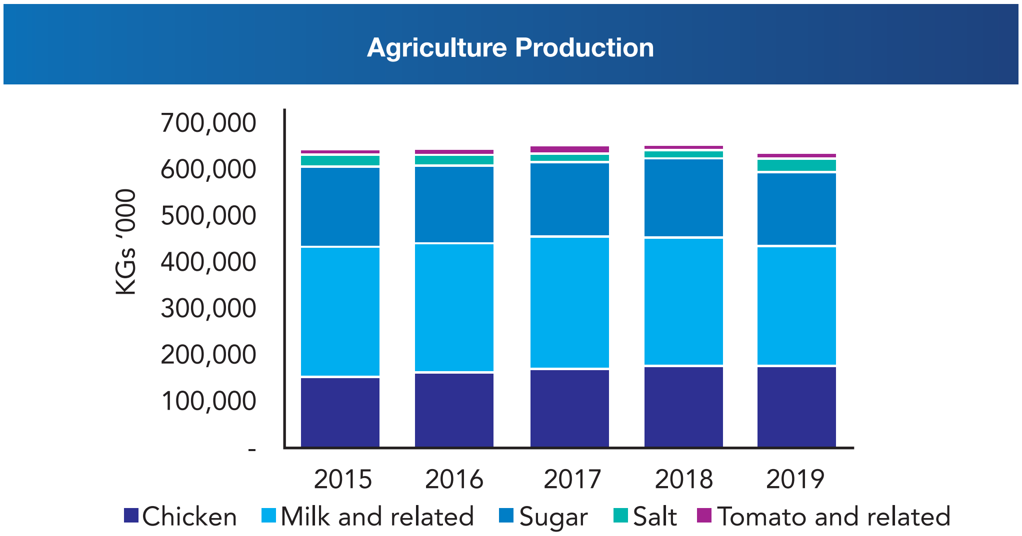
13. Agroindustry

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 salmonids, among others.

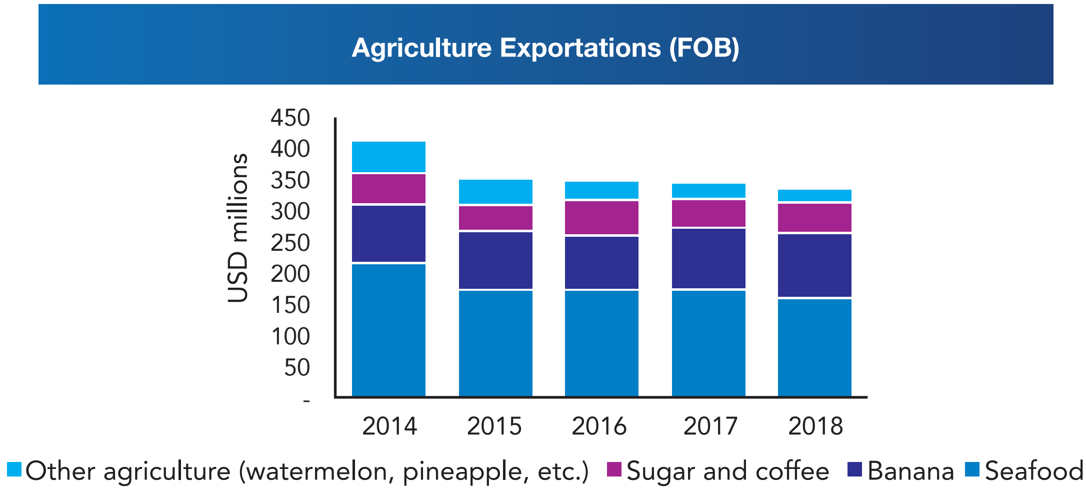
Panama´s Ministry of Commerce and Industry (MICI for its acronym in Spanish), through the National Export Program, conducts regular Agro-Export Seminars where attendees are instructed in export logistics, market analysis, management of international prices, certifications, and how to negotiate international standards contracts. These are some of the concepts that Panamanian producers must handle, in order to enter the market of agro-exports.

The latest development in this sector comes from the Panama Exporta program. The objective of the program is to support the country's agricultural, agro-industrial and industrial sector to promote, increase and diversify exports, through training, advice and technical assistance. This country brand seeks to publicize the potential of the Panamanian sectors, highlighting the competitive and productive identity of the country, with a solid foundation in high quality. The MICI and the Ministry for Agricultural Development (MIDA, its Spanish acronym) launched the second phase of this initiative at the end of March 2018. The first phase, which lasted the previous six months, resulted in various successful exports (papaya, squash, pineapple, craft beer, watermelon, cobia, and other fish varies), from ten national companies, under the country brand. The target markets were the United States, the Caribbean, Europe and the Middle East. The second stage consists of strengthening export capacities and providing technical assistance to the companies, for access to international markets. This aggressive and advanced training program further addressed issues such as: the requirements and incentives for export, access to markets in the United States, Asia, South America, Central America, the use of FTAs, export logistics, market intelligence, international marketing, export plan, international certifications, and organic production, among others.

The following graph shows the production of agriculture in Panama in the last five years:



Panama exports agriculture products, mainly seafood, and bananas. The following graph shows the trend in exports of agriculture and seafood products from 2014-2018:



14. Financial Services

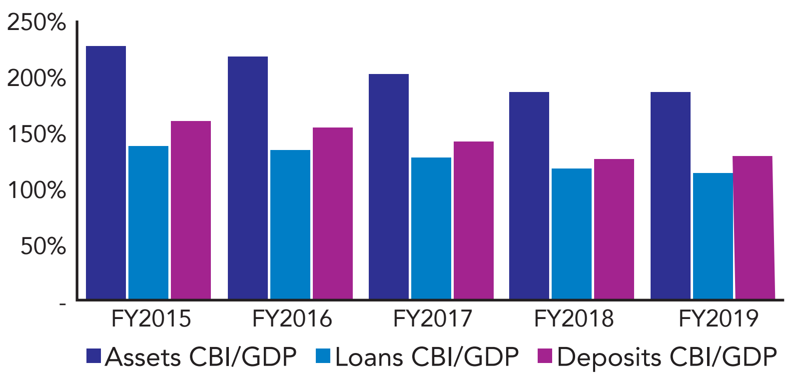
The Panamanian Financial Centre, consisting largely of banking services, insurance, and securities, is one of the key strategic areas of the country's economy. According to the statistics of the General Comptroller´s Office, financial intermediation corresponded to the 6.1% of 2019 annual GDP. In recent 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 January 2020 its total assets added up to more than US$122,951.14 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 2016, Panama started to apply Basel III Convention regulations gradually, according to the 2015-2019 plans.

The following graphs presents a comparative analysis of the fundamentals of the international banking center of Panama (“CBI”) with GDP of Panama:

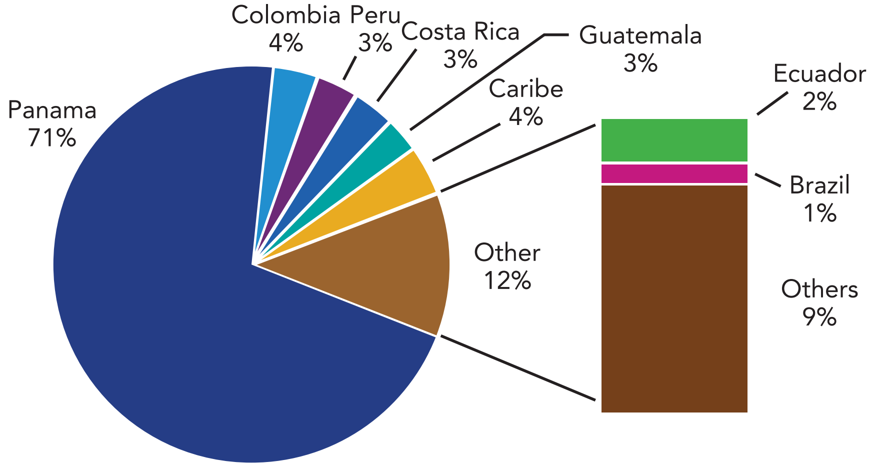
Banking System vs Panamanian Economy (GDP)



Source: Superintendency of Banks of Panama, International Banking Center statistics as of 2019.

