

AROSEMENA NORIEGA & CONTRERAS

A LAWYER'S GUIDE TO PANAMA

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# TABLE OF CONTENTS

<b>ABOUT THIS GUIDE</b> .....	1
<b>ABOUT AROSEMENA NORIEGA &amp; CONTRERAS</b> .....	2
<b>I. THE COUNTRY AT A GLANCE</b> .....	4
<b>II. INVESTMENT PRINCIPLES AND GENERAL CONSIDERATIONS</b> .....	8
1. Political System .....	8
2. Legal System .....	9
3. Economic System.....	10
4. Foreign Trade .....	11
<b>III. INVESTMENT FRAMEWORK</b> .....	
1. Sector Restrictions .....	12
2. Foreign Investment Policy .....	12
3. Institutions Assisting Foreign Investors .....	12
4. Mergers, Acquisitions, and Combination.....	14
5. Making and Liquidating Loans .....	14
6. Antitrust Laws .....	14
<b>IV. SENSITIVE AREAS</b> .....	15
1. Branch Registration .....	15
2. Permits .....	15
3. Commercial Licenses.....	15
4. Labor Law .....	16
5. Price Controls .....	16
<b>V. DIRECT SALES</b> .....	17
1. Foreign Trade Regulations.....	17
2. Import Tariff .....	17
3. Tariff Protection.....	17
4. World Trade Organization (WTO) .....	18
5. Privatization Program.....	18
<b>VI. EXPORTS</b> .....	18
1. Tax Incentives.....	18
2. Tax Allowance Certificates .....	19

<b>VII.</b>	<b>REPRESENTATIVES, DISTRIBUTORS, AGENTS, FRANCHISERS</b> .....	19
1.	Representatives, Distributors and Agents.....	19
2.	Franchise .....	20
<b>VIII.</b>	<b>INTELLECTUAL PROPERTY</b> .....	20
1.	International Conventions .....	20
2.	Industrial Property.....	20
	2.1 Patents.....	20
	2.2 Trademarks.....	21
	2.3 Industrial Design and Models .....	21
3.	Copyrights .....	22
4.	Moral rights and other related rights.....	22
5.	Licensing .....	22
6.	Protection of Intellectual Property Rights in Free Zones, Export Processing Zones and Customs .....	23
7.	E-Commerce .....	23
	7.1 Legal requirements for a valid electronic document.....	23
	7.2 Data Message and Electronic Signatures.....	24
	7.3 Certification Authorities .....	24
<b>IX.</b>	<b>DIRECT INVESTMENT</b> .....	25
1.	Types of Investment Methods.....	25
2.	Types of Companies .....	25
3.	No restrictions on Foreign Investments.....	26
<b>X.</b>	<b>INVESTMENT INCENTIVES</b> .....	26
1.	The Colon Free Trade Zone.....	26
	1.1 Types of Operations.....	26
	1.2 Tax Incentives .....	27
2.	The Province of Colon Free Port.....	27
	2.1 Introduction	27
	2.2 Persons Benefited by the Free Port System	28
	2.3 Tax Aspects	28
3.	Tourism .....	28
	3.1 Tourist Enterprises .....	29
	3.2 Tourist Activities .....	29
	3.3 Incentives and Benefits .....	29
	Table A.....	31
	3.4 Tourist Employment Certificate (Certificado de Empleo al Turismo-CET) .....	33
	3.5 Investment and Financing .....	33
	3.6 National Tourism Registry.....	34
	3.7 Obligations .....	34
	3.8 Penalties .....	35
	3.9 Concessions for Tourist Development.....	35
4.	Special Incentives for Export Processing Zones .....	35
	4.1 Enterprises that can Participate in the Zones .....	35
	4.2 Kinds of Export Processing Zones .....	36
	4.3 Persons Charged With Establishing and Operating the Zones .....	36

4.4	Requirements to Establish in the Zones.....	36
4.5	Main Tax Incentives for Promoters .....	36
4.6	Special Immigration Treatment .....	37
4.7	Special Labor Regulations .....	37
5.	Call Centers .....	37
5.1	Main Tax Incentives .....	38
6.	Oil Free Zones .....	39
6.1	Oil Free Zones Activities.....	39
6.2	Purpose of the Oil Free Zones.....	39
6.3	Authorizations, Permits and/or Licensing.....	40
6.4	Requirements for Contractors to Establish the Zones.....	40
6.5	Main Tax Incentives for Contractors.....	41
7.	Special Incentives for Reforestation .....	41
7.1	Main Tax Incentives.....	42
8.	City of Knowledge (Technological Parks) .....	42
8.1	Main Tax Incentives .....	42
9.	Special Economic Area Panama-Pacific.....	43
9.1	Tax Incentives.....	43
9.2	Custom Incentives.....	43
9.3	Participating Entities .....	43
9.4	Special Migration and Labor rules.....	45
10.	Incentives for the Development of Electric Generation Systems.....	45
10.1	Direct Purchase and Sale.....	45
10.2	Tax Incentives.....	45
<b>XI.</b>	<b>PURCHASE OF A BUSINESS IN PANAMA BY A FOREIGN CORPORATION.....</b>	<b>46</b>
1.	Controls Applicable to Foreign Investors.....	46
2.	Controls Applicable to Specific Industries.....	46
3.	Regulatory Framework for Acquisitions.....	46
4.	Private Acquisition Agreements.....	47
5.	Transaction Taxes .....	47
<b>XII.</b>	<b>ANTITRUST CONSUMER PROTECTION &amp; UNFAIR TRADE PRACTICES .....</b>	<b>48</b>
1.	Antitrust .....	48
2.	Consumer Protection.....	48
3.	Unfair Trade Practices.....	49
4.	Consumer Protection and Free Trade Commission.....	49
4.1	The Conciliation Process. ....	49
4.2	Jurisdictional Process. ....	50
5.	Regulation to Commerce and Industry.....	50
<b>XIII.</b>	<b>BRANCHES .....</b>	<b>51</b>
1.	Branch Office of Foreign Corporation.....	51
1.1	Capital.....	51
1.2	Financial Statements.....	51
1.3	Resident Agent.....	51
1.4	Authentications.....	52
2.	Registration Prerequisites.....	52
3.	Tax Aspects: Branch vs. Subsidiary.....	52

<b>XIV. INCORPORATION</b> .....	53
1. Companies with Limited Liability.....	53
2. Corporations.....	53
2.1 Introduction.....	53
2.2 Powers of the Corporation.....	53
2.3 Types of Shares.....	54
2.4 Issuance of Shares.....	54
2.5 Incorporation Requirements.....	54
2.6 Registration of Shares.....	55
2.7 Management of Corporations.....	55
3. Taxation .....	56
3.1 Corporate Income.....	56
3.2 Dividends.....	56
3.3 Distribution of Assets .....	56
3.4 Personal Income .....	56
<b>XV. SHIPPING</b> .....	57
1. Introduction .....	57
2. Law .....	57
3. The Panama Maritime Authority .....	57
4. Procedures for Registration.....	58
4.1 Provisional Registration.....	58
4.2 Permanent Registration.....	59
5. Radio License.....	60
6. Registration of Ship Mortgages.....	60
6.1 Requirements .....	60
6.2 Provisional Registration and Permanent Registration of Ship Mortgages.....	62
<b>XVI. OTHER TYPES OF BUSINESS ORGANIZATIONS</b> .....	62
1. Insurance Companies.....	62
2. Reinsurance Companies.....	62
2.1 Reinsurance Licenses.....	62
2.2 Capital Requirements.....	63
2.3 Tax .....	63
3. Captive Insurance Companies. ....	63
4. Chattel Leasing.....	64
4.1 Characteristics of the lease agreement.....	64
4.2 Types of leasing.....	64
4.3 Tax.....	65
4.4 Licenses.....	65
5. Trusts .....	65
6. Private Interest Foundations.....	66
7. Remittance of Funds Agencies.....	68
7.1 Characteristics of the Remittance of Funds Agencies .....	69
<b>XVII. BANKING SYSTEM</b> .....	69
1. Introduction.....	69
2. Banking Licenses.....	69

3.	Superintendency of Banks.....	70
4.	Banking Regulation Rate .....	70
5.	Capital .....	70
6.	Consolidated Supervision .....	71
7.	Documents and Reports.....	71
8.	Bank Reserve .....	71
9.	Penalties .....	72
10.	Criteria for the Granting of Bank Licenses .....	72
11.	Numbered Bank Accounts .....	72
12.	Applicable Taxes .....	73
<b>XVIII. EXCHANGE CONTROLS .....</b>		<b>73</b>
<b>XIX. OTHER TYPES OF FINANCIAL INSTITUTIONS .....</b>		<b>74</b>
1.	National Bank of Panama .....	74
2.	Savings Bank .....	74
3.	National Mortgage Bank.....	74
4.	Social Security Institute.....	74
5.	Agricultural Development Bank.....	74
6.	Commercial Banks.....	75
<b>XX. SECURITIES 75</b>		
1.	Introduction .....	75
2.	National Securities Commission.....	75
3.	Stock Exchange Agency and Investment Advisors	76
4.	Self regulated Organizations.....	76
5.	Registration of Securities and Reports by Underwriters	76
6.	Public Offering of Securities.....	77
7.	Request for Proxies.....	77
8.	Offer for the Purchase of Shares.....	77
9.	Investment Companies.....	78
10.	Stock Exchange Credit; Options and Derivative Instruments	78
11.	Custody, Compensation and Sale of Securities	78
12.	Prohibited Activities; Civil Responsibility and Sanctions	79
13.	Intervention and Liquidation.....	79
14.	Inspections and Confidentiality of Information	79
15.	Tax Aspects.....	79
<b>XXI. TAX .....</b>		<b>80</b>
1.	Introduction.....	80
2.	The Tax Year.....	81
3.	Tax Reform.....	81
4.	International Maritime Commerce.....	83
5.	International Transportation .....	84
6.	Telecommunication Companies.....	84
7.	Categorization of Taxes.....	84
7.1	Corporate Income Tax.....	84
7.2	Taxation on Individuals.....	85
7.3	License Tax.....	86

7.4	Value Added tax.....	86
7.5	Other Taxes.....	87
8.	Tax Treaties.....	93
<b>XXII.</b>	<b>LABOR</b> .....	<b>93</b>
1.	Introduction.....	93
2.	Sources of Law.....	93
3.	Social Security.....	94
4.	Foreign Employees.....	94
5.	Duration of Employment Relationship.....	94
6.	Termination of Employment Relationship.....	95
7.	Labor/Management Relations.....	95
8.	General Regulations.....	96
8.1	Hours.....	96
8.2	Wages.....	96
8.3	Paid holiday and vacation.....	97
9.	Labor Reform.....	97
9.1	Labor Contract	97
9.2	Definite and indefinite Term Labor Contracts	97
9.3	Salaries and Production Premiums	97
9.4	Functional or Horizontal Mobility	98
9.5	Sexual Harassment	98
9.6	Seniority Premium	98
9.7	Severance Fund	98
9.8	Termination of the Labor Relationship	98
9.9	Corporate Committee	99
9.10	Union Provisions	99
9.11	Collective Bargaining Agreement	99
10.	Work at Sea.....	99
11.	Incentives for the Offer of a First Employment.....	100
<b>XXIII.</b>	<b>IMMIGRATION</b> .....	<b>100</b>
1.	Introduction .....	100
2.	Types of visas .....	100
3.	Purposes .....	101
4.	Taxes .....	102
5.	Work Permits.....	103
6.	Relation between the Visa and Work Permit .....	103
7.	Visas and Work Permits for Officers of an “Off Shore” Corporation or Office of Representation .....	103
<b>XXIV.</b>	<b>DISSOLUTION, INSOLVENCY AND BANKRUPTCY</b> .....	<b>103</b>
1.	Dissolution.....	103
2.	Insolvency.....	104
3.	Bankruptcy.....	104
4.	Creditors Agreement.....	105
5.	Foreign Declaration ofBankruptcy.....	105
<b>XXV.</b>	<b>INTERNATIONAL RELATIONSHIPS</b> .....	<b>106</b>
1.	General .....	106

2	Bilateral/Agreements.....	106
2.1	Bilateral Agreements to Promote and Protect Investments.....	106
2.2	Bilateral Trade Agreements.....	106
<b>XXVI. LEGAL PROTECTIONS FOR THE FOREIGN INVESTOR.....</b>		<b>107</b>
1.	Contractual Choice of Law and Jurisdiction.....	107
2.	Arbitration.....	107
2.1	General	107
2.2	Arbitration, Conciliation and Mediation Law	108
3.	The Court System.....	109
3.1	Supreme Court.....	109
3.2	Superior District Courts.....	110
3.3	Circuit Courts.....	110
3.4	Municipal Courts.....	110
4.	Enforcement of a Foreign Judgment.....	110
5.	Requirements for Recognition of a Foreign Judgment.....	110
6.	Admiralty Law.....	111
7.	Juridical Stability of Investments.....	111
<b>XXVII. ENVIRONMENTAL LAW.....</b>		<b>112</b>
1.	General	112
2.	National Authority of the Environment and Natural Resources	112
3.	Environmental System	113
4.	Environmental Impact Studies	113
5.	Pollution	113
6.	Objective Responsibility	113
7.	Sanctions	114
8.	Investigation of Environmental Offenses	114
9.	Legal Actions	114
<b>APPENDIX 1</b>		
KEY GOVERNMENTAL AGENCIES.....		116
<b>APPENDIX 2</b>		
FINANCIAL AND CREDIT INSTITUTIONS.....		119
<b>APPENDIX 3</b>		
REGULATORY AGENCIES .....		120
<b>APPENDIX 4</b>		
COMMERCIAL INSTITUTIONS AND OTHER ORGANIZATIONS.....		122

**APPENDIX 5**

EMBASSIES AND CONSULATES ..... 125

**APPENDIX 6**

LARGE PANAMANIAN BANKS AND SUBDIARIES OF  
FOREIGN BANK ..... 136



## **ABOUT THIS GUIDE**

This Guide presents an introduction to Panama and a broad overview of laws and programs relating to doing business in our country.

The development of institutions and instruments to regulate business activities in Panama has been consistent with its trade and services economy, which is closely connected to the international market and Panama's strategic geographic position. As a result, Panama's legal and institutional framework has been specifically geared to offer facilities and incentives for the development of international commercial and service activities in Panama, with very few requirements regarding the nationality of investors and with no restrictions on converting currencies or transferring funds.

This is a general guide, based on the latest information available at the time of going to press. The statistics, laws, and rules of regulatory bodies are subject to amendment, and the reader should not rely on their remaining unchanged. We recommend that the reader seek proper professional advice on any business problems that he or she encounters and not rely on this Guide as a substitute for such advice.

This third edition incorporates new legislation which has been enacted since December 1996 when the first edition was published, and has been possible thanks to the valuable contribution and initiative of our partner Dr. Julio C. Contreras III in charge of all three projects, and recently Licda. Shanina J. Contreras who has actively participated in the preparation of this latest edition.

## **ABOUT AROSEMENA NORIEGA & CONTRERAS**

*Arosemena Noriega & Contreras*, one of Panama's leading law firms, has engaged in the general practice of law since its founding in 1968, with offices in Panama City, Republic of Panama.

The firm offers a comprehensive package of legal services in the areas of corporate law, modification, merger and dissolution of corporations and other aspects of Panamanian company law, including administrative representation of corporations organized by the firm. In the area of admiralty law, the firm offers services to ship owners of Panama flag vessels and to banks and other institutions which finance the purchase of vessels.

As a way of providing additional services to our clients, our corporate department was organized combining both legal and administrative structures through the facilities offered by Offshore Solutions Inc., a wholly owned subsidiary company of the firm.

The subsidiary specializes in the formation and administration of offshore companies, while providing personalized assistance in the provision of corporate image, accounting and bookkeeping among other ancillary services.

The firm is also active in copyright, trademark, patents, the law of the protection of ideas and intellectual property including health registration, the obtaining of commercial licenses, labor-employment, immigration, visas, work permits and environmental law. The firm has wide experience in drafting and interpreting contracts, rendering opinions, advice on governmental and regulatory issues, commercial property dealings and in general all types of commercial transactions.

The firm also engages in the area of litigation covering civil, mercantile, admiralty, intellectual property and labor, as well as arbitral proceedings.

Because Panama has developed a highly successful international banking center, the firm serves as general counsel to various banking institutions that use Panamanian banking facilities. Moreover, the firm advises on bank registration and licensing, credit transactions, regulatory matters and other general banking and commercial matters.

*Arosemena Noriega & Contreras lawyers* are leaders in the profession and in the community. Members of our firm have held the presidency of the Panama Bar Association, Maritime Law Association of Panama, Panamanian Academy of Law and Business Law Association. A partner of the firm has been Undersecretary of Foreign Affairs for Panama and Permanent Representative of Panama to the United Nations. A senior partner of the firm is presently honorary consul of the Republic of Malta, while other members have occupied positions within the judiciary and have actively served as professors of Civil, Mercantile and Tax Law at the leading universities in the country.

Reference works on Panama have been authored by the firm's lawyers, including works on Panama Corporate law, Commercial and Investment law, Trust law and have contributed in the creation of the Private Interest Foundation law and Intellectual Property law.

The firm is a member of several associations of law firms, giving it global reach. Among these are: Lex Mundi, the world's leading association of independent law firms, with more than 160 member firms in 108 countries, 49 U.S. states and territories and ten Canadian provinces, which gives our attorneys access to over 370 offices and more than 16,000 lawyers worldwide; the Club de Abogados, with members located in each country of Latin America including Puerto Rico, as well as all western European countries and Japan; the International Grouping of Accountants and Lawyers (IGAL) with members in over 39 countries around the world and The Bomchil Group with members in 21 Latin American countries.

This networking furnishes our clients with a proven, efficient and cost effective method of handling all legal or non-legal matters in any place in the world.

## 1. THE COUNTRY AT A GLANCE



**Location and Area.-** Panama is located at the southeastern end of the Central American Isthmus which connects the North and South American continents. The country occupies a strategic position as the connecting geographic link, and has been a pathway between the Atlantic and Pacific Oceans, a circumstance that eventually led to the building of the Panama Canal. Panama's economy has historically been oriented toward domestic and foreign trade and services; indeed, Panama's geographical location and configuration are often considered to be its principal natural resources.

The country has an area of 75,517 square kilometers (29,157 square miles) and consists of nine provinces - Panama, Colon, Chiriqui, Bocas del Toro, Veraguas, Herrera, Coclé, Los Santos, Darien and five Indian Regions: the San Blas Region (Comarca de Kuna Yala); the Embera-Wounan Region (Comarca Emberá de Darién); the Madungandi Region (Comarca Cuna de Madungandi); the Guargandi Region (Comarca Cuna de Guargandi) and the Ngobe Bugle Region. Panama borders to the East with the Republic of Colombia and to the West with the Republic of Costa Rica. The Isthmus faces the Caribbean Sea to the North and the Pacific Ocean to the South, with the Canal actually on a northwest to southeast axis, cutting through the Isthmus at one of its narrowest sections. Panama is in Zone 17 (five hours behind Greenwich Mean Time).

**Language.-** The official language of Panama is Spanish. In the cities of Panama and Colon a high percentage of the population also speaks English. Approximately 5% of the population still speaks Indian dialects.

**Climate.-** There are two seasons in Panama, the summer or dry season and the winter or rainy season. Summer lasts from late December to mid-April; winter, from mid-April to late December. The average daily rainfall is approximately 28.3 millimeters (one inch) during the winter, and there is almost no rain in the summer. The average daily temperature, which does not vary significantly between seasons, is 27° C (80°F). The relative average humidity for the year is approximately 78%, while the maximum is reached in October (98%) and the minimum in March (52%). Despite heavy rainfall, the country is free from severe storms or hurricanes.