A fundamental characteristic of an International Financial Center is its relationship with foreign clients. As of 2019, Panama had 29% of the total loans, granted to foreign debtors, mainly located in Latin America. The following graph shows the trends of loans concentration by principal countries:

Loans - Geographic Concentration (FY2019)



Source: Superintendency of Banks of Panama, International Banking Center statistics as of 2019.

Panama has subscribed to 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. Similarly, in 2015, Panama enacted a legislation to meet the current Financial Action Task Force on Money Laundering (FATF) Standards. Most recently, in 2017, Panama subscribed to the Convention on Mutual Administrative Assistance in Tax Matters, of the Organization for Economic Co-operation and Development (OECD), in order to improve tax transparency to tax administrations overseas.

15. Tourism

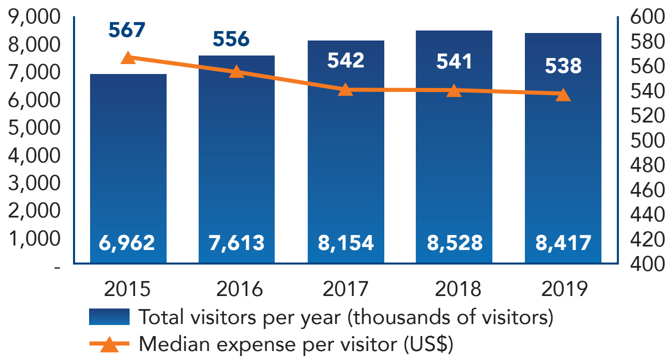
Due to the increasing relevance that the tourist sector is achieving each year in Panama, the government, through its Tourism Authority (ATP for its acronym in Spanish), considers essential the implementation of a strategic framework for the continuing development of this sector. This instrument, known 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 75 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 75 destinations to more than 30 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 include KLM, Avior Airlines, Air France, Avianca, AeroMéxico, Spirit, TAP Portugal, American Airlines, Delta, Condor, Geteca Aviation, United Airlines, Venezolana, Aruba Airlines, Air Canada, SBA Airlines, Iberia, Conviasa, Turkish Airlines and Lufthansa.

Panama has received, in average, 7.6 million of visitors per year from 2015-2019, including people that utilize the country as connecting point, as well as visitors that enter the country. The average expense of visitors as of 2019 has been US$538.

The following graph shows the trends of this indicators in the last 5 years:

Tourism Sector: Visitors and AVG Expense



Source:INEC (Instituto Nacional de Estadística y Censo/ Contraloría General de la República de Panamá - Comptroller of the Republic of Panama).

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 several local festivals. The development of cultural tourism has increased in the past years with the support 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

	January - November		Variation	
Port of Entrance	**2018**	**2019**	**Absolute**	**Relative**
Total	2,235,769	2,240,887	5,118	0.2
Tocumen International Airport	1,594,587	1,591,004	-3,583	-0.2
Paso Canoas Border Crossing	112,447	128,462	16,015	14.2
Cruise Ports	326,306	314,699	-11,607	-3.6
Other Ports	202,429	206,722	4,293	2.1

Sources: Comptroller of the Republic of Panama, ATP
Note: the number of visitors included in the previous table are related to people that enter the country and does not include people that use the country as connecting point in Tocumen Airport.

As of 2020, due to the distancing measures taken to fight the pandemic situation, the tourism sector has been majorly affected in Latin America and the Caribbean. According to the United Nations Organization, the COVID-19 crisis will cause the tourism sector to contract between 8% and 25%, with a special incidence in the Caribbean. The closure of hotels and casinos may contribute to unemployment, further impacting the lodging rate that hotels pay for taxes. Similarly, a collateral impact to the transport sector associated with the tourism sector will be reflected, reinforced by the airport closure of national and international flights.

According to Ernesto Orillac, president of the National Chamber of Tourism in Panama, the COVID-19 pandemic has caused the tourism sector to register losses of about US$12 million daily. Ernesto Orillac also estimates that the suspended contracts in the hotel sector are at 60,000, which is one of the most affected segments along with travel agencies, tour operators, and convention organizers.

The Panama Chamber of Tourism estimates that the recovery of the sector, at least to pre-pandemic levels, will take at least two years, and approximately US$120 million will be needed to organize its reopening. Nonetheless, amid the current situation, the World Travel & Tourism Council (WTTC) considers Panama as one of the destinations that have the necessary protocols to reopen its tourism sector in a safe environment, to the extent that it is one of the few destinations in Latin America and the Caribbean that is part of this "Safe Travel Stamp" program. This Safe Travel Stamp is a recognition that mainly communicates that the protocols of that destination are at the level of the established global protocols, worldwide of the private sector.

16. 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. Since that year, mining's share of the national GDP has reigned steady between 1.6% and 1.8%. Nevertheless, the activities of this sector mainly focus on the extraction of stone and sand, necessary for the construction industry, in both public and private projects.

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 2016 Mining Potential of Panama Report, authored by the Mining Chamber of Panama, the country reserves include 53.2 billion pounds of copper, and 10.7 million ounces of gold. Copper mining still has the best long-term potential because Panama has Cerro Colorado and Petaquilla, two of the largest untapped copper deposits in the world.

Cobre Panama, one of the world's largest open-pit copper mines, has been developed by Minera Panamá, a subsidiary of Canadian-based First Quantum Minerals Ltd. 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. This project's production of copper started in February 2019, with the first export achieved in June 2019.

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 Orla Mining Ltd. The concession grants Minera Cerro Quema, a wholly owned Panamanian subsidiary of the aforementioned company, the exclusive rights for the extraction of gold and silver for 20 years, over an area of 768 hectares.

The National Secretariat of Energy has confirmed in February 2020 that in the Darien province there are around 900 million barrels of hydrocarbons. The future phase of the study presented to the Secretariat aims to describe the geology and petroleum system of the basins, and the delineation of blocks to be offered in public bids for exploration. Previously, in January 2018, a study to collect geological information yielded signs of hydrocarbons in the Caribbean Sea of Panama, in an area adjacent to three natural gas wells in Colombia. According to the Secretariat, this was just the first study, and the conjecture is based on preliminary data.

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E. Panama Business Regulations

17. 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 Anónimas*"} 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 consist 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 Interés 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.

Aside from the listed entities and partnerships, by means of Law No. 83 (in process of validation by the President of the Republic of Panama), a new type of legal named Limited Liability Entrepreneurship Companies (*Sociedades de Emprendimiento de Responsabilidad Limitada*) was created. The main characteristics of this type of entities are:

- Can only be constituted by one (1) up to five (5) individuals and said individuals cannot be part of another Limited Liability Entrepreneurship Company.

- Liability is limited to any obligations contracted by the entity regarding its business activities and each partner is economically liable up to its participation (made or promised).

- They are not required to have a Resident or Registered Agent and are not subject to a corporate annual fee.

- The articles of association must be validated and authorized by the Director of Commerce of the Ministry of Commerce and Industries; and later registered in the Public Registry of Panama.

- The minimum share capital is US$500.

- Limited Liability Entrepreneurship Companies can have gross income up to US$1,000,000, per annum. If this gross income is exceeded, it will be required to convert into any other entity authorized under Panamanian law.

- Cannot be listed in a stock exchange.

Are exempted from corporate income tax for two (2) years and import duties can be reduced up to a 50%.

Laws Discussed

Law No. 32, February 26th, 1927, Regarding Corporations – Ley 32 del 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 del 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 del 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 del 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 del 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

Law No. 83 (in process of validation by the President of the Republic of Panama), Which regulates Limited Liability Entrepreneurship Companies in the Republic of Panama – Ley No. 83 (en proceso de sanción por parte del Presidente de la República de Panamá), Que regula las sociedades de emprendimiento de responsabilidad limitada en la República de Panamá.

18. 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 Panamá, 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.

19. 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 Servic (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 US$50,000 placed in financial institutions in Panama will have their finances reported to the IRS.

On April 27, 2016 the Agreement between the Government of the Republic of Panama and the Government of the United States of America to improve international tax compliance and to implement the Foreign Account Tax Compliance Act (FATCA) and its annexes, was signed and on October 24, 2016 it was enacted as Law No.47 of 2016, entering into effect that same date.

The General Directorate of Revenues (DGI, according to its Spanish acronym) confirmed that Panama sent the first FATCA report at the end of September 2017. This process has and will be repeated in a yearly manner.