**Principal cities.-** Panama City, the capital, is the largest and principal urban center of the country, with a population of 668,927 (2004 est.). Located at the center of the crescent formed by the Bay of Panama on the Pacific Ocean, the city has had, since its founding in 1519, a long tradition as an important trading center in the Western Hemisphere. Today the capital is a modern city which, despite its relatively small population, impresses visitors with its quick tempo. Since the early 1970's Panama City has become a mayor financial center in Latin America.

Colon, the second most important city in the country, is located on the Caribbean coast of the Isthmus adjacent to the entrance of the Panama Canal. Next to the city are Cristobal, the terminal port on the Atlantic side of the Canal, and the Colon Free Trade Zone, one of the world's major free trade centers for the redistribution of manufactured goods from Japan, Europe and the United States to Latin America. The population of Colon is estimated at 158,935 (2004 est.).

Other urban centers include San Miguelito, which is really a suburb of Panama City, with a population of 290,919 (2004 est.). The city of David in western Panama is the center of an important agricultural and cattle region and has a population 115,173 (2004 est.).

**Ports.-** The Canal ports handle 75% of the imports and exports for the central area of the country. Some cargo is handled by the smaller port of Bahia Las Minas, also on the Caribbean (east of Colon), and by minor docking facilities in Colon.

Cristobal, under the control of Panama Ports (Hutchinson) is the main port on the Caribbean side of the Isthmus located in the city of Colon. Its 15 main docking areas have a total berthing space of 3,574 meters (11,726 feet). The port has a depth of 12 meters (40 feet) and a large breakwater that provides wide-protected anchorage for oceangoing vessels. In 1980, the port acquired new equipment for handling containers, and an ongoing improvement program, completed in early 1982, provides for facilities to handle 56,000 containers annually. The facilities include a yard for 2,000 containers, with handling equipment, a stuffing shed, and facilities for weighing and computerizing control. Presently undergoing an extensive improvement program the port is expected to handle 500,000 containers annually.

Port of Manzanillo / Coco Solo South granted in concession to Manzanillo International Terminal S.A. (MOINSA) located to the southeast of the city of Colon comprises a total area of 289,672 square meters (28.9 hectares). Its four docking facilities have a total berthing space of 950 meters (1,312.32 feet). Two of the docks have a depth of 10.5 meters (34.4 feet) and the other two docks a berth of 13 meters (42.65 feet). The port handled 1,125,780 containers in 2003.

Port of Coco Solo - North located to the northeast of the City of Colon comprises a total area of 7,850.30 square meters (16 hectares), divided into two (2) main areas:

- a) docks N° 1 and N° 2 granted in concession to Colon Container Terminal S.A./ Evergreen, presently undergoing an extensive improvement program. The docking facilities have a berthing space of 612 meters.
- b) docks N° 3 and N° 4 granted in concession to Colon Container Terminal S.A.:
  - dock N°3 has a total berthing space of 300 meters (984.24 feet) with a depth ranging from 5 to 5.8 meters (16.4 to 19.02 feet);
  - dock N° 4 has a total berthing space of 280 meters (918.6 feet) and a depth of 5 meters (16.4 feet).

Balboa, also under the control of Panama Ports (Hutchinson) is the terminal port on the Pacific side of the Canal. It is also well protected and has docking sites with a total berthing space of 2,214 meters (7,266 feet). Depth varies from 9 to 12 meters. The port has specialized facilities for the handling of cargo, including a crane for containers and some capacity for bulk cargo unloading. Dry dock repair facilities adjacent to the port have a capacity for vessels up to 80,000 DWT.

Presently undergoing extensive improvements and after completing all phases of the expansion and modernization program, Balboa will have 1,500 meters of deep water quay, 50 hectares of container storage area, 12 super post Panamax quay cranes and 28 RTG's. Panama Ports will become the biggest investor in the history of Panama with more than US\$400 million invested; the port is expected to handle 400,000 containers annually.

The port of Bahia Las Minas, on the Caribbean coast of the Isthmus east of Colon, has 90 meters (295 feet) of berthing facilities with a depth of 7 meters (23 feet) to handle general and roll on/off cargo, as well as 140 meters (459 feet) of berthing capacity for tankers serving the oil refinery therein located.

Other Panamanian ports are used primarily for the export of agricultural products. On the Pacific, Aguadulce is used mainly for the exporting of sugar to international markets, while Puerto Armuelles is geared to banana exports. On the Caribbean, the port of Almirante handles all the banana exports for that sector of the country.

The fishing port of Vacamonte on the Pacific, 27 kilometers (17 miles) west of Panama City, serves the shrimp fleet and has special docking facilities for unloading tuna and 3,000 tons cold storage installations.

Rodman and Farfan both on the Pacific side have been identified as possible sites for port and industrial development. In Rodman, studies conducted consider the possibility of building a petroleum refinery and in Farfan a new cargo terminal.

***The Panama Canal.***- The interoceanic waterway which cuts through the Isthmus of Panama is 82 kilometers (51 miles) long. On the average, it takes a vessel eight hours to travel from one ocean to the other, passing through three sets of locks: Miraflores, Pedro Miguel and Gatún. The depth of the navigation channel is 12 meters (40 feet). The waterway, which began operating in 1914, handles approximately 13,500 oceangoing vessels a year, transporting over 182 million tons of cargo.

Presently there are plans being discussed for the expansion of the Panama Canal by creating a third set of locks. This work should begin no later than the year 2010 and that will permit the transit through the Canal of vessels with greater tonnage.

**Population.-** Panama is a multiracial country with a population of 3,000,463 (2004 est.). The rate of population growth has been gradually declining over the last two decades to 1.31% (2004 est.). However, as a result of previous high growth rates, the population of Panama is very young, averaging about 18 years of age. 51% of the population resides in urban centers.

**Education.-** Historically, the formal education system of Panama was patterned after traditional European systems, with strong emphasis on humanities and a marked orientation toward the liberal professions. In the recent past, however, there has been a change, with more emphasis on training for the commercial and service sectors and on technological education for manufacturing and agriculture.

There are 24 universities and colleges established in Panama, the largest being: The University of Panama, a state institution with over 74,000 students on eleven campuses throughout the country; the Technological University of Panama, a state institution with over 16,000 students on eight campuses throughout the country; and the Santa Maria La Antigua University, a private institution sponsored by the Catholic Church, with an enrollment of over 4,000 students on four campuses.

The Literacy rate of the total population is 92.6% and 18% of the population over 15 years of age are enrolled in some sort of educational institution. A substantial number of Panamanian professionals have been trained abroad, especially in the United States, Mexico, Brazil, and Spain.

The educational system offers six years of free, compulsory schooling for all children. There is also a parallel private system that takes care of close to 35% of the total enrollment at the primary level and 41% at the secondary school level.

**Religion.-** The Panamanian Constitution recognizes Catholicism as the religion of the majority of the population (over 90%). There is, however, absolute freedom of worship in all faiths.

**Health.-** The health of Panama's population has greatly improved over the last three decades. Life expectancy rose from 66 years in 1970 to 74.74 years in 2004. The Infant mortality rate stands at 21.0% per 1000 inhabitants in 2004. The proportion of the working-age population (ages 15 to 64) climbed from 34% in 1990 to 62.7% in 2002.

**History.-** Ever since Panama was incorporated into the process of Spanish colonization very early in the sixteenth century, it has played an important role in international trade as a transit area. At the start of the Spanish conquest of South America, the very peculiar configuration and strategic location of the Isthmus were highly valued by the Conquistadores. They disassembled their vessels on the Caribbean coast of Panama, transported them over the Isthmus, reassembled them on the Pacific side, and then advanced to the conquest of present day Colombia, Ecuador, Peru, Bolivia and Chile.

Passage through Panama became a compulsory element in Spain's monopolistic control of trade with the South American colonies on the Pacific coast. This gave rise to the celebrated fairs at Portobelo, where goods from the colonies and from Spain were exchanged.

In 1855 the first railroad was completed across the Isthmus of Panama. It carried goods and passengers traveling between the East and West coasts of the United States and between the West Coast and Europe.

After various unsuccessful attempts by the French to build a canal in the last quarter of the XIX century, the Panama Canal was built across the Isthmus by the United States. It was completed in 1914.

Administratively, Panama was a Spanish colony until November 28, 1821, when it achieved its independence from Spain and voluntarily joined the Great Colombia Confederation, which was formed by present-day Venezuela, Colombia, Ecuador, and Panama. After the Confederation broke apart in 1830, Panama tried three times to separate itself from Colombia, but was unable to do so. With the support of the United States, Panama was finally successful in 1903, and shortly thereafter the new Republic of Panama signed a Canal Treaty with the United States.

Ethnically and culturally, the country has seen the intermingling of the original inhabitants of the Isthmus with the Spanish colonizers, as well as with African and Antillean slaves. Immigration was sporadic until the beginning of the XX century, when construction of the Canal gave rise to waves of immigrants, especially of Asian and West Indian origins.

## **II. INVESTMENT PRINCIPLES AND GENERAL CONSIDERATIONS**

### **1. Political System**

The Constitution of Panama, enacted in 1972 and amended in 1978, 1983, 1993, 1994 and 2004, provides for a Republican form of government. The government is divided into separate Executive and Legislative branches with an independent Judiciary.

By legislative Act N° 2 of 1994, the Constitution of Panama was amended prohibiting the existence of armed forces.

The Executive branch is constituted by the President of the Republic and the Ministers of State. The President and two Vice-Presidents are elected democratically every five years by direct suffrage.

By legislative Act N° 1 of 2004, the Constitution of Panama was amended so that only one Vice-President instead of two is democratically elected every five years. This amendment will come into effect in 2009.

The Legislative function is carried out by the National Assembly presently composed of 78 Deputies (Congressman), who are elected every five years by direct suffrage, five in each electoral circuit of the country.

By legislative Act N° 1, as of 2009 the National Assembly will be composed of only 71 Deputies.

The Judicial branch is headed by the Supreme Court and consists additionally of Superior District Courts, Circuit Courts, Municipal Courts and Arbitration Courts. The nine magistrates of the Supreme Court are appointed by agreement of the Cabinet Council subject to the approval of the Legislative branch for a period of 10 years.

In each of the nine provinces there exists a governor appointed by the President and a provincial council made up of all the representatives of the corregimientos i.e., townships (the smallest administrative units in the country) of the respective province, as well as any other members determined by law.

The functions of the Government Attorney Office are carried out by the Attorney General, Attorney for the Administration, Circuit Attorneys, Prosecutors and other officials as established by law.

There are six main political parties in Panama:

- Revolutionary Democratic Party (Partido Revolucionario Democrático – PRD);
- Panameñista Party (Partido Panameñista – former Arnulfista Party);
- Solidarity Party (Partido Solidaridad);
- Democratic Change (Cambio Democrático – CD);
- People’s Party (Partido Popular – former Christian Democratic Party – PDC);
- National Liberal Republican Movement (Movimiento Liberal Republicano Nacionalista - MOLIRENA).

The large percentage of the population align themselves with either the PRD or Panameñista parties which have traditionally represented the interests of the working class and to a lesser degree with Solidarity, CD, People’s Party and MOLIRENA which have a traditional alliance with trade industry and the professional class.

## **2. Legal System**

The Constitution of Panama establishes a strict separation of powers between the Executive, Legislative and Judicial spheres. These separate spheres act limited and separate but in harmonic collaboration.

The Panamanian Legal system consists of different levels. The hierarchy of legal norms is demonstrated in the following table:

- a) **The Constitution**
- b) **International Treaties**
- c) **Laws** (Ordinary Laws)  
(Organic Laws)
- d) **Decrees of Law** (Extraordinary powers granted to the Executive branch by the National Assembly covering specific matters and under certain circumstances as contemplated in the Constitution)
- e) **Cabinet Council Decrees** (The President, Vice-President and the Cabinet of Ministers)
- f) **Executive Decrees** (The President and the respective Minister according to the law which the Decree regulates)
- g) **Resolutions** (Cabinet Resolutions)
- h) **Agreements** (Other dispositions and Agreements by Administrative Authorities).

Individual acts by any government or administrative authority and by the courts must be based either on the Constitution, laws, decrees or resolutions, agreements; which is recognized as the Principle of Legality (*Principio de Legalidad*) in that all the functions which the state performs must be previously defined by law.

The Legislative functions are carried out by the National Assembly. However the Executive branch and the Administrative authorities can issue and/or approve decrees, resolutions and agreements that are an integral part of the legal system.

The Supreme Court has exclusive jurisdiction over the constitutionality of laws, decrees, resolutions and other acts of the Administration. All decisions rendered by the Supreme Court are final, definitive and mandatory.

### **3. Economic System**

In Panama the unit of currency is the Balboa, which is at par with the US dollar and is issued only in coins which coincide in size and value with those of the United States. Given the absence of Balboa bills, US dollar bills are used for internal transactions in Panama, doubling as foreign exchange and internal currency.

The economy of Panama is dominated by the tertiary or service sector, which accounted for approximately 78% of the gross domestic product (GDP) in 2004; the secondary sector, covering manufacturing, construction, electricity and other utilities accounts, for 15% and the primary sector, covering agriculture and mining, made up

7%. The Colon Free Zone and the predominantly foreign banking center are also strong contributors to the country's GDP.

The Republic of Panama encouraged the development of a highly successful international banking center by enacting banking legislation in 1970 which insured high quality banking services, the protection of depositors and flexibility for individual banking operations.

In 1998 new banking legislation was enacted, inspired in the Basle Agreements, for the purpose of modernizing the banking system by perfecting the financial integration of the Panamanian economy with the rest of the world and to create the regulatory and supervisory framework necessary to guarantee the solidity, efficiency and stability of the banking sector. To this end, the new Law creates the Superintendency of Banks.

The banking center presently comprises 77 institutions represented by: 38 general license banks, 31 international license banks, 6 representation offices and 2 State banks; with total assets in excess of US\$33.9 billion as of December 31, 2004 (see chapter XVII, *infra*).

#### **4. Foreign Trade**

One of the smallest nations in Latin America in area and population, Panama overcomes its limitations of size by location, which links the northern and the southern hemispheres. The use of the Republic of Panama as a bridge for international commerce did not arise in the modern world. Since colonial times the Isthmus of Panama has been used as a trans-shipment point for merchandise to and from South America. The existence of the Panama Canal and the Colon Free Zone are examples in today's terms, of Panama's commercial predominance (see chapter X, *infra*).

The Panama Canal, which joins the Atlantic and Pacific Oceans, is considered one of the most important channels for world commerce, servicing an average of 36 vessels daily. The Canal and the area servicing it are important factors in the national economy and large contributors to the government budget. Money generated by the activities related to the transit of ships has a multiplier effect on the economy, taking the form of salary and transfer payments that are spent on goods originating in other sectors.

### **III. INVESTMENT FRAMEWORK**

The development of institutions and instruments to regulate business activities in Panama has been consistent with its trade-and services-oriented economy, which is closely connected to the international market and geared to using Panama's geographic position. As a result, the aim of the legal and institutional framework is to offer many facilities and incentives for the development of international commercial and service activities in Panama, with very few requirements regarding the nationality of investors and with no restrictions on converting currencies or transferring funds.

## 1. Sector Restrictions

There are very few limitations or restrictive practices on foreign investment, especially for international business operations based in Panama. The few exceptions are the retail trade, including representation, distribution and agency; ownership and operation of radio stations and ownership of finance companies (*compañías financieras*), which are reserved for Panamanian nationals.

## 2. Foreign Investment Policy

Historically, the policies of the Panamanian government toward foreign investment have been so open that there has never been any need for a formal statement of policy on this subject, and legislation hardly establishes any differences in treatment between nationals and foreigners. Similarly, all foreign investors, regardless of their country of origin, are treated equally and there are no general restrictions of foreign ownership on foreign enterprises and joint-ventures.

The foreign investment policy may be summarized as follows:

- *Equity Participation.* There is no explicit formal policy about equity participation of foreigners in investment ventures in Panama. Pragmatism dictates that, for larger projects, the size of the Panamanian capital market precludes any significant participation of national investors. Usually, for the larger ventures involving the exploitation of natural resources the Panamanian government prefers to have a majority participation in the equity.
- *Employment Policy.* The government encourages maximum employment of local nationals. Foreign companies are allowed to bring in needed foreign personnel to train Panamanians; however, the law sets maximum percentages of foreign employees allowed to be on the payroll of a given employer. Foreign companies are also allowed to fill certain key or top management posts, including those positions involving sensitive information, with their own personnel.
- *Exchange Control.* There are no regulations or limitations on converting and transferring funds to and from Panama.
- *Other Matters.* The Panamanian government does not limit, in any form, overseas borrowing and the remittance of dividends and royalties abroad by foreign or national investors.

## 3. Institutions Assisting Foreign Investors

To attract foreign investments into Panama, the government has developed the necessary institutional and infrastructure facilities, efficient public administrative machinery, extremely favorable and flexible policy guidelines, and attractive fiscal and non-fiscal incentives.



a) **Ministry of Economics and Finance (*Ministerio de Economía y Finanzas*).**

The Ministry of Economics and Finance is created as the result of a merger of the Ministry of Finance and Treasury (*Ministerio de Hacienda y Tesoro*) and the Ministry of Planning and Economic Policy (*Ministerio de Planificación y Política Económica*). This Ministry is responsible in formulating initiatives on matters dealing with economic policy; programming public investments and social strategy; the design and execution of general directives and the specific works of the government on national finance and treasury; the preparation, execution and control of the State Budget; the Public Credit and the modernization of the State, as well as the preparation and execution of the State Financial Program.

b) **Ministry of Commerce and Industries (*Ministerio de Comercio e Industrias*).**

All aspects of retail and wholesale trade, commercial licenses, industrial development, mining concessions, and patent and trademark registrations are supervised by the Ministry of Commerce and Industry. Applications for tax incentives on exports, on new investment or on investments for expansion of existing facilities in the manufacturing sector must be submitted to this Ministry for processing.

c) **Vice Ministry of Foreign Commerce (*Vice Ministerio de Comercio Exterior*).**

It is a department within the Ministry of Commerce and Industries that has the function of coordinating, developing, assisting, promoting and executing governmental policies in matters dealing with: commerce, industry, insurance, securities, finance companies, development of mineral resources, hydrocarbons, foreign commerce and all others established by law.

d) **Coordinating Unit for the Privatization Process (*Unidad Coordinadora para el Proceso de Privatización*).**

Known by the spanish acronym of PROPRIVAT, was created as a department of the Ministry of Economics and Finance, for the purpose of coordinating and supervising all aspects of the privatization process.

e) **Interoceanic Region Authority (*Administración de la Región Interoceánica – ARI*).**

The Interoceanic Region Authority, known by the spanish acronym of ARI is a fully independent entity responsible for the custody, utility and administration of all properties that have and will revert to Panama, pursuant to the Torrijos–Carter Canal Treaties of 1977.

By law, the ARI can in general sell property, with certain specific limitations, as well as to lease and grant concessions on said properties for periods of up to 20 years, which can be extended to 40 years when certain special conditions are met.

The ARI will have the duration necessary for the completion of its functions, but in no case will this period exceed the year 2009.

**f) Technical Units of Investment (*Unidades Técnicas de Inversión*).**

Known by the Spanish acronym of UTI's, are administrative entities charged with coordinating and carrying out the execution of investment works and projects, that are developed by Ministries, autonomous and semi-autonomous entities and other institutions of the State, in priority areas that present special conditions, determined by difficulties in communication, transportation, distance or significant limitations in the existence of contracting companies or distribution centers of materials.

To comply with their functions, the UTI's will count with the participation of the Ministry of Economics and Finance, the office of the Comptroller General and of the institutions under whose respective budget the works or investment projects are contemplated.