20. 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 with Panama are: Barbados, South Korea, United Arab Emirates, Spain, France, Ireland, Israel, Italy, Luxembourg, Mexico, the Netherlands, Portugal, Qatar, the United Kingdom, Czech Republic, Singapore and Vietnam. Furthermore, Panama has signed Exchange of Tax Information Agreements with Canada, Denmark, the United States, Finland, Greenland, Iceland, Faroe Islands, Norway, Sweden and Japan. For specific information regarding each or any of these agreements, please visit the General Directorate of Revenues at:
https://dgi.mef.gob.pa/Tributación-I/C-Firmados.html.

21. Information Exchange

Complementing FATCA and bilateral agreements, Panama passed Law No. 23 of 2015. The aforementioned law created the Intendancy of the Supervision and Regulation of Non-Financial Subjects (Intendencia de Supervisión y Regulación de Sujetos no Financieros, in Spanish) and took measures to strengthen the Financial Analysis Unit (Unidad de Análisis Financiero).

Law No. 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. As of January 2020, the Intendancy was granted autonomy and upgraded to the level of national Superintendence, by Law No. 124.

Additionally, in January 2018, Panama subscribed to the Multilateral Competent Authority Agreement for the Common Reporting Standard (CRS MCAA), of the OECD. The CRS MCAA is the prime international agreement for implementing the automatic exchange of financial account information under the Multilateral Convention on Mutual Administrative Assistance. Panama was the 98th jurisdiction that joined this agreement, which permits the country to activate bilateral exchange relationships with the other 100 signatories.

On July 7, 2020 the Ministry of Economy and Finance of the Republic of Panama published the list of 64 reportable jurisdictions with which Panama must exchange information in 2020, concerning the 2019 fiscal period. The reportable jurisdiction list is updated and published each year.

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 del 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

Law No. 124, January 7th, 2020, Which Creates the Superintendency of Non-Financial Subjects, and Dictates Other Provisions – Ley 124 del 7 de enero de 2020, Que Crea la Superintendencia de Sujetos no Financieros y Dicta Otras Disposiciones

OECD's Multilateral Competent Authority Agreement for the Common Reporting Standard (CRS MCAA)

22. Inmigration

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 and the EU).
- 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 No. 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 No. 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 Panamá-Pacífico (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 del 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 del 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 del 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

23. 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:

Business Investor Visa

Requires a minimum investment of US$160,000 in any new business or corporation. If the Investor has dependents, the investment amount must increase by US$2,000 for each dependent. Additionally, a commercial business license and a social security registration are needed, and five Panamanian employees must be hired. After this 2-year temporary resident visa expires, the individual is granted a permanent residence permit.

Agrarian Investment Permits

Allow individuals to become temporary residents. Foreigners, themselves or through a legal entity, must invest a minimum of US$60,000 in a Panamanian agroindustry business or aquaculture industry. If the Investor has dependents, the investment amount must increase by US$500 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 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 for each one.

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.

Free Trade Zones Investors Visa

For foreigners investing US$250,000 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.

Reforestation Investor Visa

Achieved through a minimum investment of US$80,000 in at least twenty hectares of a government certified reforestation project. For any additional dependents, an additional investment of US$2,000 must be made.

Panama Pacifico Special Economic Area Investor Visa

For foreigners that invest a minimum of US$250,000 in a company registered in the Special Economic Area of Panama Pacifico. The investments funds must come from abroad.

Call Center Investor Visa

For foreigners investing US$250,000 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 with funds from abroad, in the film industry.

24. 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	Celebration
January	01/01 09/01	New Year's Day 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 05/11 10/11 28/11	Separation of Panama from Colombia Consolidation of the Separation of Panama from Colombia Independence of La Villa de los Santos Independence Day of Panama from Spain
December	08/12 25/12	Mother's Day 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. 424 of 2019. It is recommended to constantly check with MITRADEL for updates.

Minimum Wage in Panama (per hour)*

Composed by Sector or Activity	Region I Districts of Panamá, Colon, 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, Baru, Boqueron, Portobelo, Donoso, Santa Isabel, Santa Maria, Parita, Pesé, Atalaya, Changuinola, Chiriqui Grande, Almirante, Tierras Altas, Omar Torrijos Herrera.	Region II The rest of the country
Average (calculated) minimum wage hourly rate	US$2.90	US$ 2.66
Agriculture, Cattle Raising, Hunting, Forestry, Aquaculture, Fishing. Small Business.	US$1.55	US$1.55
Agriculture, Cattle Raising, Hunting, Forestry, Aquaculture, Fishing. Large Business (11+ employees).	US$1.91	US$1.91
Agroindustry. Processing. Small Business.	US$2.27	US$1.91
Agroindustry. Processing. Large Business.	US$2.81	US$2.31
Manufacturing Industry. Small Business.	US$2.22	US$1.87
Manufacturing Industry. Large Business (16+ employees).	US$2.91	US$2.40
Construction	US$3.24	US$3.05
Wholesale Trade	US$2.81	US$2.30
Retail Trade. Small Business.	US$2.27	US$1.90
Retail Trade. Large Business. (11+ employees).	US$2.81	US$2.30
Free Trade Zones. Special Economic Areas.	US$3.50	US$2.34
Hotels. Small Business.	US$2.28	US$1.89
Hotels. Large Business (11+ employees).	US$2.75	US$2.25
Restaurants. Small Business.	US$2.22	US$1.87
Restaurants. Large Business (11+ employees).	US$2.88	US$2.36
Transportation	US$2.94	US$2.42
Financial and Insurance Activities	US$3.27	US$3.27
Real Estate	US$3.24	US$2.89
Teaching (Administrative Personnel)	US$2.88	US$2.34
NGO's	US$2.77	US$2.27
Arts, Entertainment and Creativity	US$2.88	US$2.88

* 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 del 30 de diciembre de 1971, modificado por la Ley No. 44 del 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. 424, December 31st, 2019, Which sets the New Minimum Wage Rates Throughout the National Territory – Decreto Ejecutivo No. 424 del 31 de diciembre de 2019, Que fija las nuevas tasas de salario mínimo en todo el territorio nacional

25. 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 US$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 del 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 del 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 del 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 del 10 de octubre de 2012, sobre el derecho de autor y derechos conexos

26. 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 have gradually decreased over the course of the past years, and will continue to do so.

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 - shows the tariffs/duties that Panama is currently assessing. You can access this database by simply visiting:
https://www.ana.gob.pa/w_ana/images/ANA_pdf/arancel/Arancel-Nacional-Importacion2020.pdf

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.

27. 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. It was further amended by Law No. 14 of 2018, which extends the protection to the customer and the defense of competition.

The General Directorate for the Defense of Trade of the Ministry of Commerce and Industry (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 del 31 de octubre de 2007, Que dicta normas sobre protección al consumidor y defensa de la competencia y otra disposición

Law No. 14, February 20th, 2018, Which modifies articles of Law No. 45 of 2007, on Consumer Protection and Defense of Competition – Ley No. 14 del 20 de febrero de 2018, que modifica artículos de la Ley 45 de 2007, sobre protección al consumidor y defensa de la competencia

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 del 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 del 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

28. Panama's New PPP Regime

Panama has adopted its first public-private partnership (PPP) regime though Law 93 of 2019 (the "Law"), regulating the institutional framework and processes for the development of investment projects under the PPP category, seeking to promote the development of infrastructure and public services in the country, contribute to economic growth, employment creation, competitiveness, and to improve the living conditions of the population.

Facing fiscal constraints and in some cases technical limitations, Panama anticipates benefiting from this initiative, attracting private experience, investment and financing for the development of important projects.

With a few exceptions, the Law is applicable to the Central Government, autonomous and semi-autonomous entities of the Non-Financial Public Sector, municipalities and business corporations in which the State has a majority stake.

It incorporates strong mandatory principles applicable throughout PPP projects such as transparency, budgetary capacity, appropriate risk allocation, fair competition, and integrity. It also includes eligibility factors that will determine the convenience of implementing a given project through the PPP regime. These factors include a general social analysis that should indicate the benefits of the project to the population, a cost-benefit analysis that would determine the convenience of undertaking the project under the PPP regime versus the traditional public procurement or concession method, a risk distribution proposal including construction, financial, commercial and other risks throughout the different project stages, sustainability and feasibility studies, legal and environmental analysis, among others.

PPP project´s scope of work may include design, construction, reparation, financing, expansion, exploitation, operation, maintenance, administration and/or supply of a good and/or service to the contracting public entity and/or to the end users of any public service.