**4. Mergers, Acquisitions, and Combinations**

A Panamanian corporation may be merged or consolidated with one or more Panamanian or foreign corporations. If the merger or consolidation is with a foreign corporation, the foreign corporation must have been previously registered in the Public Registry Office. If the foreign corporation is to be the surviving corporation, it must maintain an attorney-in-fact in Panama authorized to receive service of process on its behalf for at least five years after the date of the merger.

**5. Making and Liquidating Loans**

Panama legislation does not establish any differences in local banks making loans to Panamanian or resident foreign investors. They are both treated basically the same.

Notwithstanding the above, the following two (2) situations must be noted:

- 1) *Loan made to a nonresident investor.* The interest payments received by the local bank, from the nonresident investor, are taxable at special reduced rates applicable to foreign-source income;
- 2) *Loan made by a nonresident bank.* The interest payments made by the resident investor, to the nonresident bank, are subject to a 6% flat rate withholding tax at the source.

**6. Antitrust Laws**

The Constitution of Panama prohibits in trade and industry all combination, contract, or other action that tends to restrict or impede free trade and competition, that would have monopolistic effects in the detriment of the general public. This prohibition refers to private monopolies and to the practice by a single person, be it natural or juridical, of exploiting a chain of commercial retail establishments in such a manner that it tends to hinder or eliminate competition by the small merchant or industrialist.

There exists the popular action (*acción popular*) to contest before the courts the performance of whatever combination, contract, or action that has as its purpose the establishment of monopolistic practices. Nevertheless, the exploitation of games of chance and betting activities can only be carried out by the State, albeit the State can grant concessions for the administration of these activities.

The competition and antitrust policy was further enhanced by Law N° 29 of 1996 (see chapter XII, *infra*).

#### **IV. SENSITIVE AREAS**

##### **1. Branch Registration**

Whereas the registration of a corporation is a routine matter for lawyers and the process of registering at the Public Registry normally takes between two to three working days; the registration of a branch could take significantly longer as more documentation is required which would need to be authenticated and in most cases translated before filing at the Public Registry. However, no licensing or permits of whatever kind are necessary to register the branch.

##### **2. Permits**

Panamanian administrative law is very rigid in some respect and in certain key areas such as, for example banking; a permit/license can only be obtained from the Superintendency of Banks if certain strict criteria concerning the reputation, integrity, efficiency and solid financial standing of the prospective applicant are met. The criteria as established is not only applicable to the bank as an institution but also to the shareholders, partners, directors and personnel (see chapter XVII, *infra*).

##### **3. Commercial Licenses**

Commerce and Industry are governed in Panama by Law N° 25 of 1994 and regulated by Executive Decree N° 35 of 1996.

The provisions contained in Law N° 25 indicate that both natural and juridical persons holders of a license can engage in commercial or industrial activities, subject to the limitations contained in the Constitution and corresponding legal and regulatory dispositions.

Pursuant to Law N° 25 there are three (3) types of licenses:

- a) **Type A License.** This type of license is issued exclusively for wholesale business.
- b) **Type B License.** This type of license is issued indistinctly, for wholesale and retail business.

- c) **Industrial License.** This license is issued for extraction and manufacturing activities in Panama, as well as the wholesale of extracted or manufactured products to the State. It is also required for construction companies and manual, home or craftsmanship industries that employ more than five workers.

A foreign investor should take into consideration the following:

- Retail commerce; includes the sale of goods to the consumer, the distribution representation or agency of production or mercantile companies and any other activity that classifies as such.

Only Panamanians or corporations whose Board of Directors and Officers are Panamanians and whose entire capital is owned by Panamanians can engage in retail commerce in Panama.

- Wholesale commerce; includes banking and insurance activities, the provision of services, sales to the State and all other types of activities, except those classified as retail commerce. Foreigners are free to engage in wholesale commerce in Panama.
- The applicant will be issued a numerated provisional license which will be valid up to a maximum of 90 days, at the end of which the permanent license must be issued, unless there is a delay attributable to the applicant.

#### **4. Labor Law**

Panama has a strong tradition of strict labor laws. There are restrictions on the hiring of foreign employees which can only be employed if they have obtained a work permit and are in possession of a valid visa.

Labor law provides that every employer must maintain Panamanian workers in a proportion of not less than 90% of his total ordinary work force, albeit he can employ foreign specialized or technical personnel that does not exceed 15% of his total work force.

There are relatively high severance payments (see Chapter XXII, *infra*).

#### **5. Price Controls**

There existed in Panama a Price Control Office (*Oficina de Regulación de Precios*) ascribed to the Ministry of Commerce and Industries for consumer protection through price controls of staples and other goods. This office was subsequently abolished by Law N° 29 of 1996, which now provides for consumer protection (see chapter XII, *infra*).

## **V. DIRECT SALES**

### **1. Foreign Trade Regulations**

Panamanian traders are free to import from and export to all countries, regardless of their socio-political systems. Trade policy in Panama, which is flexible but selective, includes free ports for the export and re-export business, low duties on certain basic staples that are not produced locally and on certain products for the tourist trade, a protective scheme for local agriculture, cattle and manufacturing industries and for industrial and export incentives.

### **2. Import Tariff**

Panama uses the Harmonized Commodity Description and Coding System for tariff purposes. Duties are levied ad valorem on the CIF value of goods. The tariff generally cannot be higher than 60%. Rates fluctuate from very low to intermediate to high depending on the policy pursued for different types of goods.

Import tariffs are not applied to goods imported by natural or juridical persons who are exempted by virtue of a contract or treaty and goods specified as tax exempt in tariff and special incentive laws.

A Value Added Tax and an Excise Tax are payable on all imports, based on the CIF value plus import duty, except for: foodstuffs, medicines, fuels, lubricants, export and re-export activities, transactions inside the free zones, sales of agricultural, maritime and cattle products in their natural state and also goods related to these activities (tools) as well as school material and books.

All imports are subject to the same tariffs, regardless of the country of origin, with the exception of those originating from countries that have been accorded a preferential tariff. Preferential tariffs are granted to imports that originate in each of the Central American countries with which Panama has entered into separate free trade agreements. Panama is not yet a member of the Central American Common Market.

### **3. Tariff Protection**

As part of the incentives provided in industrial development legislation and the overall free trade policy which Panama has adopted, producers may obtain up to 100% exemptions from import duties on raw materials, component parts, machinery, and equipment.

The policy has been to reduce excessive protective tariffs, to rates that range between 3% and 15%. Nevertheless there still exist certain protective tariffs especially on automobiles, rice, sugar and dairy products with rates that range between 40% and 45%.

#### **4. World Trade Organization (WTO)**

The World Trade Organization (WTO) formerly known as the General Agreements on Tariffs and Trade (GATT) makes a general commitment to the long-standing practice of Most Favored Nation treatment (MFN), by requiring each contracting party to grant unconditional MFN status to all other contracting parties. Over the last few years Panama has been adopting its legislation to WTO standards and as a result of these efforts has in 1997 become a full member of the WTO, opening new markets to Panamanian products and services, which in turn have resulted in a progressive general reduction in tariffs.

#### **5. Privatization Program**

Since 1992 the government of Panama has instituted a Privatization Program of public services, facilities and companies. For this purpose PROPRIVAT came into existence as a department of the Ministry of Economics and Finance to coordinate and supervise the privatization process. (see chapter III, supra).

The program includes several methods of privatization, such as: fragmentation, restructure, total or partial sale of assets and/or shares, total or partial leasing, sub-contracting, licenses, and joint ventures between government and private enterprises.

Currently the program has resulted in the successful privatization of the telephone and electricity companies, a cement factory, sugar mills, port and railroad services, industrial plantations, casinos and several hotels.

As an intrinsic part of the privatization program the government has created the Public Services Regulatory Agency (*Ente Regulador de los Servicios Publicos*), charged with regulating electricity, communications and water services.

### **VI. EXPORTS**

In Panama, the law only considers as an export the sale of goods outside the national territory.

#### **1. Tax Incentives**

Traditionally the mechanism in Panama for granting incentives was registration of the venture with the Official Registry of the National Industry (*Registro Oficial de la Industria Nacional*), which was eliminated by Law N° 28 of 1995 that adopted measures for the universalization of tax incentives.

Notwithstanding the above, enterprises registered with the Official Registry of the National Industry at the time Law N° 28 was enacted, maintain all tax benefits granted by Law N° 3 of 1986, for the remaining duration of the registry.

Moreover, Law N° 28 also provides the following benefits:

- A flat import duty of 3% based on the CIF value, plus the Value Added Tax on all imported supplies, raw materials, semi processed goods and capital assets,

whether or not importers of said merchandises are registered in the Official Registry of the National Industry;

- Exemption from import taxes and the Value Added Tax on supplies, packaging materials and raw materials used by the national pharmaceutical industry for the manufacturing of medicinal products;
- Exoneration of the Value Added Tax in the local purchases of packaging materials used by national medical plants in the manufacturing of medicines.

## **2. Tax Allowance Certificates**

The Tax Allowance Certificate, known by the Spanish acronym “CAT”, is an instrument to promote non-traditional exports produced or manufactured totally or partially in Panama.

The following are salient features of CAT’s:

- Are nominative and transferable;
- Maturity date is nine months after issuance;
- Do not earn interest;
- Are tax free;
- Are negotiable in the stock and secondary markets;
- Can be used to pay all national direct taxes and import duties;
- Sales made from the Colon Free Zone to foreign countries can earn CAT’s.

From January 1, 2006 up to December 31, 2006, agricultural, livestock and aquaculture exports that qualify as non-traditional, will have the right to request CAT's, limiting the value of the CAT to the equivalence of 15% of the aggregated national value of the goods being exported.

## **VII. REPRESENTATIVES, DISTRIBUTORS, AGENTS, FRANCHISERS**

### **1. Representatives, Distributors and Agents**

In 1989 the Supreme Court declared the unconstitutionality of Cabinet Decree N° 344 of 1969 which had up to then regulated and protected the activities of representation, distribution and/or agency in Panama.

As a result of Cabinet Decree N° 344 being declared unconstitutional, all contracts recorded at the Ministry of Commerce and Industry were left without effect. However, this does not mean that contracts executed between the manufacturer or commercial enterprise and the local company are invalid; these relations will hence be governed by general commercial law.

The key feature of the decision rendered by the Supreme Court would seem to negate the Principle of Exclusivity, which is, considering monopolistic in nature those contracts of representation distribution and/or agency which contain

exclusivity clauses. This criteria then means that all clauses that establish an exclusive relationship are null and void.

## **2. Franchise**

No particular franchise law exists in Panama. Franchise contracts are usually looked upon as combinations of licensing agreements, distributorship or representation agreements and also other legal arrangements such as commission agencies.

In Panama, as in many other Latin American countries, franchising is an increasing industry with skyrocketing examples such as Pizza Hut, KFC, McDonald's, Burger King, Dairy Queen, Bennigan's, T.G.I. Friday, Hard Rock Cafe, AVIS, Budget, Hertz, UPS, DHL, just to name a few.

## **VIII. INTELLECTUAL PROPERTY**

### **1. International Conventions**

Panama is signatory of the following multinational conventions protecting intellectual property rights:

- The Universal Copyright Convention;
- The Buenos Aires Convention (1910);
- Berne Convention (1886) for the Protection of Literary and Artistic Works;
- Paris Convention for the Protection of Industrial Property;
- World Trade Organization (WTO).

### **2. Industrial Property**

By means of Law N° 35 of 1996, a new Industrial Property Law was enacted in Panama and regulated by Executive Decree N° 7 of 1998.

#### **2.1 Patents**

Among the principal features of Law N° 35 regarding patents is the elimination of confirmation or revalidation of patents. Under the Law all patents are granted for a fixed term of twenty (20) years from the date of registration, with no possibility of extension. Moreover, the term of a Panamanian patent registration or revalidation of patents has been eliminated and hence, the term of a Panamanian patent will no longer be dependent on the term granted to any foreign patent.

The requirements for patentability under the Law are that the invention be new, the result of a creative activity and susceptible of industrial use.

Applications will be reviewed for prior art which includes "art that has been disclosed or made accessible to the public in any place of the world, by means of a tangible publication, an oral disclosure, sale or commercialization, use, or by any

other means, prior to the date of filing the patent application in Panama or, in its case, prior to the date of the recognized priority...”

## **2.2 Trademarks**

On the subject of trademarks, Law N° 35 contains many substantive changes. For example, the distinction between marks of commerce and trademarks is eliminated, as is the distinction between national marks and foreign marks. The only distinction established by the Law is between “trademark” used to distinguish goods and “service mark” in regard to services. Moreover, Law N° 35 provides for the registration of collective and certification marks, and of advertisement slogans, not previously covered under law.

With the elimination of the distinction between national and foreign trademarks, the requirement of filing a certified copy of the home registration, or of the home application, in order to file a foreign trademark application in Panama is eliminated.

Moreover, all pending Panamanian applications based on foreign applications will proceed to registration without the necessity of filing the home registration once it has been issued, provided all other requirements for registration have been complied with. Likewise, in order to renew an existing Panamanian registration, it is not necessary, to file evidence that the home registration is still in force.

Law N° 35 also changes some terms in connection with trademark matters. For example, the period to file opposition suits is reduced from three to two months after publication of the conflicting application. The term for renewal is extended. Under Law N° 35, renewal is possible during the first year period preceding the date of expiration of the Panamanian registration, and also during the six months following the expiration of the trademark registration. However, renewal during the six month period following the expiration of a trademark registration will be subject to a surcharge.

The Law now prohibits the registration of trademarks which are identical or similar to famous or renowned trademarks for any goods or services, and to any notorious or known trademarks for specific goods or services.

## **2.3 Industrial Design and Models**

Industrial designs and models are specifically covered by the new Industrial Property Law. In order to be eligible for registration, utility models must be new and susceptible of industrial use, while industrial designs must only meet the novelty requirement.

Registration of industrial designs is granted for a term of ten years from the date of registration, and can be extended for a single additional term of five years. Industrial designs will also enjoy an automatic protection without needing registration for a period of two years following the first disclosure of the design in Panama, which is done by the person to whom said protection corresponds.

Registration of utility models is granted for a non extensible term of ten years.

### **3. Copyrights**

Copyright laws in Panama were, for more than 70 years, governed by the provisions of the Administrative Code of 1916. In this regard, Panama enacted Law N° 15 of 1994 to regulate the subject of copyrights.

The following are a few salient features of Law N° 15, to wit:

- *Registration.* Registration of the copyright does not establish the right, it is merely declarative. By the same token, there are no specific requirements for registration of copyrights. The law provides that the General Directorate of Copyrights (*Dirección Nacional de Derecho de Autor*) will issue the rules and regulations for the registration of copyrights;
- *Subject matter.* Any work resulting from an intellectual creation is eligible for copyright protection. Moreover, “work” is defined as “an original intellectual creation of artistic, scientific, or literary nature, capable of being divulged or reproduced by any means”;
- *Copyright protection of software.* The law specifically covers software. There is a presumption that the producer of the software is the one which appears as such in the relevant program. Unless otherwise agreed, the contract between the author and the producer implies the limited and exclusive assignment in favor of the producer, of the patrimonial rights recognized by law, as well as the authorization to decide about its disclosure and to exercise the moral rights which may be necessary for the exploitation of the work.

### **4. Moral rights and other related rights**

Law N° 15 specifically covers moral and patrimonial rights. Moral rights are inalienable, not attachable, may not be waived and do not prescribe. Among the moral rights recognized are: the right to divulge, the right of paternity, the right of integrity, the right of access and the right to revoke an assignment or to withdraw the work from the market.

### **5. Licensing**

Law N° 35 provides that for trademark and patent licenses to have effect with respect to third parties they must be registered with the Directorate General of Industrial Property (*Dirección General del Registro de la Propiedad Industrial*). On the other hand, the Administrative Code states that all licenses, acts, and contracts which contain transfer of copyrights need to be registered before the Registry of Literary and Artistic Property by means of a public instrument.

The payment of royalties need not be approved or registered with any governmental agency. The government requires that royalty rates be reasonable, that is, they should not exceed the average for a particular industry (see chapter XX, *infra*).

## **6. Protection of Intellectual Property Rights in Free Zones, Export Processing Zones and Customs**

Pursuant to Executive Decree N° 79 of 1997, measures are taken to protect intellectual property rights, which includes all rights derived from industrial property in the Colon Free Zone and any other Free Zone or Processing Zones (“the Free Zone”).

As a result of Executive Decree N° 79, the Free Zone will have a centralized registry containing the names of the title holders of protected intellectual property rights and the licensees of said rights.

The Free Zone has the power to inspect and/or temporarily seize any merchandise in transit that may be infringing the laws on industrial property, copyrights and related rights.

On the other hand, the Directorate General of Customs (*Dirección General de Aduanas*) took similar action to create a centralized registry to protect intellectual property rights which also includes all rights derived from industrial property and licenses.

## **7. E-Commerce**

Law N° 43 of 2001, fosters freedom to provide services, technological neutrality, international compatibility, equivalence of electronic form to the hard copy form and functional equivalence of e-commerce to traditional commerce.

### **7.1 Legal Requirements for a valid electronic document**

Law N° 43 eliminates the requirement for a document or agreement to be in writing. When under current law a document must be in writing, electronic data messages are given the same validity as written documents, as long as:

- The information contained in the document is made available for future consultation;
- The data message is conserved in the original format in which it was generated, sent or received or in some format that is shown to produce exactly said information;
- That the data if any, be conserved in such a manner that will allow to determine the origin and destination of the message, the date and hour in which it was sent or received.

The above will not apply to:

- Acts for which the law requires a particular solemnity, which cannot be verified by an electronic document;

- Juridical acts for which the law requires the personal concurrence of any of the parties;
- Juridical acts relative to Family Law.

## **7.2. Data Message and Electronic Signatures**

Data message is defined by Law N° 43 as any information generated, sent, received, filed or communicated in optical, electronic or similar form, such as electronic data exchange (EDI), internet, e-mail, telegram, telex or telefax.

The Law permits business entities to maintain as data messages their correspondence, invoices, ledgers, corporate books and other records.

Electronic signatures are any electronic sound, symbol or process linked to or logically associated to a message and granted or adopted by a person with the intention of signing a message that allows the receiver to identify the issuer. Electronic signatures are given the same validity as written ones, when signatures are required by law, provided that the former incorporates the following characteristics:

- It is unique to the person who uses it;
- It is susceptible of being verified;
- It is under the exclusive control of the person who uses it;
- It is linked to the information or message.

## **7.3 Certification Authorities**

Under Law N° 43, secure electronic signatures, are defined, as those which can be verified with a security system or procedure under internationally accepted authentication standards.

Entities known as Certification Authorities (*Entidades de Certificación*) issue electronic records known as certificates, which serve to verify the authenticity and legitimacy of electronic signatures as well as the integrity of the message.

The activities of the Certification Authorities are supervised by the Directorate of Electronic Commerce of the Ministry of Commerce and Industries.

The Directorate maintains a voluntary register for those Certification Authorities that operate in Panama. All repositories or databases where certificates are stored must be registered with the Directorate.

Certificates from a foreign Certification Authority are valid in Panama when these are accepted:

- By a Certification Authority registered in Panama;
- Under international agreements;

- Under approval from another foreign Certification Authority registrar of similar nature to the Directorate.

## **IX. DIRECT INVESTMENT**

### **1. Types of Investment Methods**

The main method of investing in Panama would certainly be the creation of a subsidiary. This has been the standard vehicle for many overseas companies to establish their interest in Latin America. On the other hand, the registration of a branch is used as an investment method only in specific cases when certain tax advantages or other benefits are granted to the parent company in the country of origin.