- Institutional Framework -

A Governing Body called the ***"Ente Rector"*** was created, consisting of the Ministers of the Presidency, Economy and Finance, Public Works, Commerce and Industry, and Foreign Affairs, and in addition, the Comptroller General of the Republic, who does not have right to vote.

The *Ente Rector* is the maximum authority in PPP projects. It is responsible for defining the priority areas of PPP projects and the analysis criteria on the identification, selection and prioritization of PPP projects, approving the requests raised by the contracting public entities to undertake projects under the PPP regime, approving rules and guidelines for risk allocation, as well as the scope of work proposed by the contracting public entities and the content of PPP agreements, authorizing modifications to the tender documents and PPP agreements, among others.

The Law also created the **PPP National Directorate** (the "Directorate"). The Directorate acts as a technical and operational support unit for the *Ente Rector*, preparing (for the consideration and approval of the Ente Rector), the selection criteria for PPP projects, the standardization of processes, the protocols for collaboration between the various institutions involved in the PPP project developing process, guidelines for risk allocation and the design of the scope of work and PPP agreements, in compliance with the provisions established in this Law. The Directorate also acts as liaison between the Ente Rector, the contracting public entities, and the advisory committee.

The **Advisory Committee** is made up of four members of Panama's private sector, two members of the academic and teaching sector, and two members of the organized groups of workers. It raises recommendations and proposes PPP projects to the *Ente Rector*, through the Directorate.

The **Ministry of Economy and Finance** plays a huge role in the implementation of PPP projects as it must coordinate, in accordance with its Budget Classifications Manual of Public Expenditure, the methodology that will be applied to assess the impact of the PPP projects on the specific public expenditure of the contracting public entity and the Government's General Budget during the term of the PPP agreement.

- The Tender Process –

The tender documents will be made public through a publicly accessed website with sufficient time for its review by interested parties. The publication of the tender process will include the date of a homologation meeting where all interested parties may discuss the tender documents with the contracting public entity. Also, the publication will include the date, place and time for the bid proposal submission.

Once the contracting public entity receives the proposals from the bidders, it would first verify that all the minimum technical, administrative and financial requirements established in the tender documents are met, and then it would apply the corresponding quantifiable objective valuation method for the economic proposal, as indicated in the tender documents.

The awarded bidder must create a local SPV (which will be the actual contractor and will sign the PPP agreement), provide it with the required capital as indicated in the tender document, and submit a performance bond. The PPP agreement will enter into effect only after the Comptroller´s General provides its countersign to the agreement.

Legal recourses are available for bidders that may consider that their rights were not respected during the tender process.

- PPP Agreement -

The maximum term for PPP agreements is 30 years, with a possible extension of up to 10 additional years. The Law recognizes the possibility of further extensions (up to five years), due to delays attributable to the contracting public entity.

All PPP projects must be at least fifteen million dollars (US dollars), except for PPP projects undertaken by municipalities, which will be subject to what the regulation of the Law establishes.

The Law classifies the PPP projects as "self-sustaining projects" (entirely financed by the fees and tolls paid by end users) and "co-financed projects" (requiring or potentially requiring financial contributions from the contracting public entity), depending on the financial commitments assumed by the contracting public entity. In co-financed projects the contracting public entity will assume fixed or contingent commitments, as determined in the corresponding tender documents of the given project.

It is worth mentioning that although constitutionally Panamanian budget is determined annually by a law approved by the National Assembly, the Law requires that all co-financed PPP agreements contain a provision that obligates the contracting public entity to include the financial resources programmed to pay the PPP contractor in the budgets of the next fiscal periods.

Also, the Law establishes that the Ministry of Economy and Finance will honor the financial obligations acquired by the contracting public entities in PPP agreements, and will prioritize the projects in execution.

Dispute resolution mechanisms are contemplated in the Law, starting with an initial stage of direct negotiation to allow a friendly and direct solution between the contracting parties, if applicable. If a friendly solution is not reached between the parties, the technical and/or economic disputes may be submitted for consideration of a technical panel of professionals with outstanding experience in the technical, economic and legal matters of the infrastructure concessions sector. Such technical panel will consist of two lawyers, two engineers and a professional specialized in economic or financial sciences. The technical panel will issue an expedite technical recommendation which will not be binding for the parties but may be furthered considered as evidence by an arbitration board.

All PPP agreements will include arbitration clauses and will establish the regulations applicable to the arbitration proceeding. The applicable law to the process shall be that of the Republic of Panama, and the arbitration proceeding will be carried out in the Republic of Panama.

The Law also includes "step-in-rights" for creditors, to replace the PPP contractor in all its rights and obligations under the PPP agreement if the PPP contractor is in breach of its obligations under the PPP agreement.

In the same line, the Law enables the holding company of the PPP agreement to transfer the PPP agreement or its rights under the PPP agreement, previous to the authorization of the Ente Rector, to legal entities that meet the initial requirements applicable to the holding company of the PPP agreement, provided that they are not subject to the prohibitions and disqualifications established by the Law.

Additionally, the Law creates a special pledge in favor of the creditors, that may be agreed between the holding company of the PPP agreement and its creditors. This special pledge may include (i) the rights of the holding company of the PPP agreement under such agreement, payments of the contracting public entity to the holding company of the PPP agreement, and in general all receivables of the holding company of the PPP agreement.

- Relevant Projects -

The Panamanian government has publicly referred to a pipeline of projects to be developed under the new PPP regime surpassing two billion dollars. Among the anticipated projects, the government has mentioned: (i) the construction of an eight-kilometer cable car system, with seven stations, transporting up to three thousand passengers per hour, that will cross six municipalities and connect with Panama´s two existing metro lines (San Miguelito Metrocable), (ii) the construction of a twenty four kilometer highway, connecting the Arraiján-La Chorrera highway to the neighborhood of Panamá-Pacífico (La Costanera highway), and (iii) the rehabilitation of a section of the Pan-American highway of around one hundred eighty five kilometers between the cities of Santiago and David.

29. Public Procurement in Panama

Every year the National Assembly approves the General Budget of the State, which includes the expenditures and investments of all the public institutions. It is then up to the State to execute said budget so that each entity can carry out its different tasks and functions, fulfilling the needs of the citizens.

In general, Law 22 of 2006 ("Law 22") establishes the norms, rules and basic principles that govern the contractors selection procedures and public contracts carried out by the Central Government and its entities, including financial intermediaries and corporations in which the State owns 51% or more of its shares or assets, as well as those that are carried out with public funds or national assets. As a general rule, all contracts for acquisitions or leases of goods carried out by State entities, execution of public works, disposition of State assets, including leases, provision of services, operation or administration of State assets, concessions or any other contract not regulated by special law, must observe the norms, rules and principles established in Law 22.

It is worth highlighting that Law 22 expressly excludes from its scope of application the acquisition of medicines, supplies and medical equipment by the Social Security Agency (Caja de Seguro Social), which is governed by the provisions of Law 1 of 2001 regarding medicines and other products for human health.

Public procurement in Panama must adhere to and be based on eight fundamental principles: (i) transparency, (ii) economy, (iii) responsibility, (iv) effectiveness, (v) publicity, (vi) efficiency, (vii) due process and (viii) equality of the participants (bidders), as indicated in Law 22.

Likewise, Law 22 establishes that public contracts must maintain equality between rights and obligations when proposing or contracting, and the parties must take the necessary measures to reestablish said equality in the event that it is broken for provable reasons that are not attributable to the affected party. For these purposes, the parties enter into agreements to reestablish the contractual equilibrium which typically include amounts, conditions, formulas, forms of payment of additional expenses and recognition of financial costs, if applicable.

Contractor Selection Procedures

Depending on the type of contract (object, amount and degree of complexity), the contracting entities will apply one of the following contractor selection procedures:

(i) Minor Contracting (Contratación Menor): For the acquisition of goods, services or works that do not exceed fifty thousand dollars, complying with a minimum of formalities.

(ii) Public Procurement Procedure (Licitación Pública): For the acquisition of goods, services or works that exceed fifty thousand dollars. In this procedure the price is the determinant factor, provided that all the requirements and technical aspects required in the bid specifications are complied with.