The ease and flexibility of Panama corporate law, coupled with a dollar economy and Panama's strategic geographical position makes it the ideal place for setting up headquarters to serve the Latin American and Caribbean markets.

Some relevant aspects that attract foreign investments are the following:

- a) Panama's legislation does not consider as taxable income revenues originating from transactions that take place outside the Panamanian territory (offshore) even when they are managed within Panama;
- b) Panama's Corporation Law (see Chapter XIV, *infra*) is very flexible about the purpose of a corporation, the amount of capital, the nationality of shareholders, the existence of bearer shares, and the geographic scope of operations;
- c) There is no control over free transfer to and from the country of capital, dividends, or payments for any other purpose;
- d) The fact that there is no national paper currency acts as a built-in guarantee against the establishment of foreign exchange regulations;
- e) An international banking center which operates freely in all currencies and creates a financial climate that encourages the free movement of funds.

In Panama, investments in the domestic industry are more frequently done through purchases of stock or assets of an existing company and also as part of the privatization program sponsored by the government. In addition, a fair amount of domestic investment is also done by entering into joint-venture agreements.

### **2. Types of Companies**

Panama Corporate and Commercial law recognizes various types of legal entities, to wit:

- The Corporation (*Sociedad Anónima*);

- Limited Liability Company (*Sociedad de Responsabilidad Limitada*);
- General Partnership, with a clause of limited liability (*Sociedad Colectiva Limitada*);
- Limited Partnership by Shares (*Sociedad en Comandita por Acciones*).

The most common form of business entity adopted by Panamanians and foreign investors in Panama is the Corporation (*Sociedad Anónima*) because of the ease in incorporation and flexibility that it grants businessmen and investors (see Chapter XIV, *infra*).

The other types of company and partner forms are not very common in Panama because of the complex legal formalities and restrictions involved.

### **3. No restrictions on Foreign Investments**

The policies of the Panamanian government are geared to encourage foreign investment to the extent that there has never been any need for a formal statement of policy on this subject. Moreover, legislation hardly establishes any differences in treatment between nationals and foreigners. Consequently, all foreign investors, regardless of their country of origin are treated equally.

## **X. INVESTMENT INCENTIVES**

### **1. The Colon Free Trade Zone**

The Colon Free Trade Zone was created pursuant to Decree Law N° 18 of 1948, and for over 50 years has served as a center for the redistribution of goods that originate in industrialized countries and that are being imported into Latin American countries.

The Colon Free Zone offers efficient services for monitoring all transactions, for providing effective protection against losses of merchandise, and for offering a program of institutional stability covering the legal as well as the administrative aspects of the entity.

#### **1.1 Types of Operations**

Companies established in the Colon Free Trade Zone engage in three (3) types of sales operations:

- *External Operations.* The re-export of merchandise from the Colon Free Trade Zone warehouses;
- *Internal Operations.* The sale from Colon Free Trade Zone warehouses to customers located within the customs territory of Panama;

- *Direct Sales.* Sales made to foreign companies where the merchandise is shipped directly from sources to customers, without ever physically coming to Panama.

## **1.2 Tax Incentives**

Companies established in the Colon Free Trade Zone are granted the following tax incentives:

- As of January 1, 1997 total exemption from the payment of income tax on earnings derived from external (re-export) operations;
- Capital investment is exempt from any national taxes as well as from provincial and municipal taxes;
- Total tax exemption from import duties, guarantees, licensing and other requirements and limitations on imports;
- Total exemption from direct sales income;
- Tax credit depending upon the number of Panamanian employees;
- Total exemptions from dividend tax on dividends paid as a result of proceeds obtained from external operations and from direct sales;
- Royalties paid to companies established abroad are not taxable to the recipient, but the expense is not deductible from the Free Zone Company either;
- Total exemption from taxes, assessments and fees of all kind for merchandise arriving at, stored and leaving the Colon Free Trade Zone for foreign countries;
- Total exemption from all types of national or municipal taxes, except the US\$300 Franchise Tax paid annually by all corporations established in Panama and the property tax on any real estate owned by them.

## **2. The Province of Colon Free Port**

### **2.1 Introduction**

Law N° 29 of 1992, establishes a special fiscal and customs system with the structure of a Free Port applicable to the territory of the Province of Colon, subject to the economic policy of the National Government and to the supervision and control of the Ministry of Economics and Finance.

Pursuant to Executive Decree N° 70 of 1999 and Resolution N° 133 of 2000, dispositions were enacted to regulate and implement by phases the special system of Free Port in the Province of Colon, directed to promote the economic and tourist development of said Province.

## **2.2 Persons Benefited by the Free Port System**

- Natural or Juridical persons that operate within the territory defined by the Ministry of Economics and Finance;
- Foreign visitors, vessels, passengers and crew in transit, whose port of exit is within the Free Port area, that comply with the transfer process of their purchases, in accordance with the provisions established by Executive Decree N° 70 and the norms that govern custom matters;
- Nationals that visit commercial establishments and tourist attractions that are established within the Free Port area can purchase merchandise after payment of the corresponding taxes.

## **2.3 Tax Aspects**

- All merchandise imported into the Free Port area is free from all custom taxes, rates, fees, duties or liens;
- Except for the exceptions provided by law, the sale of products or merchandise within the Free Port area is subject to the payment of the Value Added Tax and the Selective Consumer Tax;
- All merchandise imported into the Free Port area, may leave said area for: export or re-export; the sale to visitors, passengers or crews in transit and whose port of exit may or may not be located within the Free Port area, the sale to vessels that cross the Panama Canal, the sale to airplanes that use local airports with foreign destinations, the sale to nationals for introduction into the fiscal territory of the Republic (previous payment of all corresponding taxes), and their destruction;
- The possibility of installing within the Free Port area “Merchandise Warehouses” operated by transport companies to provide door to door international transport services. The transport agents engaged in this service are exempt from having to furnish a sworn affidavit on withholding taxes.

## **3. Tourism**

Pursuant to Law N° 8 of 1994, as amended by Decree Law N° 4 of 1998, tourist activities are promoted in Panama. The purpose of the law is to establish a simple, prompt and rational process to develop tourist activities; grant incentives and benefits to persons engaging in tourist activities, adopt the necessary mechanisms for the public and private sectors to join and coordinate their efforts in the area of tourism and promote tourism in Panama. Under the law tourism is declared a public service industry, and elevated to the rank of national interest.

### **3.1 Tourist Enterprises**

Hotels; Motels; Inns; Bed and breakfast; Apartment hotels; Cabins; Time-shares; Tourist Horizontal Property Regime; Camping sites; Restaurants; Theme parks; Convention Centers and Marinas.

### **3.2 Tourist Activities**

- Construction, furnishing, renovation and operation of hotels, motels, apartment hotels, boarding houses, inns, bed and breakfast, buildings under the horizontal property regime that are destined entirely to public tourist lodging, tourist time-share units, cabins, camping sites for the exploitation of ecotourism and theme parks;
- Construction, furnishing and building of access infrastructures, renovation and operation of convention centers, shops for native crafts of tourist interest, recreational parks, zoos, tourist resorts, ecotourism and marinas;
- Land, air and maritime transportation for passengers within Panama, mainly for tourists;
- Construction, furnishing, and operation of restaurants, discotheques and nightclubs catering for tourists;
- Construction, renovation, restoration, remodeling, and expansion of any real estate for commercial or residential use at historic landmarks where these types of activities are authorized;
- The operation of tourist agencies handling incoming tourism, devoted entirely to such activity;
- Any company producing feature films, television series and international artistic or sport events to be broadcast over closed circuit television or abroad by satellite;
- Any investment in the design, restoration, construction, maintenance and lighting of historic landmarks, municipal parks, national parks or any other public area under the direction of the Panamanian Institute of Tourism (*Instituto Panameño de Turismo - IPAT*) and in coordination with the National Institute of Culture (*Instituto Nacional de Cultura - INAC*).

### **3.3 Incentives and Benefits**

The incentives are classified under the law according to the service offered and the impact they will have on the tourist activity in Panama. Said benefits must be recognized and verified by the IPAT.

A few of the tax incentives provided in the law include:

- Total exemption for 20 years from import taxes affecting the importation of materials, equipment, personal property furniture, vessels and certain vehicles with a minimum capacity of 8 passengers, provided that these are declared as indispensable by IPAT to carry out the particular tourism activity;
- In the case of goods, these are also exempted as long as they are not manufactured in Panama, or are not manufactured in sufficient quality or quantities or of similar price in Panama. The imported articles cannot be sold or transferred, without first paying the corresponding taxes, except between enterprises protected by this law, previous approval by the Ministry of Economics and Finance;
- Total exemption from real estate property tax; income tax; tax and duties on the use of docks and airports, in the case where the parties invest in a “Tourist Development Zone of National Interest”, which are areas that meet the requirements as special tourist attractions, but lack the basic infrastructure to develop such activities;
- Total exemption from taxes, contributions, duties or other levies of any kind on the use of docks or airports by the enterprise;
- Total exemption from import taxes and duties on all tourist publicity material provided it is distributed free of charge;
- Total exemption from import taxes on land or water vehicles used by enterprises dedicated to receptive tourism;
- The incentives contained in Law N° 8 and Decree Law N° 4 will be valid up to December 31, 2005 for those areas that have not been declared as “Tourist Development Zone of National Interest” and up to December 31, 2015 for those zones that have been declared as such.

See **Table “A”** for further information on tax incentives.

## Tourism Incentives

**TABLE A**

Exemptions					
Activity	Minimum Investment Required		Income Tax	Dividend Tax	Complementary Tax
	Metropolitan US\$	Rest of the Country US\$			
Public Tourist Lodging (1)	300,000*	50,000*			
Investment in Historic Landmarks	100,000*	100,000*	First Five Years (2)		
Operate Exclusively Receptive Tourism					
Service of Collective Tourist Transportation in Airports, Docks and Hotels					
International Motion Picture Enterprises; Artistic, Sports or International Events broadcast abroad			(6)		
Tourism Promotional Material					
Construction of Convention Centers, Theme Parks, Zoos, Marinas, Centers for the investigation of the natural and cultural patrimony					
Tourist Development Zones (10)			15 years		
Tourist Yachts					

\* Excludes the value of land

- (1) In the case of Inns and Family Hostels the minimum investment will be stated by IPAT.
- (2) Special regime of three years for the carry forward of losses as of the sixth year.
- (3) Exemption of one time only for equipment and material used in the construction, remodeling and equipping as long as they are not produced in the Country of the same amount or quality.
- (4) Total exemption from the payment of Import tax over land and water vehicles used exclusively in the tourist activity and declared indispensable by IPAT. Except when the tax paid in Panama is considered as a tax credit in the company's country of origin. Full exemption in favor of national and foreign Sportsman and Artists who participate in the event. Full exemption from any national tax that regulates the event.
- (5) Total exemption from the payment of Import tax over vehicles used exclusively in the tourist activity and declared indispensable by IPAT.
- (6) Total exemption from real state tax derived from the profits of the event, except when the tax paid in Panama is considered as a tax credit in the company's country of origin. Full exemption in favor of national and foreign Sportsman and Artists who participate in the event. Full exemption from any national tax that regulates the event.

## Tourism Incentives

### TABLE A

Exemptions						
Import Tax	Real Estate Tax	Movable Property Transfer Tax (ITBM)	Tax on Capital	Tax on Docks, Airports or Heliports built by the Company	Income Tax on Interest yielded	Accelerated Depreciation Rate of Real Estate
20 years	20 years		X	X	X	10% per year*
(3)	Real Estate 10 years Improvements 30 years					
(4)						
(5)						
(7)						
(8)						
3 years (9)	Improvements 20 years					For a term of 10 years
20 years	Land and Improvements 20 years	20 years (11)		20 years	20 years	

- (7) Temporary exemption from import tax, contribution, liens and rights of any kind on the introduction of equipment, utilities, spare parts, material, etc. which must be exported when the activity is finished.
- (8) As long as the distribution is free, previous verification from IPAT.
- (9) As long as the merchandise is not for sale, is not produced in the Country or they are not the same quality and price and are considered by IPAT as important for the development of the activity.
- (10) By Cabinet resolution, areas that meet special conditions but do not have basic structure can be declared National Tourist Development Zones. Tax incentives for areas that have been declared National Tourist Development Zones will be valid until December 31, 2015 and until December 31, 2015 for those areas that have not been declared National Tourist Development Zones.
- (11) On the importation of materials, equipment, furniture, accessories and spares used in the construction, rehabilitation and equipping of the establishment, as long as they are not produced in the same amount and quality in Panama.
- (12) Total exemption on the payment of any tax, duty or levy on arrival or anchorage.

### **3.4 Tourist Employment Certificate** (*Certificado de Empleo al Turismo-CET*)

Any public tourist lodging company or restaurant that does not want to receive the exemptions granted under the law has the option, provided it solely engages in tourist activities outside the metropolitan area, of being entitled to a CET to be issued in its name equivalent to 21.5% of the gross monthly payroll, provided this gross monthly payroll does not exceed US\$400.

The CET's will be issued by the Ministry of Economics and Finance and may be applied to the payment of income tax, dividends, complementary, real estate or sales taxes, as well as import duties.

The CET's are nominal and transferable by endorsement. Moreover, they are exempt from all types of taxes and do not earn interest. The CET's can be used six months after their date of issue, but not within the same year of issue and are valid for a period of three years from their issue date.

### **3.5 Investment and Financing**

In order to promote financing and stimulate investment in the tourist sector, the law exempts interest obtained by creditors in operations related to tourist activities.

By the same token, the law encourages investment and financing for the development of the tourist industry and the construction of hotels outside the metropolitan area.

Individuals or companies that invest in nominal tourist investment instruments who are not connected directly or indirectly with public tourist lodging, or are not the result of the division of a company into several companies or affiliates or subsidiaries of tourist companies may, for income tax purposes, deduct as an allowable expense, 50% of the amounts invested in the purchase of bonds, shares, or other nominal instruments issued by tourist companies pursuant to the regulations of the Ministry of Economics and Finance.

Companies registered with the National Tourism Registry must also register any bonds, shares, or other financial instruments with the National Securities Commission of Panama, and must issue them within the first three years of registration.

A company issuing such bonds, shares, or other nominal instruments may not redeem them in any manner whatsoever for at least ten years. Any bonds or instruments issued by a tourist company shall be valid for a period of ten years and cannot be redeemed earlier. These companies may not purchase their own shares, contributions, or convertible bonds, and may not grant loans to the holders of any such instruments.

### **3.6 National Tourism Registry**

The tourism incentive regime provided under Law N° 8 is only available to individuals or companies who are registered in the National Tourism Registry (*Registro Nacional de Turismo*). Applicants must complete a registration form obtainable from IPAT accompanying, among others, a feasibility study, surveys and technical studies, when the initial investment in the project exceeds US\$300,000.

The IPAT has a period of not more than 60 calendar days to study the technical, economic, legal and tourism aspects of the proposed project and upon approval to register the company in the National Tourism Registry. In the case of national or historical landmarks or wild life reserves under the control of the National Institute of Culture (*Instituto Nacional de Cultura - INAC*), or the National Environmental Authority (*Autoridad Nacional del Ambiente - ANAM*) requires a resolution issued by the appropriate agency. This resolution must be issued within 30 calendar days counted as of the date of receipt of the project documents.

### **3.7 Obligations**

Any person seeking benefits under Law N° 8 must comply with the following obligations:

- Actually make and maintain the investment in the proposed tourist activity;
- Start the construction, remodeling refurbishing or restoration of the real estate property for the proposed tourist activity within a period of not more than six months as of the date of registration in the National Tourism Registry;
- Start rendering tourist services within a period of not more than three years as of the date of registration, unless a longer period is required as determined by IPAT;
- Conduct the tourist activity according to the regulations issued by IPAT;
- Keep an accurate record of exempted items available for the competent officials;
- Post a performance bond in the name of the IPAT and the office of the Comptroller General of the Republic in an amount equivalent to 1% of the amount invested. In no case may the bond exceed US\$300,000;
- Comply with the ratio established in the Labor Code for hiring of Panamanian citizens, except for the experts and skilled technicians deemed necessary, for which authorization by competent authorities is required.

### **3.8 Penalties**

Lack of compliance with the obligations imposed in the law will result in the revocation of the registration and forfeiture of the bond; unless it is proven that the lack of compliance was due to force majeure or a fortuitous event.

The revocation of a registration in the National Tourism Registry may be ordered by resolution issued by the Board of Directors of IPAT. Nevertheless, any affected party may file an appeal for reconsideration with the same authority.

Violators of the benefits contemplated in the law will be punished with a fine equivalent to five times the amount of the benefit claimed, and the revocation of any benefits to which they may be entitled.

### **3.9 Concessions for Tourist Development**

Upon recommendation by the Board of Directors of IPAT and subject to ratification by the Public Finance, Economic Planning and Policy Committee of the National Assembly of Panama, the Executive branch is authorized to grant concessions for periods of up to 20 years, over islands, government owned lands, lands requiring fills, and areas for the construction of marinas and docks; that the government may decide to dedicate to the public tourist activity.

However, any concession contract may be granted for a period of up to 40 years in the case of projects whose investment amount, economic impact and job generating potential require a longer contract term in the judgment of the IPAT.

## **4. Special Incentives for Export Processing Zones**

Pursuant to Law N° 25 of 1992, a simplified integrated special system was adopted for the creation and functioning of Export Processing Zones that amount to nothing more than “private” free trade zones, which allow for import and re-export operations with total exemption from duties.

Export Processing Zones are designed to contribute to the economic development of the country and to counteract unemployment by offering incentives that favor the scientific, technological, cultural, educational, and social development of the country and allow its integration to the global economy through the export of goods and services.

### **4.1 Enterprises that Can Participate in the Zones**

Natural or juridical persons that establish:

- Manufacturing enterprises;
- Assembly enterprises (maquila);
- Finished or semi-elaborated products processing enterprises;
- Services export enterprises;
- General services enterprises.

#### **4.2 Kinds of Export Processing Zones**

- Private;
- State - owned;
- Mixed - state/private investors.

#### **4.3 Persons Charged With Establishing and Operating the Zones**

- The promoter of a zone is in charge of carrying out the establishment of the zones;
- The operator of a zone (who may also be the promoter) is in charge of the operation of such zone.

#### **4.4 Requirements to Establish in the Zones**

The enterprises established in the Zones must obtain a license to operate. The license is issued by the Ministry of Commerce and Industries prior recommendation by the National Commission of Export Processing Zones.

Once the license has been granted, it obligates the investor, among others to:

- Invest in the zones an amount not less than the amount proposed;
- Initiate the investment in a period not exceeding one year, starting from the day of registration in the official registry of Export Processing Zones;
- Hire Panamanian employees, with the exception of foreign experts, technicians and personnel of trust;
- Comply with all the provisions of Law N° 25 and the terms under which the license was approved, and present an annual report of their activities to the National Commission of Export Processing Zones;
- Comply with all rules on protection and conservation of the environment and the standards and specifications on planning and urban development.

#### **4.5 Main Tax Incentives for Promoters**

- The enterprise, as well as its activities, is exempt from all local direct or indirect taxes, contributions, assessments, rights, and charges. Nevertheless, there is some discussion on whether income tax exemption will be granted to those foreign enterprises whose countries permit the deduction or crediting of taxes paid in Panama;
- Duty free importation of machinery, equipment, raw materials, tools, accessories, lubricants, and all goods and services required for operation;

- License tax exemption;
- Incomes derived from dividends or interests gained from shares and bonds of enterprises protected under this Law, are exempt from all local taxes (direct or indirect), liens or duties.