(iii) Public Procurement Procedure for Best Value (Licitación por Mejor Valor): For the acquisition of goods, services or works with a high level of complexity and with a contract amount greater than five hundred thousand dollars. In this selection procedure, economic, administrative, technical and financial aspects are weighted, awarding the participant that obtains the highest score, provided that the participant complies with the minimum obligatory requirements established in the corresponding bid specifications. It is important to mention that in this procedure the price shall not represent less than 40% or more than 49% of the total points for the award.

(iv) Public Procurement Procedure for Framework Agreement (Licitación para Convenio Marco): Procedure for selecting one or more participants with whom a contract called framework agreement is signed, where prices and specific conditions for goods and services are established for a fixed time period. In these procedures, the selection criteria are defined by the General Directorate of Public Procurement (Dirección General de Contrataciones - hereinafter, “DGCP”) according to the needs of the State.

(v) Public Procurement Procedure of Reverse Auction (Licitación de Subasta en Reversa): Bidding and counter bidding procedure to obtain the best price for a good, service or work for the institution or institutions, within a certain period.

(vi) Auction of Public Assets (Subasta de Bienes Públicos): Procedure in which the State can offer its movable assets and real estate for sale or lease.

There are also exceptional and special contracting procedures, special procurement procedures in case of emergencies, as well as the pre-qualification of participants. However, these procedures are applied less frequently, so they will not be addressed in this section.

Law 22 establishes the minimum content of the bid specifications that the contracting entities draft in preparation for the selection of contractors. Likewise, this law regulates the minimum terms for the publication of the announcement of the selection procedure, in relation to the date of submission of proposals (considering the amount and complexity of the contract); as well as the modifications to the bid specification and the minimum days of anticipation for the publication of said modifications before the proposal submission date.

As a general rule, in contracts with an amount that exceeds one hundred and seventy-five thousand dollars, the contracting entity will hold a public meeting called "prior meeting and homologation", in order to answer questions, clarify aspects related to the bid specifications or other documents, and make observations that may affect the participation in equal conditions of the potential participants.

Once the corresponding commission - composed of suitable and independent members - applies the corresponding evaluation criteria according to Law 22 and bid specifications, it will prepare a motivated report addressed to the legal representative of the contracting entity, containing its evaluation and recommendation so that the legal representative awards or declares deserted the contractor selection procedure, if the formalities established in Law 22 are considered to have been fulfilled.

Except for a few cases, the resolutions and administrative acts, as well as the communications issued by the contracting entities during the contractor selection procedure and execution of the contract, and those issued by the DGCP and Administrative Tribunal of Public Procurement (Tribunal Administrativo de Contrataciones Públicas - hereinafter, “TACP”), will be published and will be notified in the Electronic Public Procurement System “PanamaCompra"(http://www.panamacompra.gob.pa)

Legal Challenges

Law 22 establishes the following three legal challenges in relation to public procurement:

Claim action (Acción de reclamo):	It can be filed before the DGCP against any illegal or arbitrary act or omission that occurs during the contractor selection procedure before the awarding, declaration of desertion or cancellation of a selection procedure.
Contesting action (Recurso de impugnación):	It can be filed before the TACP, by the participants that consider themselves affected by a resolution that awards, declares deserted a selection procedure, rejects the proposals or any act that affects the objective selection of the contractor, in which the participants consider that illegal or arbitrary actions or omissions have been committed. The action must be filed together with a Contesting Action Bond, for an amount equal to a percentage of the contractor selection procedure's reference price (10% for goods and services; and 15% for works).
Appeal action (Recurso de apelación):	It can be filed before the TACP against: (i) the resolutions that administratively resolve (terminate) a contract or purchase order and sanctions the contractor for the contract or purchase order breach; (ii) the resolutions issued by DGCP that sanction public officers; (iii) the resolutions that impose fines for delays of the contractor; and (iv) the resolutions that impose debarment sanctions on awardees for refusing to sign the contract.

Bonds

Law 22 contemplates the following types of bonds in regard to public procurement:

(i) Proposal bond (Fianza de propuesta):	Pre-contractual guarantee established in the bid specifications and presented at the proposal submission meeting, in order to guarantee the proposal of the participants, the signing of the corresponding contract and the presentation of the performance bond in case of being awarded.
(ii) Advanced payment bond (Fianza de pago anticipado):	It guarantees the reimbursement of an amount of money given as an advanced payment to the contractor. This guarantee is enforceable in case that the contractor does not use the advanced payment for the timely and proper execution of the contract.
(iii) Performance bond (Fianza de cumplimiento):	It guarantees the faithful fulfillment (performance) of the contract by the contractor, as well as the correction of defects, if applicable.
(iv) Investment compliance bond (Fianza de cumplimiento de inversión):	It guarantees the effective investment of a sum of money by the contractor, within the term and under the agreed conditions, in those contracts for acquisition or disposition of goods that require it.
(v) Contesting action bond (Fianza de recurso de impugnación):	It guarantees the damages and injuries that may be caused to the public interest in the presentation of contesting actions.
(vi) Claim Action Bond (Fianza de Acción de Reclamo)	Guarantee required to file claim actions after the second verification or evaluation committee has been issued by the commission by order of DGCP.

Contract

Law 22 establishes that public contracts governed by said law are subject to Panamanian law, specifically Law 22, complementary provisions, and supplementary provisions of the Civil Code or Commerce Code that are compatible with the purposes of public procurement.

Law 22 regulates aspects such as the exorbitant power of unilateral termination of the contract by the contracting entity (grounds for resolution and administrative rescue), the assignment of the contract, the assignment of credits, the rules for additions and amendments to the contract based on public interest, payments, maximum terms and extensions, penalties and incentives, validity and liquidation of contracts, grounds for nullity of acts and contracts (absolute and relative), and in particular work contracts, supply contracts, services contracts and consulting contracts, as well as the turnkey contracts or contracts of similar modality.

F. Incentive Laws

30. Multinational Headquarters Incentives

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, and by Law No. 57 of 2018.

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 Industry.

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 management 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, financial and/or administrative assistance, as well as other support services, to companies in the same business group.

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

An income tax of 5% and an exemption from VAT, for services provided to the business group outside the country.

Exemption from dividend, complementary and branch taxes.

Exemption from the use of fiscal equipment, and from the need to obtain a Notice of Operation.

Expenses related to the labor remuneration of all its employees can be declared as deductible expenses in the annual income tax return.

Exemption from income tax and social security quotas for the salaries and other labor remunerations of holders of a Permanent SEM Personnel Visa.

For services provided to and received by entities located in Panama, the income tax is fixed at 5% and must be withheld by the beneficiary of the services.

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

Migratory Incentives

Permanent SEM Personnel Visas - issued to executives and their dependents for a term of five years, renewable.

Temporary SEM Personnel Visas - granted to technical personnel whom the company requires on a temporary basis.

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.

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 del 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 del 10 de agosto de 2012, Que reforma la Ley 41 del 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

Law No. 57, October 24th, 2018, 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 and Issues other Provisions – Ley No. 57 del 24 de octubre de 2018, Que reforma la Ley 41 del 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 disposición

31. 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.

Permitted activities and sectors:
- Tourism
- Agricultural Exports
- Mining
- Commercial and Oil Free Zones
- Construction
- 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 Panamá-Pacífico Special Economic Area Law

All activities must be approved by the National Directorate for Business Development (DINADE, by its Spanish acronym) of the Ministry of Commerce and Industry (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 within a maximum term of two years or otherwise established by DINADE.

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 del 22 de julio de 1998, Por la cual se Dictan Medidas para la Estabilidad Jurídica de las Inversiones

32. 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 del 27 de abril de 2012, Que establece el régimen especial de la industria cinematográfica y audiovisual

33. Call Centers

Since Panama has become a digital hub with the installation of six 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.

Law No. 52 of 2018 provides fiscal, migratory and laboral zone benefits to call centers established in Panama for commercial operations. The application for a concession to provide call center services must be delivered to and approved by the Public Services National Authority (ASEP, by its Spanish acronym). In addition to the following incentives, special labor provisions are more flexible than those for other types of businesses that operate in the rest of the Panamanian territory.

Fiscal Incentives

Exemption from direct and indirect taxes, fees, contributions, and charges, (with the exception of those established in this Law and the fees charged the ASEP) relating to the services covered by the concession.

Exemption from income tax for the provided services (subject to the compliance of certain conditions).

A 5% dividend tax rate decreased to a 2% complementary tax in case there is no distribution of profits.

A yearly tax equal to 0.5% of the company's capital (up to a maximum of US$50,000).

Migratory Incentives

Permanent Resident Permit for a Call Center Investor - issued to individuals who have invested a minimum of US$250,000 into a call center. Valid for 2 years (subject to the investment conditions), after which the investor may apply for a permanent stay.

Temporal Resident Permit - foreign personnel hired in trust, executive, expert and/or technical positions will have the right to request such permit. Valid for the duration of the work contract.

Short Stay Visa for Businesspeople and Investors by Special Laws - issued to foreigners who wish to come to evaluate the possibilities of investments or to carry out transactions or business related to call centers. Valid for 9 months (subject to the requirements established by the migratory regulations).

Laws Discussed

Law No. 52, October 17th, 2018, Which Regulates Call Centers and Dictates Other Provisions – Ley No. 52 del 17 de octubre de 2018, Que regula la actividad de centro de llamadas para uso comercial (call centers) y dicta otras disposiciones

34. 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;

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 82 of 2019 amended the deadline to apply for the incentives to December 2025.

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 del 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 del 7 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

Law No. 82, April 18th, 2019, Which Amends Law No. 80 of 2012, Whereby the Rules for Panamanian Tourism Promotion Incentives are Issued – Ley No. 82 del 18 de abril de 2019, Que modifica la Ley 80 de 2012, que dicta normas de incentivos para el fomento de la actividad turística

35. Light Manufacturing Incentives

Law No. 76 of 2009 was implemented to encourage the development of industry in Panama. It was further amended by Law No. 25 of 2017, which creates a new institutional framework and a normative body that encourages the competitive development of the national industrial and agroindustrial sector. The Laws are applicable to the agricultural, manufacturing, aquaculture transformation, forestry and fisheries industries, including micro, small, medium and other industrial enterprises.

As part of the Laws, the Certificate of Industrial Development has been established. This Certificate offers investors refunds of up to 40% (subject to specific industrial, research and development activities) on the total value invested, profit reinvestment, workforce training and hiring costs of any new production-related staff. This non-transferable document is valid for a maximum of 8 years and can be used when the company fulfills their tax, fee and contribution obligations.

Laws Discussed

Law No. 76, November 23rd, 2009, Which Dictates Measures for the Promotion and Development of the Industry – Ley No. 76 del 23 de noviembre de 2009, Que dicta medidas para el fomento y desarrollo de la industria

Law No. 25, May 23rd, 2017, Which Modifies and Adds Articles to Law 76 of 2009, Which Dictates Measures for the Promotion and Development of the Industry, and Dictates Other Provisions, and Issues Other Provisions – Ley No. 25 del 23 de mayo de 2017, Que modifica y adiciona artículos a la Ley 76 de 2009, Que dicta medidas para el fomento y desarrollo de la industria, y dicta otras disposiciones

36. Renewable Energy Incentives

Since the 2000s, Panama has been seeking to promote the diversification of its energy matrix in order to ensure the supply of the demanded energy, to mitigate the effects of climate change and to reduce dependence on hydrocarbon imports for the generation of electricity. As such, Law No. 45 of 2004 was passed to stimulate the creation of hydroelectric generation systems an incentive scheme. In 2011, 2012 and 2013, new laws were enacted that incentivized the construction and operation of biomass, wind, natural gas and solar power plants.

Fiscal benefits that apply to energy generation through the use of biomass include: income tax exemption, VAT exemption for imports, and commercial and industrial license taxes exemption. Wind-, solar- and natural gas-based power generation facilities benefit from:

- A tax credit of up to 5% of the total direct investment value (applicable on income tax, for civil works that become public infrastructure);
- Custom duties exemption for equipment, machinery, materials, spare parts and others imports necessary for the plants' proper functioning;
- The possibility to use an accelerated amortization method to depreciate tangible assets.

Additionally, natural gas generation equipment manufacturers within Panama are exempted from paying all national taxes for 20 years, while wind power generation equipment manufacturers and installers are exempted for 15 years.

Laws Discussed

Law No. 45, August 4th, 2004, Which Establishes an Incentive Regime for the Promotion of Hydroelectric Generation Systems and Other New, Renewable and Clean Sources, and Issues other Provisions – Ley No. 45 del 4 de agosto de 2004, Que establece un régimen de incentivos para el fomento de sistemas de generación hidroeléctrica y de otras fuentes nuevas, renovables y limpias, y dicta otras disposiciones

Law No. 42, April 20th, 2011, Which Establishes Guidelines for the National Policy on Biofuels, and Electricity from Biomass, in the National Territory – Ley No. 42 del 20 de abril de 2011, Que establece lineamientos para la política nacional sobre biocombustibles y energía eléctrica a partir de biomasa en el territorio nacional

Law No. 44, April 25th, 2011, Which Establishes the Incentive Regime for the Promotion of the Construction and Operation of Wind Power Stations for the Provision of the Electricity Public Service – Ley No. 44 de 25 de abril de 2011, Que establece el régimen de incentivos para el fomento de la construcción y explotación de centrales eólicas destinadas a la prestación del servicio público de electricidad

Law No. 41, August 2nd, 2012, Which Establishes the Incentive Regime for the Promotion of the Construction and Operation of Generating Plants, Based on Natural Gas, for the Provision of the Electricity Public Service – Ley No. 41 del 2 de agosto de 2012, Que establece el régimen de incentivos para el fomento de la construcción y explotación de centrales de generación a base de gas natural destinadas a la prestación del servicio público de electricidad

Law No. 37, June 10th, 2013, Which Establishes the Incentive Regime for the Promotion of the Construction, Operation and Maintenance of Solar Power Plants and/or Installations – Ley No. 37 del 10 de junio de 2013, Que establece el régimen de incentivos para el fomento de la construcción, operación y mantenimiento de centrales y/o instalaciones solares

37. Reforestation Incentives

Under Law No. 24 of 1992, all direct and indirect forestry investments will be considered in their entirety as deductible expenses for income tax purposes, as long as the amounts invested come from a source other than this sector. 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.

Additionally, Law 69 of 2017 created the Forestry Incentive Program of the Million Hectares Alliance, which grants non-repayable direct financing and exemptions from the income, property, value added, and import taxes, to beneficiaries of the Program, for a period of 20 years from the validity of this law. Beneficiaries are defined as being natural and legal persons who are the owners, lessees, concessionaires, or beneficiaries of land titles that are involved in the following activities:

- Protection and conservation of natural forests;
- Assisted natural regeneration;
- Restoration of natural forests;
- Agroforestry systems;
- Sustainable forest management;
- Commercial forest plantations;
- Processing of timber and non-timber forestry products;
- Plant nurseries;
- Forestry research, development and innovation;
- Sustainable export of forestry products.

Laws Discussed

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

Law No. 69, October 30th, 2017, Which Creates an Incentive Program for Forest Cover, and the Conservation of Natural Forests, and Dictates Other Provisions – Ley No. 69 del 30 de octubre de 2017, Que crea un programa de incentivos para la cobertura forestal, y la conservación de bosques naturales, y dicta otras disposiciones

38. Establishment and Operation of Multinational Companies for the Provision of Services Related to Manufacturing Activities Regime (EMMA REGIME)

By means of Law No.159 of August 31th 2020, the Special Regime for the Establishment and Operation of Multinational Companies for the Provision of Services Related to Manufacturing Activities (EMMA, for its acronym in Spanish) is established. This regime allows a company foreign duly registered in Panama, or a Panamanian company (owned by a multinational company, affiliate or subsidiary), to establish a regional headquarters in Panama and provide manufacturing services authorized by the law to companies in its own business group. Below we highlight the most relevant aspects of the EMMA Regime.

A. General Considerations

(i) Authorized Services

Among the services that EMMA licensed companies can perform, which in all cases must be provided only to companies of the same business group, are the following:

- Manufacture of products, machinery and equipment;
- Logistics services such as storage, deployment and distribution center for components or parts;
- Analysis, laboratories, tests or others related to the rendering of services related to manufacturing;
- Product development, research or innovation of existing products or processes;
- Assembly of products, machinery and equipment;
- Maintenance and repair of products, machinery and equipment;
- Remanufacture loaned products, machinery and equipment;
- Product conditioning;

(ii) Eligibility

For the granting of an EMMA License, the following parameters will be taken into account:

- The assets of the multinational company;
- The locations or affiliated companies, subsidiaries, or companies associated with the multinational operation;
- Commercial or industrial activities or operations carried out by the Multinational Company;
- The listing of shares on local or international stock exchange;
- Minimum of full-time employees and annual operating expenses incurred in Panama by the EMMA Company;

(iii) Limitations and Restrictions

A company holding an EMMA license can only provide the authorized services to its business group. In this sense, an EMMA company that wishes to carry out an additional authorized service/activity, which was not included in its registration license, must request a modification of its license to expand the authorized activities. On the other hand, a company cannot carry out any commercial activity other than the authorized services and activities listed above.