#### **4.6 Special Immigration Treatment**

- Foreigners that invest at least US\$250,000 in enterprises that are established in the zones shall have the right to request a Permanent Resident Visa as an investor;
- Foreigners hired as key personnel, executives, experts and/or technicians by enterprises that are established in the zones, shall have the right to a Temporary Resident Visa, valid for the duration of their respective contract;
- Foreigners that come to Panama to engage in business within the zones, that have been established or are in the process of being established, can, prior to a confirmation of the investment by the Ministry of Commerce and Industries, request a Resident Businessman Visa valid for one year.

#### **4.7 Special Labor Regulations**

- The creation of a special Export Processing Zone department at the Ministry of Labor;
- Rotation of workers in different lines of work according to the cycle of production;
- Fixed vacation periods; three-year deferment before the employee is considered permanent;
- Payments made to employees as production bonuses, profit sharing, incentives on productivity, bonuses, rewards, donations and others can be considered as amounts paid in addition to the salary. However, payment of these sums cannot exceed 50% of the base salary.

Real state located in what was formerly the Canal Zone Area is considered ideal land for the establishment of Export Processing Zones given its location near the main urban concentrations and deep-water ports, and the positive attitude of the government towards the development of these types of labor intensive projects.

### **5. Call Centers**

Pursuant to Law N° 54 of 2001, companies that provide Commercial Call Services for Export (call centers) are exempt from the payment of taxes for telephone calls to persons outside of Panama.

These companies function as centers for international calls, as long as they are provided with a concession granted by the Public Services Regulatory Agency.

Executive Decree N° 97 of 2002, stipulates that natural or juridical persons that are granted a concession by the Public Services Regulatory Agency can take advantage of the benefits contained in Law N° 25 of 1992, which establishes a special integrated and simplified regime for the creation and functioning of Export Processing Zones, as long as they present a request before the National Directorate of Services for Commercial Exports of the Ministry of Commerce and Industries.

### **5.1 Main Tax Incentives**

- Total Exoneration of all direct or indirect taxes, contributions, rates, duties and national charges, as well as all activities, operations, transactions, process and transfers of chattels and real property, buying and import of equipment, construction material, raw materials, equipment, machinery, tools, accessories and all goods or services required for operations within the Export Processing Zones;
- Total tax exoneration on patents or commercial licenses;
- Tax exoneration on income derived from dividends or interest generated by stocks, bonds and other securities issued by companies established in the Export Processing Zones;
- Permanent resident investor visa for the minimum investment of US\$250.000. This type of visa provides the following benefits:
  - (i) During the first 3 years of the labor relationship, the company is permitted to execute contracts for a definite period of time or by the job;
  - (ii) Rotation of the worker without affecting his labor conditions;
  - (iii) Production incentives, bonuses and rewards are not subject to social security contributions.

### **6. Oil Free Zones**

The Oil Free Zones were created pursuant to Cabinet Decree N° 36 of 2003, whereby actions are taken for the execution of a national policy on hydrocarbons with the purpose of adapting norms applicable to the new conditions of the oil market in Panama.

The purpose of this Cabinet Decree is to attract both local and foreign capital in the establishment of an international center in Panama, for the transformation, distribution and re-distribution of crude oil and its by products.

## **6.1 Oil Free Zone Activities**

An enterprise established in an Oil Free Zone can carry out any of the following activities:

- Introduce, store, manufacture, pack, refine, purify, mix, commercialize, transport, transfer, pump, process transform, sell or in any other manner dispose in the domestic market, export, re-export, provide and in general operate and handle crude oil, semi-processed or any of its by products;

Oil Free Zones type B users are excluded from the above and are only allowed to introduce, store, mix, dry, export and re-export crude oil, semi processed, its by products and manufactured goods.

- Build, install and operate oil refineries and other means of transformation or processing of crude oil or semi-processed, storage tanks, pipelines and gas lines, pumping installations, office buildings, warehouses and repair shops and any other installations; and introduce machinery, equipment, spare parts, containers, vehicles, office equipment, fire and oil spill prevention equipment, build offices, warehouses or repair shops for the use by the beneficiaries of contracts to operate the Oil Free Zones;
- Lease, acquire or in any other way use lands, easements, rights of way and other real or personal rights in regard to real estate located in the areas designated as Oil Free Zones;
- Previous coordination and approval by the corresponding public entity and subject to existing legal dispositions, establish services for water, electricity, gas, heat force, refrigeration or any other type of services;
- Build ports, docks, shipyards, places to embark and disembark vessels and airplanes, railroad stations or execute contracts for the construction or exploitation of said works;
- In general, all types of operations and activities proper or incidental to the establishment and functioning of the Oil Free Zones for the introduction, storage, pumping, transportation, distribution, commercialization and refinement of crude oil and any of its by-products.

## **6.2 Purpose of the Oil Free Zones**

The crude oil or its by products introduced to an Oil Free Zone area may leave said area for any of the following purposes:

- For exporting and re-exporting;
- For sale or delivery to the contractor or other users who legally operate in the same oil free zone or in any other oil free zone;

- For import to be used or consumed in Panama;
- For sale to vessels that transit the Panama Canal in route to foreign ports or that navigate between any qualified port in Panama and foreign ports;
- For sale to airplanes that use national or international airports operating in Panama, as long as they comply with the established specifications of quality, according to the international rules on the Joint Operation System for the provision of fuel in airports;
- For electric generating enterprises for the public service, authorized by the Public Services Regulatory Agency.

### **6.3 Authorizations, Permits and/or Licensing**

Any Natural or juridical person that wants to establish as a *contractor* in an Oil Free Zone to carry out any or all of the activities authorized by Cabinet Decree N° 36, must sign a contract with the Ministry of Commerce and Industries, previous recommendation of the Directorate General of Hydrocarbons (*Dirección General de Hidrocarburos*) of said Ministry.

An enterprise that wants to establish as a *user* in an Oil Free Zone must obtain an operation permit from the Directorate General of Hydrocarbons.

Companies established in the Zones that sell oil by products to importers-distributors established within the customs territory of Panama will require a commercial license type A to carry out these activities, as long as said companies maintain businesses, offices or affiliated dependencies or subsidiaries in Panama outside the Oil Free Zone areas.

In the Oil Free Zones both the contractor and the user must carry out their activities pursuant to the provisions of Cabinet Decree N° 36 and corresponding regulations, the Fiscal Code, the rules dictated by the Firemen's Security Office (*Oficina de Seguridad de los Bomberos*) and the Directorate General of Hydrocarbons, including the rules and specifications of the American Institute of Petroleum (*Instituto Americano de Petróleo*) and the American Society of Proofs and Materials (*Sociedad Americana de Pruebas y Materiales*), in accordance with the type of tank and product which is being stored and in the case of constructions by the rules established by Municipal Engineering.

### **6.4 Requirements for Contractors to Establish in the Zones**

Once the authorization has been granted, the Contractor is obligated to:

- Assume the primary responsibility in the administration of the area designated as an Oil Free Zone;
- Execute in full the agreed investment in the Operation-Administration Contract of the Oil Free Zone and initiate the investment in a period not exceeding one

year as of the date the contract is countersigned by the State Comptroller General (*Contralor General de la República*);

- Comply with the terms of the contract that authorizes the operation of the Oil Free Zone and with all applicable laws and regulations;
- Hire Panamanian employees with the exception of foreign experts or technicians needed to carry out the project, prior approval by the Ministry of Labor;
- Provide cost free to the State, premises, spaces and sanitary facilities to install offices necessary to control operations in the Oil Free Zones;
- Contract with the General Directorate of Customs for the customs inspection service and pay for said service;
- Assume the costs of food and public transportation, for the governmental employees regularly assigned by the authorities to work in the Oil Free Zones;
- Maintain a minimum capacity available for storage of oil by products for the consumption of the domestic market;
- Maintain, preserve and repair fences, sidewalks, streets, rights of way and any other improvement made for the proper execution of the contract;
- The contractor together with any holder of a permit in an Oil Free Zone solidarity responsible to the state for any damages caused.

#### **6.5 Main Tax Incentives for Contractors**

- a) Total exemption from all taxes, tariffs, duties and other contributions with respect to the introduction, export and re-export of crude oil and its by products as well as manufactured goods, raw materials, supplements or additives, machinery, equipment, materials, container, packages and other properties as long as they are introduced into the Oil Free Zones to be used in relation to the activities described in Cabinet Decree N° 36 or that are taken from said Oil Free Zones for export or re-export;
- b) Total exemption from all taxes, including income tax, duties and other contributions with respect to the sale or delivery of crude oil, semi-processed or its by products introduced or taken from the Oil Free Zones with exemption of those products to be consumed or used in the Republic of Panama.

#### **7. Special Incentives for Reforestation**

Pursuant to Law N° 6 of 2005, special incentives were established concerning the activity of reforestation.

The purpose of the law is to increase reforestation in Panama and to regulate this activity through the National Environmental Authority (*Autoridad Nacional del Ambiente – ANAM*) and the Ministry of Economics and Finance (see chapter XXV, *infra*).

### **7.1 Main Tax Incentives:**

- Total exemption from the payment of income tax on earnings derived from the commercialization of products extracted from forest plantations up to their final cut, which are established within a period of 13 years starting on the day Law N° 6 was enacted, as long as the owners of these plantations are recorded at the Forestry Registry of ANAM;
- Total exemption from import duties, taxes, levies, or any other charges on the importation of machinery and agricultural equipments, spare parts, tools, agrochemicals, seeds, and any other element necessary for the exclusive use of the reforestation activity.
- Total exemption from the payment of property tax and property transfer tax, as long as the real estates under reforestation use more than 75% of the land for this purpose or have a minimum of 200 hectares under reforestation.

## **8. City of Knowledge (Technological Parks)**

The development and establishment of the City of Knowledge was approved by Decree Law N° 6 of 1998, as an international center to foster education, investigation and innovation, with a view to promote the synergy between universities, scientific investigation centers, new economy enterprises and international organizations.

The International Techno-Park of Panama (*Tecnoparque Internacional de Panama - TIP*) is the business center of the City of Knowledge, designed to house medium and high technology companies.

There are presently more than 25 companies established in the TIP developing products and services for: Information Technology (telecommunications, data centers and development of software); Laboratories (biology, medicine, chemistry and mechanics); Engineering and Academic Services.

### **8.1 Main Tax Incentives**

- a) Exoneration of all taxes, contributions or import duties on machinery, equipment, furniture, vehicles, appliances and supplies necessary for the development of companies established in the TIP;
- b) Exoneration of the value added tax on machinery, equipment, vehicles, appliances and supplies acquired, and that are necessary for the development of companies accepted in the TIP;

- c) Exoneration of all taxes, assessments, rights or obligations that tax the remittance of money abroad when said remittance or transfer of funds is made by companies established in the TIP;
- d) Innovating companies that produce, assemble, process high technology assets or lend services of equal characteristics, destined for sale in the local or international market established in the TIP, will derive the following benefits:
  - Full exoneration of direct taxes, contributions, liens, national encumbrances and obligations, including exoneration of Income tax on their activities, operations, transactions and transfer of movable and immovable assets, buying and import of equipment and construction material, raw material, machinery, tools, accessories and supplies;
  - Their capital will be free of national direct tax, including patent or license tax.
- e) The provisions of the Labor Code that limit the amount of foreigners that can work in a company will not apply to foreigners working in companies operating in the TIP.

## **9. Special Economic Area Panama-Pacific (Howard)**

Law N° 41 of 2004, created a Special Economic Area of 2,400.7 hectares around the former American military base of Howard which reverted to Panama on January 1, 2000.

The main objective of the Area is to promote investments of different nature, among others:

- Aerial freight and passenger transportation;
- Industrial assembly and manufacturing operations;
- Regional and international commerce;
- Intermodal transportation with nearby ports and railroad;
- Airplane maintenance and repair;
- High technology and information technology activities

It consists of the former Howard airport, with an airstrip 2,591 meters long and 46 meters wide, which permits international jet flights for cargo and passengers, 4 hangars, considerable fuel supply by numerous fuel deposits, 706 housing buildings, 35 commercial buildings, water, electricity, sewage and telecommunications facilities.

The Area is near to the Panama Canal, the containers port of Balboa, the Port of Rodman, former U.S. Naval station, and near to the sea, where Kobbé beach may permit the installation of tourist facilities, at a short distance.

The Area is 25 minutes away, by road, from the City of Panama and to the Port of Balboa.

### **9.1 Tax Incentives**

- Income tax exoneration on, the sale of merchandise and services to ships crossing the Canal and airplanes bound to foreign countries, manufacture of high technology products, services to persons out of the Area, sales to visitors in transit;
- Equipment, vehicles and materials are free of import duties and re-exportation taxes;
- Land tax to improvements;
- International calls.

### **9.2 Custom Services**

There will be a more flexible, expedite, and a state of the art custom system for merchandise.

### **9.3 Participating Entities**

- *The Special Agency:* created by Law as an autonomous entity of public law, with juridical personality and autonomous patrimony, subject to the policies and supervision of the Executive Branch and the surveillance of the Comptroller General. The Agency administers and promotes the Area, and approves and supervises the Master Plans for the use of land, and its zoning, prepared by the Developer;
- *The Developer:* In in charge of the preparation of the Master Plans and of submitting them to the approval of the Agency's Board of Directors, as well as the promotion, administration, marketing and investments necessary to develop the Area. It will be selected in an international process, among experienced entities with administrative, technical and financial capacities;
- *Operator:* Is the person in charge of the administration, promotion, marketing and maintenance of the Area, or a portion thereof;
- *Enterprises:* which administer and carry out activities in the Area, and promote its development.

The entities must register with the Agency in order to be authorized to carry out their activities and obtain fiscal benefits. They must have experience, technical and financial capacity.

#### **9.4 Special Migration and Labor Rules**

These rules are similar to the general migration and labor rules, with a few variations.

The visas obtained shall extend to the spouse and children up to 25 years of age. The labor regime is designed to allow 24 hours operation, at a competitive scheme.

#### **10. Incentives for the Development of Electric Generation Systems**

By means of Law N° 45 of 2004, a Regime of incentives for the Development of electric Generation Systems is created, for the purpose of contributing with the construction and advancement of small hydroelectric powerhouse systems, hydroelectric powerhouse systems, geothermal-electric powerhouse systems, particular powerhouses of new, renewable and clean sources.

##### **10.1 Direct Purchase and Sale**

Independent of its location, the small hydroelectric powerhouse systems and powerhouse systems of new, renewable and clean sources, with an installed capacity of up to 10MW, can carryout direct purchase and sale with distribution companies, as long as there exists the constructing capacity on behalf of the distributor in accordance with the obligation to contract and that the amount of its own generation and the authorized direct purchases do not exceed the limit of 15% of the maximum demand of generation served in the area of concession of the respective distributor that purchases. The technical and commercial criteria of those direct purchases will be determined by the Public Service Regulatory Entity.

##### **10.2 Tax Incentives**

Individuals or legal entities that develop mini hydroelectric systems, small hydroelectric powerhouse systems, particular powerhouses of new, renewable and clean resources and powerhouse systems of other new, renewable and clean resources, have the following benefits:

- Exoneration of import tax, customs duties, assessments, contributions and taxes, as well as the ITBMS, that could be levied as the result of material, spare parts and others necessary for the construction, operation and maintenance in furtherance of the activity;
- Credits equivalent of up to a percentage of the direct investment in the projects, to be applied in the payment of income tax determined in the activity, within a specific fiscal period.

This Law is of a special character, for which the tax incentives therein granted, can only be applied to individuals or legal entities that directly develop the projects and only for the part that corresponds to said projects, and to the other activities.

## **XI. PURCHASE OF A BUSINESS IN PANAMA BY A FOREIGN CORPORATION**

### **1. Controls Applicable to Foreign Investors**

In general, there are no restrictions on the foreign ownership of businesses in Panama, except for the retail trade, including distribution, agency and representation; ownership and operation of radio stations and finance companies, which are limited to Panamanian nationals or to corporations whose entire board of directors is composed of Panamanians and entire capital is owned by Panamanians.

Currently, there are no limitations on private foreign companies that wish to participate in the government's privatization program. However, the Constitution requires that Panamanians have a majority participation in companies of public services operating in the country, except for the exceptions established and defined by law.

### **2. Controls Applicable to Specific Industries**

The aim of the government of Panama is to offer facilities and incentives for foreign investors. Consequently, there are very few limitations or restrictive practices on foreign investment, especially for international business operations based in Panama.

Nevertheless, the Panamanian government prefers to have majority participation in the exploitation of natural resources.

Under the Constitution, foreign individuals or legal entities and those national companies whose capital is wholly or in part from a foreign source, cannot acquire the ownership of islands under the jurisdiction of Panama, nor of lands be it state or privately owned, located less than ten kilometers from the borders with Costa Rica and Colombia.

### **3. Regulatory Framework for Acquisitions**

There is no specific legislation in Panama regulating the conduct of takeovers or any statutory regulations governing mergers and acquisitions activities. Procedures, however, do exist under Panamanian corporate and commercial law for companies combining by means of a merger or consolidation.

#### **4. Private Acquisition Agreements**

Most acquisitions in Panama involve the purchase of a privately held family business or a subsidiary of a corporate group, which are accomplished through a privately negotiated sale and purchase agreement.

Whether the business is sold by means of a sale of assets would normally depend on tax considerations. Shares in a corporation (*sociedad anónima*) are normally fully transferable. However, the articles of incorporation may require the consent of other shareholders to be obtained and other restrictions for the transfer of shares may also be imposed, but any restriction that in an absolute manner prohibits the transfer of shares is null and void. On the other hand, the transfer of a partnership interest normally requires the consent of all other partners, unless the partnership agreement states otherwise.

Most shares in corporations are issued in bearer form and are thus freely transferable. For registered shares, transfers may require the approval of the corporation.

There is no requirement in Panama for purchasers to make public their shareholding in a corporation or any general requirement to make an offer to the remaining shareholders following the acquisition of a controlling shareholding.

Increases in the authorized capital stock of a corporation require a shareholders resolution passed by a majority of the subscribed shares or of any class of shares with the right to vote. Notwithstanding, the articles of incorporation may provide that more of the majority of the subscribed shares or of any class of shares is required to amend the articles of incorporation. Moreover, and unless otherwise provided by the articles of incorporation or any amendments thereto, each shareholder shall have a preemptive right to subscribe, in proportion to the shares held by him, shares issued pursuant to any increase of the capital stock of the corporation. This right can, however, be waived. Any increase in the authorized capital stock of a corporation must be recorded at the Public Registry Office (*Oficina del Registro Público*).

#### **5. Transaction Taxes**

Panamanian tax law does not impose a capital transfer tax on contributions of capital to Panamanian corporations. Taxes are not levied on the issue of stock or on the increase of capital stock of a corporation. In the latter case, only a registration fee is payable at the Public Registry office, when filing the document amending the articles of incorporation.

The issuance of bonds by a Panamanian debtor or shares by a foreign corporation is not subject to tax on the issuance or transfer of said securities or shares.

Real estate transactions are subject to a real estate tax (*impuesto de inmueble*); owners pay tax according to a progressive scale that ranges from 1.4% on the excess over US\$10,000 to 2.1% on the excess over US\$75,000. The taxable base is the assessed value determined by the Land Commission (*Oficina de Catastro*).

Various exemptions are available including construction and improvements used by non-profit organizations or government entities and those with a value of less than US\$10,000.

## **XII. ANTITRUST, CONSUMER PROTECTION & UNFAIR TRADE PRACTICES**

Pursuant to Law N° 29 of 1996, as regulated by Executive Decree N° 259 of 1996 and Executive Decree N° 31 of 1998, rules were dictated on the defense of competition and other measures were adopted.

The purpose of the law is to protect and ensure the freedom of economic competition by eliminating monopolistic and other unfair trade practices so as to preserve the consumer's highest interest.

### **1. Antitrust**

The Antitrust provisions contained in the law are aimed to protect Panama's economic system from distortions that may cause negative effects on the free trade of goods and services.

In this regard the law forbids every act, contract or practice which negatively affects the freedom of economic competition in the production, processing, distribution, supply or trade of goods and services.

### **2. Consumer Protection**

The law places on the supplier the following obligations:

- To provide clear and true information on all the characteristics of the product or service, thus making mandatory that said information is provided in Spanish when dealing with products in general and on the label itself when dealing with medicines, agrochemical and toxic products, as well as for food products which may require warnings or specific precautions that represent a health risk;
- The prohibition to use false advertising;
- To warrant the normal function of the product or services;
- Absolute invalidity of those contracts of adhesion, which imply abusive practices and contain disproportionate conditions against the consumer;
- Home sales require the preparation of a pre-contract warranting compliance;

Authentication before a Notary Public or before the Secretary of the Municipal Council in those places where there is no Notary Public, is required for those contracts which exceed US\$250.

### **3. Unfair Trade Practices**

In this regard, the purpose of the Law is to protect the industry and the domestic market against imports subject to unfair trade practices that may cause harm or damage national market production. Unfair trade practices are considered to be subsidies and financial assistance of other states to the production, fabrication or export of products, as well as dumping practices, which may influence market prices, that cause or threaten to cause damage to the existing domestic market, or that may perceptibly delay the creation of a domestic market.

By the same token, the Law also regulates the procedures to be followed in adopting countervailing and antidumping measures of protection to avoid damages or repair injuries or serious damages to the national industry or the domestic market.

The provisions of the Law are fully applicable to those cases in which the products, object of the unfair trade practices, are not directly imported from the country of origin, but from a third country, in which case the transaction shall be considered as being carried out between the country of origin and Panama.

### **4. Consumer Protection and Free Trade Commission**

A specialized Free Trade and Consumer Protection Commission (*Comisión de Libre Competencia y Asuntos del Consumidor*) known by the Spanish acronym of CLICAC, is created as an independent public entity to investigate and sanction the performance of illegal acts and conducts, establishing mechanisms for consumer protection and the prevention of unfair trade practices.

The main function of CLICAC is to guarantee consumer rights, and has the duty to hear claims of up to US\$500.

In claims exceeding US\$500 the consumer may indistinctly make use of the conciliation or jurisdictional process.

#### **4.1 Conciliation Process**

This process is oral and without formalities. The conciliator analyzes the complaint presented in writing before the CLICAC with the purpose of reaching a friendly agreement between the parties. If an agreement is not reached a record of the proceedings is made in the event that the consumer wishes to resort to the jurisdictional process.

The consumer may, in an individual or collective manner, file proceedings to claim the annulment of adhesion contracts, the fulfillment of warranties or the indemnification of damages.

## **4.2 Jurisdictional Process**

This process is oral and represents a summary procedure so as to expedite the proceedings. Presently, in the province of Panama only two Civil Circuit Courts, 8° and 9° handle these types of claims, albeit by Law N° 29 the implementation of three Circuit Courts in the province of Panama and one Circuit Court for each of the following provinces: Colon, Coclé, Chiriquí and Los Santos was contemplated.

For the rest of the Country, these claims are handled in every Circuit Civil Court where the amounts exceed US\$5,000.

These courts have exclusive jurisdiction over the following causes:

- Individual or collective claims brought in accordance with Law N° 29;
- Controversies that arise with regard to the application or interpretation of Law N° 29 on matters dealing with antitrust, consumer protection and unfair trade practices;
- Controversies related to intellectual property, copyrights, trademarks and patents;
- Controversies related to agency, representation and distribution relations;
- The action to repair collective damages, for the repossession of matters to the state they were, previous to the damages, and the pecuniary compensation of the global damage caused to the collective body.

The Law also establishes the creation of the Third Superior Court of Justice, formed by three magistrates, to hear appeals from the Circuit Courts and to facilitate and offer fluidity and efficiency in the application of the corresponding rules.

## **5. Regulation for Commerce and Industry**

Any product that complies with the requirements for registration, importation or sale in the national territory, can be imported and commercialized in Panama.

Upon the incorporation of Panama to the World Trade Organization (WTO) no prior licenses or permits to import and export goods are required, except those required by the WTO or those regulated by international conventions subscribed by Panama.

## **XIII. BRANCHES**

### **1. Branch Office of Foreign Corporation**

Pursuant to Article 90 of Law N° 32 of 1927 on corporations, a foreign corporation may maintain offices or agencies and carry on business in Panama, provided it files the following documents at the Public Registry:

- Notarial instrument of the Articles of Incorporation;
- Copy of the last balance sheet, together with a declaration of the portion of the corporate capital utilized or to be utilized in business in Panama;
- A certificate stating that the corporation is incorporated and organized under the laws of the country or state of the respective country. The certificate must be issued by a consular representative of Panama in that country or, if there is no such representative, by that of a friendly nation.

In addition to these documents, it has been the practice to also register any amendments that may have been made to the articles of incorporation and a certificate issued by the secretary of the corporation setting out the names and addresses of the present directors and officers of the corporation. It is preferable that the names should be set out in full, without initials.

#### **1.1 Capital**

A statement on the portion of the corporate capital to be used in the business of the corporation in Panama. This is usually accomplished by a resolution of the board of directors of the corporation. Most corporations use a nominal figure to minimize registration fees. The minimum fee of US\$60 will cover any amount up to US\$10,000.

#### **1.2 Financial Statements**

The treasurer of the corporation should certify, for purposes of registration, that the last balance sheet of the corporation is the most recent one available.

#### **1.3 Resident Agent**

While the law does not require for a foreign corporation registered in Panama to have an attorney-in-fact in Panama, it has been the practice to appoint a natural person resident in Panama to hold such power of attorney. Otherwise, the corporation will be physically unable to act and will not have a link with Panama's governmental authorities. This attorney-in-fact may be a Panamanian citizen or foreigner, provided the latter is a legal resident of Panama.

## **1.4 Authentications**

All documents must be authenticated by a notary public and legalized by a Panamanian consul at the domicile of the corporation. In the absence of a Panamanian consul, they may be legalized by the consul of a nation friendly to Panama, usually any Latin American nation. The foreign consul must certify that, in fact, Panama does not have a consul in that city.

Notwithstanding the above, if the country where the documents are issued is a member of the Hague Convention of 1961, then the documents should be apostilled in lieu of the consular legalization.

## **2. Registration Prerequisites**

Commercial companies, other than corporations legally organized in a foreign country, may maintain offices or agencies and carry out business in Panama, upon meeting the following requirements:

- Record at the Public Registry Office the notarized bylaws, contracts, and other documents relating to the organization;
- Submit the latest balance sheet and a certificate, issued by a Panamanian consul or a consul of a friendly nation, attesting that the company is organized and in good standing pursuant to the laws of the parent country.

Thereafter, the foreign company may exercise its powers in accordance with the instrument of organization; however, to perform commercial acts included in its objectives, the foreign company must submit any controversies that result from its business to the provisions of Panamanian laws and to the jurisdiction of Panamanian courts.

Foreign companies other than corporations are also taxed as juridical persons.

## **3. Tax Aspects: Branch vs. Subsidiary**

The same tax rates apply to branches and subsidiaries. However, when panamanian companies at the moment of paying or crediting amounts in connection with dividend profits to foreign companies or headquarters, must withhold and remit to the National Treasury, 10% of the corresponding dividend tax, within a period of ten days following the date of the payment or credit.

Panama has no specific provisions governing the conversion of a branch into a subsidiary. The income tax consequences are the same as in a merger or other form of reorganization, since transfers of assets may give rise to capital gains chargeable as ordinary income.

## **XIV. INCORPORATION**

### **1. Companies with Limited Liability**

Panamanian law recognizes various forms of incorporation involving the limited personal liability of the shareholders or partners towards the creditors of the company, to wit::

- The Corporation (*Sociedad Anónima*);
- Limited Liability Company (*Sociedad de Responsabilidad Limitada*);
- General Partnership, with a clause of limited liability (*Sociedad Colectiva Limitada*);
- Limited Partnership by Shares (*Sociedad en Comandita por Acciones*).

### **2. Corporations**

Corporations represent the ideal corporate form for wholly owned subsidiaries and any corporate form where shareholders want to exercise direct influence on management.

#### **2.1 Introduction**

Corporations are regulated by Law N° 32 of 1927, Law N° 9 of 1946, and amendments in Cabinet Decree N° 247 of 1970, Decree N° 130 of 1948, Decree Law N° 16 of 1958, Law N° 32 of 1978, Decree N° 147 of 1966, Executive Decree N° 468 of 1994, Decree Law N° 5 of 1977 and Executive Decree N° 296 of 1997.

Corporations may be formed for any lawful purpose by two or more individuals of legal age, of any nationality, or two or more legal entities whether or not domiciled in Panama. The amount of corporate capital and the par value of the shares may be in Panamanian currency, or legal gold currency of any country, or both. The articles of incorporation may be executed in any language anywhere in or outside Panama.

In general, there are no nationality or residence requirements for shareholders, directors, or officers of the corporation, except for certain sensitive areas (see chapter IV, supra). The capital stock may be issued as bearer or nominative shares. Meetings of shareholders and directors may be held in any part of the world. The meetings may be held by telephone, telefax or any other electronic means of communication.

#### **2.2 Powers of the Corporation**

All corporations have the powers to:

- a) Sue and be sued in court;
- b) Adopt and use a corporate seal, which may be changed;

- c) Acquire, purchase, hold, use, and transfer real and personal property of any kind and to establish or accept pledges, mortgages, leases, charges and encumbrances of all kinds;
- d) Adopt bylaws governing the management, regulation, and direction of the business and property, transfer of shares, calling of meetings of shareholders and of directors for any lawful purpose;
- e) Conduct business and exercise rights in foreign countries;
- f) Agree upon dissolution according to law, voluntarily or for other reasons;
- g) Borrow money and contract debts relating to its business or for any other lawful purpose, and to issue bonds, notes, bills of exchange, or other documents of obligation;
- h) Guarantee, acquire, purchase, hold, sell, assign, transfer, mortgage, pledge, or otherwise dispose of or do business in shares, bonds, or other obligations issued by other companies or by any municipality, province, state, or government.

### **2.3 Types of Shares**

A corporation may issue one or more classes of shares with or without par value and with the designations, preferences, privileges, voting rights, restrictions, or other requirements or rights indicated in the articles of incorporation. They may provide that shares of one class can be converted into another class or classes. All shares of a given class, however, must have identical rights and privileges.

### **2.4 Issuance of Shares**

Shares may be issued as fully paid, as partially paid, or as unpaid. Unless there is a provision to the contrary in the charter, shares with par value that are to be issued as fully paid or bonds or shares convertible into fully paid shares may not be issued in exchange for services or assets that, in the judgment of the board of directors, have less value than the par value of the shares issued or converted. The certificates representing partially paid shares may not indicate payment toward such shares for an amount greater than actually paid, as determined by the board of directors. Payment may be made in money or in exchange for labor, services, or assets of any kind. Bearer shares must be issued only if fully paid.

### **2.5 Incorporation Requirements**

To organize a corporation under the laws of Panama, the following information must be provided:

- a) The name of the corporation;
- b) The main objective of the corporation;

- c) The amount of authorized capital, indicating the amount of shares into which such capital is to be divided;
- d) If the capital is to be composed of shares without par value, then it is not necessary to state that amount of capital, but it is necessary to indicate the number of shares to be issued;
- e) Whether or not the shares are to be bearer shares;
- f) The full names (without initials) and addresses of at least three (3) directors. The law permits that the directors be juridical persons. Whenever a juridical person is involved its registration data and jurisdiction must be vouched for;
- g) It is also convenient to provide, the full names (without initials) and addresses of the first officers of the corporation, which must be at least a president, a secretary and a treasurer. The law permits for directors to be officers, for the same person to hold more than one office and officers can be juridical persons.

However, for practical purposes it is recommended that the offices of president and secretary be held by different persons.

## **2.6 Registration of Shares**

A corporation must maintain at its office in Panama or in any other place specified in the articles of incorporation, bylaws or by resolution of the board of directors, a stock register with a record of the names in alphabetical order of all shareholders in the corporation, listing their place of residence, the number of shares each holds, the date of acquisition, the amount paid on account, and whether the shares are fully paid. In the case of shares issued to bearer, the register would indicate only the number of shares issued and the date of issuance.

The register can be kept using books, electronic means or other mechanisms authorized by law.

## **2.7 Management of Corporations**

The business of a corporation is managed and directed by a board of directors consisting of at least three natural or juridical persons. The board of directors has absolute control and full direction of the corporation and may exercise any of the powers of the corporation unless the law, the articles of incorporation, or the bylaws confer those powers or reserve them for the shareholders.

A corporation must have a president, a secretary, and a treasurer, who are elected by the board of directors and it may have any other officers, agents, or representatives that the board of directors, the articles of incorporation or the bylaws of the corporation specify. It is not necessary for an officer to be a member of the board, unless required by the articles of incorporation or bylaws.

### **3. Taxation**

#### **3.1 Corporate Income**

Panama income tax is levied only upon net income obtained from operations carried out within Panama. Income obtained from offshore operations is not considered as income obtained from “sources within Panama” and is, therefore, not taxable.

Even though a Panamanian corporation has an office, employees, and a license to engage in business, all in Panama, it still does not pay Panamanian income tax if the transactions that produce the income take place outside Panama. No tax liabilities arise even though payments of the merchandise is made from Panama, or payment is received in Panama, or if the sale or purchase operations are directed from an office situated in Panama, provided the merchandise involved in the transaction does not physically come to Panama.

If a Panamanian corporation engages in business within Panama and also offshore, it is subject to income tax only on that portion of its net income arising from business carried out within Panama.

#### **3.2 Dividends**

Only dividends distributed from income arising from Panamanian sources are taxable at the rate of 10% in the case of corporations that have issued registered shares and 20% in the case that they have issued bearer shares, whether received by corporations or individuals, residents or nonresidents in Panama. Profit dividends distributed from income arising from offshore sources are not taxable. Panamanian law further provides, that a Panamanian corporation which has as its only income dividends received from other corporations, whether Panamanian or foreign, is not subject to Panamanian income tax, in addition to the amounts that have already been withheld.

#### **3.3 Distribution of Assets**

It is also true that a Panamanian corporation which only has offshore income in Panama may distribute all or part of its assets upon dissolution or otherwise to its stockholders without any tax to the corporation or to the shareholders in spite of the fact that the assets may have a value at the time of distribution that is in excess of their value when originally acquired by the corporation.

#### **3.4 Personal Income**

Individuals who receive salaries, wages, or any other compensation from corporations, are only subject to Panamanian income tax if the services rendered are deemed to be performed within Panama for a period greater than 70% of the calendar year. Thus, if a Panamanian corporation pays a salary for services rendered abroad, the recipient does not have to pay Panamanian income tax on the salary.

Corporations which have only offshore source income are not obligated to prepare or publish a balance sheet, nor are they required to file any tax returns.

## **XV. SHIPPING**

### **1. Introduction**

It has been a continuous objective of Panama to provide, through its open registry, maritime services of the highest level, consistent with the needs of the global community in matters pertaining to safety at sea, protection of the marine environment and the economic health of the ship owning community.

As a result, Panama continues to be the leading country worldwide, not only in number of registered vessels, but also in registered tonnage, which places it at the vanguard of this highly competitive business. As of June 30, 2004, the Panamanian merchant fleet consisted of 10,416 vessels and 149.7 million gross tonnage.

### **2. Law**

The registration of vessels under the flag of the Republic of Panama is regulated by Law N° 8 of 1925 and amendments. Since the enactment of said law and for over 70 years Panama has had an open registry for the enrollment of vessels. In this regard Article 1 defines vessels that may be registered as follows:

*“Merchant vessels for purposes of registration shall be, in addition to crafts intended for the transportation of passengers and cargo, pontoons, dredges, floating docks, or other hulls made of wood, cement, iron, or mixed material, or other objects which are employed or may be employed for maritime commerce.”*

Basic to the registration requirements is the fact that the owner of a vessel registered under the flag of Panama may be an individual or a corporation, either Panamanian or foreign, residing in Panama or abroad. Furthermore, there are no minimum requirements of tonnage or age of the ships, provided that these are in good navigating conditions.

### **3. The Panama Maritime Authority**

Pursuant to Decree Law N° 7 of 1998, the Panama Maritime Authority is created, the various maritime competencies of the public administration are unified, and other measures are adopted.

Since maritime matters were located in different ministries and governmental institutions, their unification, technification, modernization and adaptation to international standards was an imperative need. The result is the Panama Maritime Authority as an autonomous agency of the Panamanian government with a modern

administrative structure composed of: a Board of Directors, an Administrator and an Advisory Board.

Moreover, to maintain continuous communication of new developments in the shipping world there exists the Panama Maritime Research Institute to participate in the decision making process.

The operational areas correspond to four (4) Directorates:

- 1) **Merchant Marine**, to deal with the national merchant fleet.
- 2) **Ports and Ancillary Services**, to deal with national ports and assistance to all companies that wish to provide services to the shipping industry from Panama.
- 3) **Seafarer**, to deal with seafarers, S.T.C.W. matters and administer the Nautical School.
- 4) **Maritime and Coastal Resources**, to deal with fisheries and coastal zone management.

For the time being, Public Registry matters, such as: registration or cancellation of titles of ownership and naval mortgages remain unchanged.

#### **4. Procedures for Registration**

##### **4.1 Provisional Registration**

The registration of a vessel under the Panama flag is initiated with its provisional registration. The application for the provisional registration of a vessel attaching a copy of the DOC, SMC, CSR and ISSC plus payment of the governmental fees, may be accomplished through Panamanian consular officials with maritime jurisdiction in various parts of the world or directly in Panama at the Directorate of Merchant Marine (*Dirección de Marina Mercante*) by the legal representative of the owners.

Once the application is submitted before the Consul and after verifying that all documents are in order, the Consul or registering officer will send a fax to the Directorate of Merchant Marine requesting the necessary authorization for the issuance of the provisional patent and radio permit together with the call signs.

Upon authorization from the Directorate of Merchant Marine, the Consul will proceed to issue the provisional patent navigation valid for six months and the radio permit valid for three months. During this time the appropriate documents must be filed for registration.

Information Required:

- a) Name of vessel;

- b) International Maritime Number (I.M.O.);
- c) Owners name address and fax number;
- d) Present name of the vessel;
- e) Name of the authority in charge of the radio accounts;
- f) Present nationality;
- g) Place and date of building;
- h) Name of the Builders;
- i) Number of decks, mats and funnel;
- j) Material of the hull;
- k) Main measurements: length, breadth and depth;
- l) Kind of service given by the vessel;
- m) Type and number of engines;
- n) Number and type of cylinders;
- o) Brand or name of engines manufacturers;
- p) Speed of the vessel;
- q) Horse power;
- r) Name of the Classification Society;
- s) Type of call letters (radio telephonic or radio telegraphic);
- t) Tonnage: Gross/Net.

A provisional navigation and radio license valid for six (6) months and for three (3) months, respectively, will be issued to the vessel. During this time, we must apply for the Permanent Registration.

#### **4.2 Permanent Registration**

- Bill of Sale with (i) a Notary's certification stating that the sellers are the legal owners of the vessel, that the person acting on their behalf is authorized as well as the authenticity of his signature; (ii) an acceptance of sale executed by the buyer also notarized; or
- Builder's Certificate with (i) a Notary's certification stating that the person acting on behalf of the shipyard is authorized to do so as well as the authenticity of his signature; (ii) an acceptance of delivery executed by the buyer also notarized; or
- Judicial or Marshall Sale Deed including Acceptance executed by the Purchaser;
- Deletion Certificate from the present registry (not applicable to newly built vessels or vessels acquired in a Judicial or Marshall Sale);
- Power of Attorney in favor of a lawyer to represent the vessel;

All the above mentioned documents must be notarized and the Notary's signature must be legalized by the Panamanian Consul at the place of execution or apostilled.