(iv) Establishment in a Free Zone or Special Economic Area.

Companies with an EMMA license may be established to provide their services in a Special Economic Area (Panama Pacifico), Free Zone (Colon Free Trade Zone), or Free Zone (Law 32/2011). In all these cases, the provisions and benefits applicable will be the ones granted by the EMMA Law. Similarly, they can become establish their own customs area, control and surveillance area, complying with current customs legislation.

B. Tax Considerations

(i) Income Tax

A reduced Income Tax rate of 5% on the net taxable income was established for the services provided by companies holding an EMMA license. These companies may include within their deductible expenses, among others, the labor wage of their employees. Likewise, they may apply as a credit for Income Tax, the amount they have paid abroad for this concept, with respect to the taxable income in Panama, derived from the provision of these services to related companies established abroad. In these cases, the amount thus credited may not reduce the effective rate of Income Tax to be paid to less than 2% of the taxable income generated in the Republic of Panama.

(ii) Personal Income Tax

Personnel working under the EMMA Permanent Visa will not be subject to Income Tax as long as the EMMA company that pays the salaries considers them as a deductible expense in its accounting. Likewise, they are exempted from the payment of educational insurance contributions and social security contributions.

(iii) Import Tax
EMMA companies will be exempted from import tax on all types or classes of merchandise, products, equipment and other goods in general, including, but not limited to, machinery, materials, containers, raw materials, supplies, supplies and spare parts that are used or required for the execution of the Provision of Services Related to Manufacturing. In the event that the products manufactured, processed, assembled or remanufactured by EMMA companies are introduced to the National Tax Territory, they must pay the corresponding taxes, but only on the value of the raw material and foreign components incorporated in the product, taking as a base the tariff that corresponds to each raw material or component incorporated in the final product.

(iv) Tax on the Transfer of Goods and the Provision of Services (ITBMS)
The services provided by the EMMA company are not subject to the collection and subsequent payment of the ITBMS (VAT), since they provide export services, unless they are provided to persons who generate taxable income in Panama. For the purposes of this law, the export of services is defined as those provided from an office in Panama, which are perfected or have their effects abroad. On the other hand, EMMA companies will be exempted from paying ITBMS (VAT) for the purchase and import of goods and services in the Republic of Panama.

(v) Dividend, Complementary and Branch Tax
It is established that companies holding an EMMA License will be exempt from payment of Dividend Tax, Complementary Tax and Tax on Branches, regardless of whether their income is from local, foreign or exempt sources. In this case, this exemption would apply even though a credit for taxes paid in Panama may be recognized in other countries, contrary to what is established in Article 733-A of the Tax Code.

(vi) Operation Notice Tax
Companies that operate under an EMMA License will not have to obtain a Notice of Operation, and therefore will not be required to pay the Tax on Notice of Operation.

(vii) Foreign Remittance Tax
Companies located in the Republic of Panama that benefit from a service or act performed by an EMMA company, must retain 5% of the amount to be paid to the EMMA company, to the extent that said services affect the production of income from a Panamanian source or its conservation and said payment is considered a deductible expense by the company that received it.

In the case of services offered by related parties located abroad and whose beneficiary is an EMMA company, they will be subject to a 5% withholding on 50% of the amount to be remitted (effective rate of 2.5%), in the extent to which said services affect the production of income from a Panamanian source or its conservation and said payment is considered a deductible expense by the EMMA company. This obligation to withhold will be applicable even when the EMMA company is in a loss situation.

(viii) Capital Gain Tax
The gains obtained as a result of the sale of shares or securities issued by companies with an EMMA license will be subject to a capital gain tax of two percent (2%). In this sense, the buyer must retain one percent (1%) of the sale value and send it to the General Directorate of Revenue within the first ten days after payment. As with the general fiscal rule, the seller may choose to consider the amount withheld by the buyer as the final income tax.

(ix) Fiscal Printers
EMMA companies will not be subject to the use of fiscal invoice equipment authorized by the Tax Authorities However, they will be obliged to document their activities through invoices or equivalent documents that allow the tax authority an adequate control and supervision of the transactions carried out.

(x) Legal Stability of Investments
Any company registered under the EMMA regime will automatically obtain legal stability in tax and municipal matters for a period of ten (10) years, which will allow it to ensure all the rights and benefits granted at the time of its registration, in accordance with Law 54/ 1998.

(xi) Transfer Pricing Rules
Regarding Transfer Pricing, it is established that companies holding an EMMA license will be subject to said regime, forcing them to establish their operations with related parties according to the Principle of Full Competition or “Arm's Length Principle”.

This implies that EMMA companies must annually prepare and maintain a Transfer Pricing Study by which it is demonstrated that their operations have been agreed upon market values. Part of the information contained in the Transfer Pricing Study must be filed annually to the Tax Authorities by submitting the Transfer Pricing Report, better known as "Form 930".

(xii) Substance Requirements

To maintain the aforementioned tax benefits, companies that maintain an EMMA license are required to maintain a substance and consistency level in the activities carried out, for which they must maintain a minimum number of full-time employees and expenses incurred in Panama, which should be appropriate to the nature of the business. In order to ensure compliance with these requirements, EMMA companies must file an annual report on their activities before the Multinational Companies Licensing Commission, where it is verified that the substance requirements are indeed met.

C. Migration and Labor Considerations

(i) Foreign Personnel Visa

Foreign personnel working for the EMMA company could request two immigration categories:

- **EMMA Permanent Personnel Visa:** Foreigners who work at the EMMA at the executive level. This visa will also cover the dependents of the visa holder. This visa is granted a period of five (5) years extendable for the same time. Employees with this type of visa may choose to obtain permanent resident status in Panama at the expiration of the five-year term. In that case, they would be subject to income tax and other contributions such as Social Security and Educational Insurance fees.

- **EMMA Temporary Personnel Visa:** Foreigners who provide technical services and training to the EMMA company. This visa is granted for a period of two (2) years, extendable.

(ii) Employee Hiring Regulations

Companies covered by the EMMA License, may hire trusted foreign workers to occupy positions of managers of high and medium levels, as well as temporary personnel required for their operation. In this sense, it is considered that these employees fall under the provisions of the Panama Labor Code regarding to companies whose transactions take effect abroad. This implies that the maximum percentage of ten percent (10%) of foreign workers is not applicable to the company, as established in said Code.

(iii) Applicable Labor Legislation

For the purposes of this law, the employment contracts of employees holding an EMMA Permanent or Temporary Personnel Visa will be subject to the regulations of the Labor Code. In that sense, the limit of weekly hours worked, paid vacations, thirteenth month, seniority premium, and the severance fund must be met.

39. Foreign Source Income Tax Consideration for some Import & Export Tax Activities

By means of Executive Decree No. 354 of July 9, 2020, amended Article 10 of the Executive Decree No. 170 of October 27, 1993, which regulates Income Tax, which establishes those activities whose income is considered to be foreign source income.

In accordance with this amendment, sales made by companies not established within the Republic of Panama, of goods or products that are consigned to a logistic operator located in a free zone, special economic area, airports or national ports, will now be considered as foreign source income and therefore, not subject to income Tax in Panama, as long as these goods do not have as their final destination the Panamanian customs territory.

Under this new act, companies not established in the Republic of Panama now have the possibility of consigning goods or products (without time restrictions) to a logistic operator located in a special zone in Panama or an area with import duty suspension treatment, and that said products or merchandise are sold while they are physically located in the Republic of Panama, without said sale being subject to the payment of income tax or the activity considered to create a Permanent Establishment in Panama, provided that said merchandise is sent abroad or to other zones, areas or enclosures with import tax suspension treatment.

It should be noted that the foregoing shall apply without prejudice to the fact that such goods or products have been subject to operations of introduction, storage, inventory management, classification, consolidation, deconsolidation, transfer, distribution, packaging, repackaging, labeling, re-labeling, packing, repackaging, fractioning, refrigeration, separation, transport, assembly, transformation, adaptation, repair, restoration, or adjustment.

Likewise, income received by logistics operators from operations related to goods or products arriving in a primary zone of a national airport or a port or terminal area granted in concession by means of a contract law is added as income exempt from income tax, provided that such goods are sent abroad or to other zones, areas or areas under customs regimes that suspend import duties.

G. Special Economic Areas

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.

40. 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 in 1948, reorganized by Law No. 8 of 2016, and currently occupies more than 700 acres of businesses and warehouses. 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 2,500 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 9001:2015.

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 the 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 their offices within the Colon Free Zone.

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

Fees and Charges for CFZ Companies	
Operation Permit	US$2,400
Operation Code	US$2,500
Warranty Deposit	US$5,560 (for establishing) or the equivalent of rent for 3 months (for leasing lots)
Cleaning Charge	US$15 - US$100 depending on the m2 area.
Security Charge	US$65 - US$3,195 depending on the m2 area.
Commercial Movement Electronic Document (DMCE, by its Spanish acronym)	US$300
Storage Contract for a Public Warehouse	US$2,500

Source: CFZ

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

Law No. 8, April 4th, 2016, Which Reorganizes the Colon Free Zone and Dictates Other Provisions – Ley No. 8 del 4 de abril de 2016, Que reorganiza la Zona Libre de Colon y dicta otras disposiciones

41. 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, established pursuant to the Law No. 41 of 2004, and further amended by Law No. 31 of 2009, Law No. 3 of 2015, and Law No. 66 of 2018. It is located 13 km (8.1 miles) 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 250 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 include 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.

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 Panama Pacifico.

Fiscal Incentives

(i) General 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;

Stamp duty exemption;

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

(ii) Special Incentives

Companies registered under the Panamá-Pacífico regime, authorized to carry out any of the encouraged activities established in article 60 of Law No. 41 of 2004, will be granted the additional tax benefits:

Exemption on corporate income tax or a reduced rate of 5%;

Exemption on dividend and complementary tax or a reduced rate of 4% and 2%, correspondingly;

Exemption on withholding tax related to royalties, commissions and technical services;

Exemption from commercial or industrial license (only for companies registered until December 31, 2016) or a reduced rate applicable to entities registered as of January 1, 2017;

Real Estate Tax and Real Estate Transfer Tax Exemption on land and commercial/industrial improvements until December 2029;

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.

Migratory Incentives

Panama-Pacifico's One Stop Shop is a branch of the Panama-Pacifico 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 US$100,000).

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

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

As of September, 2019, some of the companies operating in Panama-Pacifico are:

- AIRPRO Componentes, S.A.
- Bauer Equipamientos de Panamá, S.A.
- Dell Panamá S. De R. L.
- Banistmo, S.A.
- Petrolera Nacional S.A.
- Howard Child Development Center, Corp.
- I. P. Leather Corp.
- 3M Panamá Pacífico S. De R.L.
- Canarias Logística Panamá S.A.
- London & Regional (Panamá) S.A.
- Cabo Drilling Panamá-Pacífico Corp.
- Naas Panamá S.A.
- Heinz Panamá, S.A.
- BASF Panamá, S.A.
- Caterpillar Panama Services S.A.
- Aggreko International Projects, Limited
- DAMCO Panamá, S.A.
- Grainger Panamá, S.A.
- Panco Constructions Consultants Inc.
- Gianfranco Agency S.A.
- Flavor Infusion International, S.A.

Laws Discussed

Law No. 41, July 20th, 2004, Which Creates a Special Regime for the Establishment and Operation of the Panama-Pacifico Special Economic Area, and an Autonomous State Entity, called Panama-Pacifico Special Economic Area Agency – Ley No. 41 del 20 del 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 del 22 de junio de 2009, Que modifica y adiciona artículos a la Ley 41 del 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-Pacifico Special Economic Area Agency is Established – Decreto Ejecutivo No. 77 del 1 de junio de 206, 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 del 10 de febrero de 2015, Que modifica y adiciona disposiciones a la Ley 41 de 2004, que crea la Agencia Panamá- Pacífico.

Law No. 66, December 13th, 2018, Which Modifies and Adds Articles to Law No. 41 of 2004, Which creates a Special Regime for the establishment and operation of the Panama-Pacifico Special Economic Area, and Issues Another Provision – Ley No. 66 del 13 de diciembre de 2018, Que modifica y adiciona artículos a la Ley 41 de 2004, Que crea un régimen especial para el establecimiento y operación del Área Económica Especial Panamá-Pacífico, y dicta otras disposiciones

42. 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

The City of Knowledge has these additional facilities:

- Convention Center
- Training and Business Center
- Office Space Centre
- Video Conference Rooms
- Digital Classrooms
- Hosting Villas
- Kiwanis Sports City
- Schools and kindergartens
- Restaurants, bakeries and clinics

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;

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 Colon City;

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

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.

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 del 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

As of March 2020, some of the companies operating in the City of Knowledge are:

- ESRI Panamá, S.A.
- NRC – Norwegian Refugee Council
- GBM de Panamá, S.A.
- Norcontrol Panamá S.A
- SGS Panama Control Services INC
- UN and its entities such as: UNHCR, UNDSS, UN Women, UNICEF, UNFPA, UNODC, UNISDR, FAO, UNDP, UNOP, among others.
- ChildFund International
- Florida State University
- Organization of Ibero-American States (OEI, 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
- Smart Card Alliance Latino América - SCALA
- OAS – Organization of American States
- Miraflores Development Corp.
- Save the Children

43. 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 US$500,000 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.

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 del 8 de junio de 2010, Que cre un regimen especial para el establecimiento y operación del Área Económica Especial de Barú

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%.

44. 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 publication.

As of March 2020, some of the companies operating in the Baru Free Zone aree:

- Distribuidora Internacional Anthony, S.A.
- Jerusalem Duty Free, S.A.
- Tecno-Empresarial, S.A.
- DS Químicos, S.A.

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.

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 del 4 de mayo de 2001, Que crea un Régimen Fiscal y Aduanero Especial de Zona Franca Turística y de Apoyo Logístico Multimodal en Barú

45. 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 a pre-existing FTZ. All the required documentation must be delivered to the Ministry of Commerce and Industry (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 US$100 and a maximum payment of US$50,000. From 2016, the Operation Notice Tax would be levied at the reduced 0.5% rate, with a minimum payment of US$100 and a maximum payment of US$50,000;

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 US$250,000 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 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 March 2020, according to MICI's Vice Ministry of Foreign Trade there are 18 Free Zones registered in Panama. Twelve are currently active, with 123 registered companies; these mainly operate in the Corozal Free Zone / Marpesca, S.A. (36), the Albrook Processing Zone (23), and the Panexport (18). Most of the companies established in Free Zones are dedicated to foreign trade services activities.

N°	Free Zones	Companies
1	Zona Franca Marpesca/Corozal	36
2	Zona Franca de Albrook	23
3	Zona Franca PANEXPORT	18
4	Zona Franca Panapark	15
5	Zona Franca de Las Américas	6
6	Zona Franca Isla Margarita	8
7	Zona Franca Estatal de Davis	4
8	Zona Franca de Chilibre	6
9	Zona Franca Colon Maritime Investor	4
10	Zona Franca del Istmo	2
11	Zona Franca Eurofusión	1
12	Hewlett Packard	-
13	Zona Franca Cobol Due (*)	0
14	Zona Franca Espanam (*)	0
15	Zona Franca Export Pacific Panamá (*)	0
16	Zona Franca Framorco (*)	0
17	Zona Logística del Aeropuerto de Tocumen (*)	0
18	BPO'S Zona Franca (*)	0

Note: (*) In development
Source: Ministry of Commerce and Industry

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 del 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

46. 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/mercado-energetico/>

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.

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 Panamá, 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. (Oiltanking COASSA): 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 120,409 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 85,714 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.

- 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 14.6 million barrels.

Companies already doing business with Fuel Free Zones include Exxon/Mobil, Shell, Alireza/Mobil, Chevron/Texaco, Gencor and others. The Expanded Panama Canal allows the passage of Post-Panamax ships and larger oil tankers, which in turn gives new impetus for investment opportunities in the Petroleum/Fuel Free Zones.

Laws Discussed

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THANK YOU!

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