- Copy of the International Tonnage Certificate (ITC 1969), DOC, SMC, CSR and ISSC;
- Radio application form;
- If the vessel is twenty years old or older, a special survey must be done by the Safety and Navigation Department.

## **5. Radio License**

An application form for the appropriate radio license may be obtained at a Panamanian consulate subsequent to provisional registration. The application should be completed as soon as possible and filed with the Directorate of Merchant Marine in Panama before the expiration of the Provisional Radio License.

## **6. Registration of Ship Mortgages**

### **6.1 Requirements**

Article 1513 of the Commercial Code of Panama provides that the owner of a vessel that has been provisionally registered but for which the title deed has not been registered at the Public Registry may grant a mortgage on the vessel. Upon subsequent registration of title at the Public Registry, the interested party shall cause the mortgage to be registered at the Public Registry, in order for it to produce legal effects against third parties. Nevertheless, it is possible to register mortgages provisionally at certain Panamanian consulates abroad to obtain registration priority at the Public Registry in Panama.

Article 1515 of the Commercial Code provides the following: The naval mortgage contract, granted within or outside the Republic, may be executed in any language and shall be stated in writing by means of a public deed or a private document.

If the contract is executed by means of a private document, the signatures of the parties must be authenticated by a Notary Public or by a Consul of the Republic of Panama in the exercise of his notarial functions.

The naval mortgage contract may also be executed according to the formalities required in the country where it is granted.

In all cases, the mortgage shall only be effective against third persons from the moment it is filed at the Public Registry.

For such filing, the document must first have been legalized by a Panamanian consul or carry the apostille in lieu of the consular legalization.

The mortgage deed can contain all such stipulations as the parties may deem convenient to include, but in all cases must contain:

- a) The name and domicile of the mortgagor and mortgagee.

- b) The fixed or maximum amount of the principal guaranteed.

Besides the principal, the mortgage shall guarantee all of the accrued interest, court costs, collections expenses, the amounts arising from fluctuations of the currency or means of payment, and all other sums agreed upon for any other reason in the mortgage contract.

It is presumed, both between the parties and with respect to third persons, unless there is evidence to the contrary, that the sums owned, whether for principal, interests or other sums secured by the mortgage, shall be those expressed in the respective lawsuit.

- c) The dates of payment of principal and interest or the manner of determining such dates save if the mortgage is executed to secure obligations due on demand, future obligations or obligations subject to a suspensive condition.

In the event interest has been agreed upon, the rate of interest agreed or the form of calculating said interest must be established in the mortgage contract.

Among others, interest may be stipulated with reference to the type of interest in effect in a particular market or to the kind of bank interest charged from selected borrowers in any market. The kind of interest may be adopted as the one existing at the time of the execution of the contract or according to the variations of the same during the continuation of the credit term.

Credits secured by naval mortgages shall not be subject to a maximum interest rate and, therefore, the provisions of law dealing with maximum interest rates shall not apply. Nevertheless, the Superintendency of Banks may establish a maximum interest rate for these credits when the mortgage is granted upon vessels of domestic service.

- d) Name, license number, call signs (if registered), tonnage and dimensions.

If the mortgaged vessel is under construction, the circumstances required by Article 1518 of the Commercial Code shall be indicated.

- e) In cases where two or more vessels are mortgaged to guarantee a single credit, the amount or part of the mortgage for which each vessel is liable must be stated. If said statement is not made, each creditor may collect the entire sum guaranteed from any of the vessels or from all of them”.

A further requirement of Panama law is that the mortgage be accepted by the respective creditor.

Subsequent to execution, the mortgage deed must be sent to Panama for registration at the Public Registry Office. If executed in a language other than Spanish, which is commonly the case, it must be translated into Spanish by an official translator in Panama and then protocolled by a Notary Public and finally recorded at the Public Registry Office.

## **6.2 Provisional Registration and Permanent Registration of Ship Mortgages**

For the convenience and security of creditors in whose favor mortgages are executed abroad, it is possible to provisionally register said mortgages at certain Panamanian consulates with the effect of granting a registration priority for said mortgages as of the date of annotation of said provisional registration at the Public Registry Office in the city of Panama.

Permanent registration of mortgages, regardless of whether or not the mortgage has been provisionally registered, can only be accomplished subsequent to permanent title registration at the Public Registry. On the other hand, provisional registration of mortgages can be accomplished either if title has been recorded provisionally or permanently.

## **XVI. OTHER TYPES OF BUSINESS ORGANIZATIONS**

### **1. Insurance Companies**

The insurance industry in Panama is governed by Law N° 59 of 1996, and covers all standard insurance risks and requires that substantial investments in assets be approved by the Superintendency of Insurance and Reinsurance (*Superintendencia de Seguros y Reaseguros*) which is the regulatory and supervising entity. Most approved investments include Panamanian government bonds, loans guaranteed by securities, loans on life insurance policies, real estate, time deposits, and securities of Panamanian corporations. Special taxes on the insurance industry include a 2% tax on premiums collected from all policies issued, as well as an additional 5% on gross premiums collected on fire insurance.

All insurance companies must maintain a minimum level of paid capital of no less than US\$2,000,000.

### **2. Reinsurance Companies**

Pursuant to Law N° 63 of 1996, new provisions were established regulating reinsurance operations in Panama and confirming the existence of the National Reinsurance Commission (*Comisión Nacional de Reaseguros*) empowered to oversee the reinsurance industry and to guaranty high professional standards.

#### **2.1 Reinsurance Licenses**

According to Law N° 63 there are four (4) types of reinsurance licenses:

- 1) **General Reinsurance License.** This license is issued to companies, which from an office established in Panama underwrite both local and foreign risks.

- 2) **International Reinsurance License.** This license is issued to companies, which from an office established in Panama exclusively underwrite foreign risks.
- 3) **Reinsurance Administrator's License.** This license is issued to companies, which from an office established in Panama represent third party reinsurers and in their name and representation underwrite local or foreign risks.
- 4) **Reinsurance Broker License.** This license is issued to companies, which from an office established in Panama act as intermediaries between reinsurance companies and their clients.

## 2.2 Capital Requirements

- General and International reinsurance companies are required to have a minimum paid capital of US\$1,000,000;
- Reinsurance Administration companies are required to have a minimum paid capital of US\$500,000;
- Reinsurance Broker companies are required to have a minimum paid capital of US\$100,000.

## 2.3 Tax

Under the provisions of Law N° 63, premiums originating from reinsurance activities on foreign risks are exempted from specific insurance taxes in Panama, and profits arising from reinsurance on foreign risks are exempted from income tax.

To compute taxable income, the following items are deductible:

- Technical reserves allowed by law;
- Reserves for losses, the payment of which are being negotiated or processed;
- Reserves for catastrophic risks or contingencies authorized by the National Reinsurance Commission; and
- Other reserves authorized by the National Reinsurance Commission.

## 3. Captive Insurance Companies

The captive insurance industry is regulated in Panama by Law N° 60 of 1996, which provides that to engage in this type of business the company must have an office in Panama dedicated exclusively to the insurance or reinsurance of particular or specific offshore risks. Notwithstanding, an exception is made in the case of Panamanian flag vessels carrying out international operations.

The risks must be previously authorized under license issued by the Superintendency of Insurance and Reinsurance.

There are two (2) types of risks:

- 1) **Long-term Risks.** Long-term-risks can insure or reinsure, individual, collective or group life, including hospitalization, pensions or life annuities; and
- 2) **General Risks.** General Risks can insure or reinsure all risks not classified as long-term risks.

All captive insurance companies engaged in long-term risks must have a paid capital of no less than US\$250,000 and those companies engaged in general risks a paid capital of no less than US\$150,000.

Under the provisions of Law N° 60, premiums originating from captive insurance activities are exempt from specific insurance taxes and the profits derived therefore from income tax.

#### **4. Chattel Leasing**

The business of leasing is regulated in Panama by law N° 7 of 1990 and Decree N° 76 of 1996. Article 1 of Law N° 7 defines leasing as:

*“An agreement between the lessee and the lessor, under which the lessor acquires chattel under the terms and conditions specifically approved by the lessee and then execute a lease agreement conferring on the lessee the right to use the chattel by virtue of the payment of rentals for a specified period of time.”*

##### **4.1 Characteristics of the lease agreement**

- The agreement can cover vessels, airplanes, machinery, equipment, vehicles and any other types of movable property susceptible of being specifically determined or individualized;
- The agreement cannot be for a period of less than three years;
- The rental payments must be calculated based on total or partial amortization of the cost of the equipment;
- At termination the agreement must contain one of the following options:
  - (i) That the lessee returns the equipment;
  - (ii) That a new agreement be executed;
  - (iii) That the lessee acquires the equipment.

##### **4.2 Types of leasing**

- a) **Local Leasing.** Pertains to chattel which will be used totally or partially to produce or preserve Panama source income; and

- b) International Leasing.** Pertains to chattel which will not be used totally or partially to produce or preserve Panama source income.

### **4.3 Tax**

Income derived from local leasing is subject to income tax and the 5% value added tax. The leasing of vessels enrolled under Panama flag and engaged in international maritime commerce will not be considered as local leasing.

Income derived from international leasing is totally exempt from the payment of income tax or any other taxes.

### **4.4 Licenses**

In order to engage in the leasing business be it local or international, the company must obtain or validate a commercial license type A or B (see chapter IV, supra).

After having obtained or validated the corresponding license the company must then register with the Directorate of Finance Companies (*Dirección de Empresas Financieras*) at the Ministry of Commerce and Industries and with the Registry of Leasing (*Registro de Arrendadores Financieros*) at the Ministry of Finance and Economics.

The company must initiate operations within six months of having obtained or validated the commercial license.

For a company to obtain a leasing license it must have a minimum paid capital of US\$100,000. Moreover, the company is obligated to keep accounting records under either the operative or the financial method.

## **5. Trusts**

Trusts are regulated in Panama by Law N° 1 of 1984, which has provided added flexibility in the creation and management of trusts following modern concepts derived from Anglo-Saxon law and which makes Panama trusts different from those existing in other civil law jurisdictions.

The following are a few of the salient features of the law:

- Parties to a trust can include all types of clauses provided they do not violate the law, morals, or public interest;
- Trusts can be created by means of a private document. Even trusts with *mortis causa* effect, can be created by private document without the need for a will, if the trustee is legally authorized to engage in the trust business. In all cases, signatures must be authenticated by a Notary Public;
- The settlor can also be beneficiary of the trust;

- The duration of a trust can be indefinite. The anti-perpetuity provisions that previously existed were eliminated;
- The trust instrument is not recorded or published. The authentication of signatures appears only in the trust instrument. The persons involved in handling the trust must maintain its confidentiality under penalty of law;
- Trusts are irrevocable according to the law, which is favorable for tax purposes, but the settlor can make it revocable in the trust deed;
- The settlor, trustee, or beneficiary may be corporations, which make handling the trust much more flexible;
- Offshore trusts, i.e., those in which the settlor and the beneficiary do not derive income from a Panamanian source, are tax exempt;
- Trust assets are regarded as a patrimony separate and distinct from the assets of the trustee for all legal purposes. Therefore the trust assets cannot be attached by the creditors of the trustee or of the settlor. The income from the trust assets is taxed separately from the personal income of the trustee;
- Trust assets can be of any kind, including future assets (that is, those not existing at the time the trust is created);
- Beneficiaries can be designated by category, such as “Peter’s sons,” for example. Future beneficiaries (i.e., not in existence at the time the trust is established) can also be designated provided that they come into existence during the life of the trust;
- The parties may agree to make performance of the trust subject to a foreign law;
- The trust deed may provide that controversies arising from the trust be settled by a foreign court or by arbiters or mediators in a foreign country;
- The domicile of the trust or assets can be transferred to another country if so authorized by the trust deed;

Pursuant to Executive Decree N° 53 of 1985, any juridical person that proposes to engage as a fiduciary company in or from Panama must obtain a license from the Banking Commission (now the Superintendency of Banks) and post a guaranty in the amount of US\$250,000.

## **6. Private Interest Foundations**

Private Interest Foundations are regulated in Panama by Law N° 25 of 1995, which has been modeled primarily after the Liechtenstein statutes and experiences,

and as such, provides a flexible vehicle for use in estate planning and asset protection.

The following are a few of the salient features of the law:

- The foundation can be formed by one or more natural or juridical persons either personally or through third parties, with an initial patrimony of no less than US\$10,000, which does not have to be deposited in advance;
- The foundation becomes a legal entity once the charter has been recorded at the Public Registry Office;
- The foundation charter can be drafted in any language that uses the Latin alphabet;
- It is a nonprofit organization that may, nevertheless, engage in commercial activities on a non-habitual manner or exercise rights deriving from titles representing the capital of business companies held as part of the foundation's assets provided that the economic proceeds derived there from are used exclusively towards the purposes of the foundation;
- The foundation is irrevocable unless otherwise provided for in the foundation charter;
- Assets must be endowed for a specific purpose;
- The foundation charter must contain general information to wit: name (which must include the word "foundation"), purposes, initial patrimony, members of the Foundation Council, domicile, duration, etc;
- Members of the foundation, public servants, or private sector employees must keep their knowledge of the activities, transactions, or operations of the foundation confidential;
- The administrative body is the Foundation Council, having the powers established by the founder in the foundation charter. The Foundation Council must be composed of at least three individuals or one juridical person, which do not have to be residents or citizens of Panama nor domiciled in the country;
- The foundation charter or its regulations may provide for a supervisory body either in the form of a "protector", "auditing company", "custodian" or any other;
- Detailed information about the names, percentages and other particulars regarding the beneficiaries can be included in the foundation charter or in a separate document called "Regulations" which is of a private nature and as such does not have to be recorded at the Public Registry Office;

- The foundation can be created by means of a private document. Even foundations with *mortis causa* effect can be created by private document without need for a will;
- For all legal purposes, the assets of the foundation constitute an estate separate from the founder's personal assets. Therefore, they may not be seized, attached, or subject to any law suits or precautionary seizures, except for obligations of the foundation or legitimate rights of the foundation's beneficiaries. In any case, such assets will not respond for the personal obligations of the founder or beneficiaries;
- All non-Panamanian source assets (*Off-Shore*) and the income arising therefore are exempt from all taxes, contributions, rates, liens, or tributes of any kind or description, as long as said assets constitute:
  - (i) Assets are situated outside of Panama;
  - (ii) Money deposited by individuals or legal entities, whose source of income is not Panamanian, or is not taxable in Panama for any reason; and
  - (iii) Shares or bonds of any kind, issued by corporations whose source of income is not Panamanian, or when its source of income is not taxable for any reason, even when said shares and bonds are deposited in the Republic of Panama.
- A foreign foundation may re-domicile in Panama through a Certificate of Continuation. By the same token, Panamanian foundations may transfer their domicile or assets to another country if so provided in the foundation charter or its Regulations;
- The rules of "forced heirship" of other countries will not be enforced against the foundation.

## **7. Remittance of Funds Agencies**

Pursuant to Law N° 48 of 2003, Remittance of Funds Agencies (*Casas de Remesas de Dinero*) are regulated. This service can be rendered through transfer or transmission of funds systems, compensation of funds or by any other means, carried out inside or outside the country.

Any legal entity that wishes to establish the business of Remittance of Funds Agencies in Panama, must request, by means of a lawyer, an authorization before the Directorate of Financial Enterprises of the Ministry of Commerce and Industries, which will be granted in a period no greater than thirty (30) working days, as long as it complies with all the requirements contemplated in the Law. After the authorization has been granted it is necessary to obtain a Commercial License type "A" in order to initiate operations.

The following are a few obligations of the Remittance of Funds Agencies:

- To provide the clients at the moment the transaction has been formalized with a proof of said transaction;
- Comply with the existing laws covering money laundering;
- Document in writing all operations or transactions;
- Keep in order the accounting books, accounting records, invoices and other documents required by law;
- Present all financial statements within a period of four (4) months following the closing of the fiscal year.

### **7.1 Characteristics of the Remittance of Funds Agencies**

- No limitations on the types of operations that can be carried out;
- The tariffs charged for the operations will be determined by the market, based on the free offer and demand;
- No limit on the amount of transactions that can be carried out;
- Total liberty to buy and sell currency and paper money of any country;
- The process for the obtainment of the necessary authorizations and licenses is quick and not too expensive.

## **XVII. BANKING SYSTEM**

### **1. Introduction**

The procedures for the establishment, operation and supervision of banking institutions in Panama are contained in Decree Law N° 9 of 1998.

Banking is defined primarily as the act of obtaining financial resources from the public or from financial institutions through the acceptance of demand or time deposits of money or through any other means authorized by the appropriate law and the use on account and risk of the bank of such resources for loans, investments, or any other transactions authorized by law, the Superintendency of Banks or banking practices.

### **2. Banking Licenses**

According to Decree Law N° 9, there are three (3) types of banking licenses:

- a) **General License.** Issued to banks organized under Panamanian law and to authorized branches of banks organized under foreign laws to engage in banking business both within and outside Panama;
- b) **International License.** Issued to banks organized in accordance with Panamanian law and to authorized branches of banks organized under foreign laws to conduct, exclusively, from an office established in Panama, transactions which are completed, accomplished, or are intended to take effect outside of Panama;
- c) **Representation License.** Issued to banks organized in accordance with foreign laws to establish, exclusively, representation offices in Panama and to carry out those activities authorized by the Superintendency of Banks.

### **3. Superintendency of Banks**

Decree Law N° 9 creates the Superintendency of Banks (*Superintendencia de Bancos*), as an independent and autonomous governmental entity, headed by a Superintendent, with extensive powers in regulating, supervising and inspecting banking operations, including the interpretation of legal provisions concerning banks and the granting of bank licenses.

The Superintendency of Banks is also integrated by a Board of Directors composed of five independent members, which acts as a consulting body with powers to establish the criteria by which licenses will be granted and the general policies that will govern the Superintendency.

### **4. Banking Regulation Rate**

The budget of the Superintendency of Banks is funded by the banks, who pay a Banking Regulation Rate according to the type of license as follows: General License banks pay a rate equivalent to US\$30,000 plus US\$35.00 for every million dollar or fraction of their assets up to a maximum of US\$100,000; International License banks pay US\$15,000 and Representation License banks pay US\$5,000.

### **5. Capital**

The minimum paid in or assigned capital for General License banks is set at US\$10,000,000, and for International License banks at US\$3,000,000, of which in the case of the latter US\$250,000 must be deposited with the National Bank of Panama (*Banco Nacional de Panamá*) or invested in bank guaranty bonds consigned in said institution.

For General License banks, a minimum capital of 8% of the total pro rate assets by risk, is fixed, based upon a schedule that will be determined by the Superintendency of Banks for which the pro rata schedule of the Basle Committee shall be used as reference and adopted to local requirements.

However, the branches of foreign banks will be governed by the indexes of adaptation of their country of origin.

## **6. Consolidated Supervision**

Decree Law N° 9 introduces the concept of consolidated supervision of foreign banks with an International License and branches of foreign banks with a General License.

In this regard the foreign regulatory entity of the country of origin has authority to carry out inspections of banks in Panama, pursuant to agreements or understandings approved by the Superintendency of Banks.

The foreign regulatory entity must maintain strict reservation concerning information it secures from the banks supervised.

## **7. Documents and Reports**

The Superintendency of Banks has the power to examine accounting records of any bank or of any enterprise of an “Economic Group” of which the bank is a part of. Moreover, the Superintendency can obtain consolidated information from the banks concerning their liabilities, for the purpose of establishing their liquidity and to identify risks.

Nevertheless, the Superintendency is prohibited from requesting the identity of the depositors of a bank, except when the deposits guaranty assets that are subject to its review and supervision.

The banks must make public their audited financial statements, including the respective notes, and must deliver to the Superintendency, quarterly non audited financial statements which may be made public.

## **8. Bank Reserve**

The information obtained by the Superintendency of Banks in the exercise of its functions regarding individual customers of a bank, can only be divulged to a competent authority pursuant to present legal dispositions, within the course of criminal proceedings.

The Superintendency, including all of its personnel and the external auditors, advisors and inspectors so designated by the Superintendency are obligated to maintain reserve regarding the information provided or obtained pursuant to Decree Law N° 9 and consequently are prohibited from revealing said information to third parties, except in the case of a competent authority pursuant to legal provisions.

Those public officials that by reason of the position that they hold have access to bank information, are obligated to maintain due reserve even when they leave office.

The banks can only disclose information about their customers or their operations when consent is obtained by the customers, or when there exists a formal order by a competent legal authority. Notwithstanding, the banks have discretion to disclose information about their customers to entities that act as credit unions.

## **9. Penalties**

There are severe penalties for violations of the bank reserve precepts, without prejudice of the civil and criminal sanctions that may correspond.

## **10. Criteria for the Granting of Bank Licenses**

The Superintendent of Banks is selective in granting bank licenses. In this regard, he has established certain basic criteria, applicable to all prospective applicants, summarized as follows:

- A history that reflects a stable and solid financial situation;
- Proven experience and efficiency in banking operations;
- Excellent reputation and integrity;
- Capacity to contribute in the development and enhancement of Panama's banking center and the Panamanian economy;
- A preference for those banks from countries whose regulations and banking supervision follow the principles and practices recommended by the Basle Committee.

The criteria are not only applicable to the bank as an institution but, in its relevant parts, also to the shareholders, partners, directors, officers and personnel.

## **11. Numbered Bank Accounts**

Banking entities and other credit institutions legally established in Panama may operate numbered current accounts and deposit accounts. They are governed by the pertinent provisions of the Commercial Code and Law N° 18 of 1959. The purpose of these accounts is to achieve strict secrecy as to the existence of the account, its balance, and the identity of the depositor. The interest earned by the deposit is an integral part of the account for all legal purposes. It is not necessary that the name of the drawer appear on the checks and payment orders drawn against numbered bank checking accounts or on orders for delivery of securities. The bank will be required to pay such checks and orders of payment provided that

the code signature previously agreed to and the number assigned to the account appear on the checks or order of payment.

Managers, officers and other employees of banking institutions, whether nationals or aliens, when they reveal or disclose to third parties any information relating to the existence, balance, or identity of the holder of a numbered bank account shall be punished with imprisonment and fines.

The information relating to numbered accounts may be disclosed by managers and other employees of banking institutions to investigation officers, judges, and magistrates who hear criminal proceedings and who hold the information in strict reserve if it does not clarify the unlawful acts under investigation.

In cases in which government officials, whether judicial or administrative personnel, other than those mentioned above, request from banking institutions any information or seek to attach numbered bank accounts, including probate proceedings, the bank is not obligated to furnish the information or to comply with the attachment or garnishment orders relating to funds or securities deposited in the numbered accounts.

In cases where more than one person is authorized to draw on an account, any of such persons may continue to do so if one of them is deceased.

## **12. Applicable Taxes**

All banks that operate in Panama are subject to taxes on net income obtained from operations in Panama, according to rates established by law. No taxes are paid on operations outside Panama (offshore), even though such operations may have been directed from an office in Panama.

In addition to the above, banks and exchange houses are subject to a flat annual rate tax as follows:

- *Banks with a General license:* depending on the total assets, ranges from US\$50,000 to US\$350,000;
- *Banks with an International license:* US\$50,000;
- *Exchange Houses:* US\$2,500.

## **XVIII. EXCHANGE CONTROLS**

There are no exchange controls in Panama. One of the key factors in Panama's economic development is the country's unique monetary system. There are no restrictions on monetary transfers to and from the country or on the conversion and circulation of the US dollar. Furthermore, there is no central bank or money issuing authority. The unit of currency, the Balboa is at par with the US dollar. Because Panama does not issue paper currency, the US dollar is the currency that circulates.

## **XIX. OTHER TYPES OF FINANCIAL INSTITUTIONS**

The needs for national economic development in general, as well as the special requirements for agriculture, manufacturing and housing, have led the public sector to create a number of specialized financial entities which are described below.

### **1. National Bank of Panama**

Created pursuant to Law N° 74 of 1904, the National Bank of Panama (*Banco Nacional de Panama*) is considered the oldest entity in the country and the financial institution of the State by excellence. Originally conceived as a Development Bank, in the year 1911 it was transformed into a banking enterprise with broad powers to operate as a multiple services entity.

### **2. Savings Bank**

The Savings Bank (*Caja de Ahorros*), established in 1934, is an autonomous government institution with independent management, subject only to the inspection and audit of the Executive Branch as determined by law. It is the largest savings bank in Panama, and its principal area of operations is mortgage financing for housing. *Caja de Ahorros* is a major factor in the mortgage market to which both private individual home buyers as well as developers have access.

### **3. National Mortgage Bank**

The main purpose of the National Mortgage Bank (*Banco Hipotecario Nacional*) is to finance national housing programs and to act as the financial arm of the Ministry of Housing (*Ministerio de la Vivienda*) with respect to the implementation of national housing policies. This bank serves as the regulatory body for the savings and loan associations of Panama, acts as conduct for international financing, and provides technical and financial support as well as mortgage guarantees to individual savings and loan associations.

### **4. Social Security Institute**

In addition to its normal functions with respect to the compulsory national social security system, the Social Security Institute (*Caja de Seguro Social*) plays an important role among financial institutions in the country because of the significant volume of its pension fund investment portfolio. The portfolio includes substantial investments in real estate, government bonds, public and private corporation bonds, stock, National Treasury notes, loans to government autonomous institutions, private corporations, individuals, and direct loans to the national government.

### **5. Agricultural Development Bank**

The Agricultural Development Bank (*Banco de Desarrollo Agropecuario*), organized in 1973, is a government-owned corporation with independent management within the guidelines set up by the Agricultural Development

Ministry, under the supervision of the Comptroller General. The main goal of the *Banco de Desarrollo Agropecuario* is to provide adequate financing to agricultural and agro-business development programs. The Bank directs the subsidized loan program for small farmers and cooperatives, but also makes larger loans.

## **6. Commercial Banks**

Panama is adequately served by a nationwide banking system with a total of 78 institutions in 2004, of which two are Panamanian government institutions (*Banco Nacional de Panamá and Caja de Ahorros*), 25 are owned by Panamanian private interests, and the remaining 53 are either incorporated in foreign countries or owned by foreign institutions.

The National Bank of Panama has 62 branches and the Savings Bank 46 branches throughout the country, and several other banks have branches in principal cities and towns, including 23 banking institutions with offices within the Colon Free Trade Zone.

Commercial banks represent the single largest source of domestic finance in the country. Out of a total of 38 banks with a general license, most are engaged in commercial banking, and the remaining few are primarily mortgage banks. In addition to their local activities, commercial banks are very much involved in international trade financing both through the Colon Free Trade Zone and among third parties, as well as other overseas transactions and ventures.

## **XX. SECURITIES**

### **1. Introduction**

The financial system in Panama is rapidly being modernized and an important step in this process has been the enactment of Decree Law N° 1 of 1999 amended by Law N° 42 of 2000 and Law N° 11 of 2002. Decree Law N° 1 establishes provisions regarding the creation and operation of stock exchanges, the trade of securities and the development of rules that afford investors guarantees and protection in their securities transactions by fostering a climate of confidence that will result in a transparent market.

### **2. National Securities Commission**

One of the more relevant features of Decree Law N° 1 is the creation of the National Securities Commission (*Comisión Nacional de Valores*), hereinafter referred to as the “Comission”, as an independent governmental agency with its own patrimony and resources. The Commission is composed of three full time commissioners each appointed for a five year term with broad investigative and supervisory powers.

### **3. Stock Exchange Agency and Investment Advisors**

The business of stock exchange agency or investment advisor in or from Panama may only be carried out by those persons who obtain the corresponding license granted by the Commission, regardless of whether or not they render services in connection with securities which are not registered with the Commission. Moreover, a license is also required by those persons performing the duties of a senior executive, stockbroker or analyst in Panama.

The Commission will regulate the necessary requirements for net capital and liquidity, in accordance with the obligations and risks incurred by the stock exchange agency.

The law defines foreign stock exchange agencies, which provides legal certainty for those who engage in this type of business and brings under the control of the Commission the transactions carried out by them.

### **4. Self regulated Organizations**

It refers to all stock exchanges or security pools, requiring that a license must be obtained from the Commission to engage in said business. Moreover, standards of internal rules are established. In the case of stock exchanges the standards include norms that stimulate the development of an efficient and transparent market. In the case of security pools, the standards must permit the operation of a precise, secure and efficient system for the custody, compensation and sale of securities.

### **5. Registration of Securities and Reports by Underwriters**

Registration at the Commission is required for:

- a) Securities which are the object of a public auction;
- b) Shares of stock issued by persons domiciled in Panama which in the last day of the fiscal year have 50 or more shareholders that are domiciled in Panama, who own at least 10% of the paid capital of said underwriter. However, this registration is not required if shareholders representing 75% or more of the issued and outstanding capital, approve to continue as a private non registered entity;
- c) Securities listed in a stock exchange in Panama.

All underwriters must also file with the Commission annual and periodic reports. The law further incorporates norms regulating communications, availability of information and advertising material.

Securities of underwriters constituted in accordance with the laws of a foreign country may be registered with the Commission. This registration does not imply

that said underwriter is conducting business in Panama. Foreign underwriters shall designate an attorney-in-fact, representative or agent, in Panama.

## **6. Public Offering of Securities**

All offers or public sales of securities made by an underwriter or and affiliate in Panama, must be registered with the Commission. An offer or sale made to persons domiciled in Panama will be considered as an offer made in Panama regardless of the fact that it has been made from abroad, unless the Commission determines otherwise. The offer or sale made to persons domiciled outside of Panama will not be considered as made in Panama.

The following acts are exempt from registration with the Commission:

- Securities issued or guaranteed by the Government and those issued by international bodies wherein the Government takes part;
- Private offerings to no more than 25 persons or any other amount of persons established by the Commission and that together result in the sale of said securities to no more than 10 persons, or any other amount determined by the Commission, within one year;
- The offer and sale of securities to institutional investors, which due to their experience have sufficient knowledge to assume and evaluate risks;
- The offer, sale, distribution, transfer and exchange of securities originated by corporate transfers;
- The offer and sale of securities made by an underwriter exclusively to his employees, directors or officers or of affiliated companies;
- Any other offers, sales or transactions exempted by the Commission.

The law introduces the obligation of using an informative prospectus. The information therein contained must be verified by the Commission and no offer will be considered in due form until the Commission approves the definite prospectus.

## **7. Request for Proxies**

The holders of shares registered with the Commission whose proxies are being requested must be provided with sufficient information on the issues and/or meeting in regard to which their proxies are being requested.

## **8. Offer for the Purchase of Shares**

The law requires that all shareholders have sufficient information on the public offer to purchase registered shares of an underwriter that represents 25% or more

of the issued and outstanding capital of said underwriter or that as a result of said purchase, the offerer acquires more than 50% of the issued and outstanding capital.

These types of offers must be notified to the Commission, who will determine the type of information and documents that must be presented.

## **9. Investment Companies**

The following investment companies must be registered with the Commission: a) those that offer publicly their quotas in Panama; b) those that are administered in or from Panama unless they are considered private investment companies.

Private investment companies are those managed in or from Panama, as long as their participation quotas are not offered in Panama and their articles of incorporation provide for: i) a limit of 50 effective owners; ii) the requirement that offers are done by private communication; iii) the requirement that their participation quotas may only be offered to qualified investors in initial investment amounts of US\$100,000.

Private investment companies are not considered registered investment companies and as such are not subject to the public offering rules.

Moreover, the law also deals with investment administrators, who require a license to operate regardless of the fact that the services rendered are carried out in, from or outside of Panama.

## **10. Stock Exchange Credit, Options and Derivative Instruments**

The Commission will dictate the limitations, parameters and rules by which: (a) credits can be granted, (b) stock exchanges can incur in debts, and (c) securities can be taken in loan. Moreover, the Commission may issue regulations of the offering, negotiation and terms of option contracts, future contracts and other derivative instruments, including the obtainment of title on assets or rights to protect the interests of public investors.

## **11. Custody, Compensation and Sale of Securities**

The law permits the issuance of securities represented by account registration or by indirect holding through custody accounts; therefore, securities traded in the market and the shares and securities issued by companies organized in Panama, may be issued in a non material fashion and represented by means of account registration. Such registration may be completed by physical, mechanical, electronic or other means authorized by the Commission.

The securities represented by account registration may be pledged, as long as the contract is in writing. The pledge may guarantee present and future obligations and may be granted upon existing rights or assets or those which are subsequently

acquired. On the other hand, custody accounts are not considered part of the agent's patrimony and as such cannot be pledged or encumbered unless otherwise agreed.

Share repurchase contracts are valid, but subject to the Commission's regulations and limitations to protect the interests of public investors.

## **12. Prohibited Activities, Civil Responsibility and Sanctions**

The law describes those activities that affect the transparency of the market such as: fraudulent or misleading acts; improper use of privileged information; false declarations; omissions by underwriters; manipulations, and others.

Those persons that incur in these activities or violate any of the provisions of the law will be responsible for damages caused by their acts (Torts). Moreover, the Commission can impose administrative fines for violations of the law or regulations, of up to US\$100,000 for one violation and up to US\$300,000 for multiple violations in a single transaction or a series of related transactions.

## **13. Intervention and Liquidation**

The law incorporates rules for the liquidation, intervention and reorganization of entities registered with the Commission. The only exception would be in the event that a stock exchange is also a bank, then it would be governed by Decree Law N° 9 of 1998, (refer to chapter XVII, supra) and the accounts in custody would not be considered as part of the liquidation mass.

## **14. Inspections and Confidentiality of Information**

The Commission can carryout any investigations they deem necessary. Moreover, they can carry out periodic inspections in which the Superintendency of Banks can also participate.

The information that is presented to the Commission is public by nature, except that: (a) it refers to business secrets or documents that by virtue of other laws are confidential; (b) it refers to documents obtained through investigations; (c) at the request of an interested party, the Commission has agreed to maintain it in reserve; (d) it refers to information or documents that the Commission deems should be maintained in reserve.

## **15. Tax Aspects**

The profits and losses derived from the sale of securities issued or guaranteed by the Government are not subject to income tax, dividend tax or assessment tax. The same applies to the sale of registered securities provided that: (a) such transfer is carried out by means of a stock exchange or other organized market; or (b) are the result of a corporate merger, consolidation or corporate reorganization, as long as the shareholder receives shares of the subsisting entity or one of its affiliates.

This tax exemption is also extended to companies whose income is derived from sources outside of Panama.

The interests paid or accrued on registered securities are subject to income tax at a fixed rate of 5%, which must be retained by the payer. Such interests are not considered part of the gross income of taxpayers, which do not need to include them in their tax returns.

As of the year 2000 all securities registered at the Commission are exempt from the payment of any stamp tax. This exemption is also extended to any contract, agreement or other document relating to said securities.

## **XXI. TAX**

### **1. Introduction**

Panama is considered a country with a preferential tax system, which offers benefits and incentives that makes it especially attractive to foreign investors.

Income tax is levied on all revenues produced within Panama irrespective of where the income is received and of the domicile or residence of the taxpayer. In this regard the Law establishes a few exceptions.

Only Panamanian source income, that is, income produced in, or derived from, or obtained in Panama, is taxable. This concept of territoriality is a major factor in making Panama a center of international operations.

Notwithstanding the above, pursuant to the modifications made to the tax law by means of Law N° 6 of 2005, it is also now considered as produced within Panama the income received from services carried out by individuals which represents work in or outside of Panama, as long as:

- The individuals have remained in Panama for a period of at least 70% continuous or alternate days in the calendar year;
- The work has an effect on the production of their income.

In this connection, those services rendered outside of Panama that are not related with the taxable activities that the individual carries out in Panama and the sporadic services such as consulting, conferences and similar, will be exempt from income tax.

The revenue received by individuals or legal entities domiciled outside of Panama will also be considered as produced in Panama, provided that:

- They are the proceeds of any service or act, documented or not that benefits the taxpayer in Panama;
- They are the proceed of fees, royalties, rights, know-how, knowledge, secrets, among others;
- They have been considered as deductible expenses.

The following forms of income are not subject to income tax as they are not considered to be produced in Panama:

- a) Billing the sale of merchandise from an office established in Panama for an amount higher than they were billed to the office established in Panama, provided the merchandise or goods move exclusively abroad;
- b) Transactions conducted from an office in Panama, but perfected, consummated, or having effect abroad;
- c) Distributing dividends or partnership participations when they originate from income not produced within Panama, including income arising from the activities mentioned in (a) and (b) above;
- d) The rendering of services outside the territory of Panama, as long as they are for a period of less than 30% of days in the calendar year, or that the rendering of said services are not related with the activity that generates taxpayer income;
- e) Interest, financial commissions and other similar income obtained by individuals or legal entities, regardless of the place of their domicile or incorporation, derived from loans, cash deposits or from any other financial transaction carried out with borrowers domiciled outside the country, when the furnishing and the use of the cash was effected outside of Panama, even though the reimbursement of the capital and interest is made in Panama;
- f) The disposition of shares and securities of legal entities organized under the laws of the Republic of Panama, as long as the activities of said companies are carried out exclusively outside of Panama.

## **2. The Tax Year**

The tax year is normally the calendar year that begins January 1 and ends December 31. However, the tax authorities can approve a different period which begins the first day of the month in which it was requested, until completing the 12 month period.

## **3. Tax Reform**

Pursuant to Law N° 6 of 2005, a fiscal equity program is implemented, by which a complete reform is proposed that includes both a public spending component and a tax component.

In regard to the tax component, the most salient features of the reform are:

**a) Annual Franchise Tax**

The amount of the tax is modified so that all new corporations and private interest foundations pay at the moment of being recorded at the Public Registry an annual franchise tax of US\$250.

As of January 1, 2006 for the second and following annual franchise taxes the payment will be US\$300.

The lack of payment of the annual franchise tax for 10 consecutive periods will cause the definite removal of the corporation or private interest foundation from the Public Registry.

**b) Income Tax**

In general terms the modifications introduced are the following:

- The Principle of Territoriality is slightly modified in regard to individuals, when they carry out activities within and outside of the national territory, if they remain less than 30% abroad they must pay taxes on their income as if it were Panama source, as long as said activity is for the production or conservation of its source;
- Widening the base of new concepts of gross income, in regard to business expenses and revenue in kind;
- New mechanism of Alternative Income Tax Calculation for individuals and corporations;
- Reduction in the applicable rates to calculate the Income Tax of individuals;
- New exemptions, i.e., an increase in the exempted income of individuals or legal entities engaged in the agriculture and cattle raising business from US\$100,000 to US\$150,000;
- The adoption of the International Financial Reporting Standard or IFRSs, for the accounting registries used in the preparation of tax returns, as of the year 2006;
- New provisions in determining Income Tax in cases such as sale of real estate, sale of securities and financial revenue;
- Modification of the period for the presentation of extension for tax returns from 3 to 2 months;

- New costs for the presentation of rectifying tax returns after 12 months as of the date of presentation;
- New Sworn Income Tax Return for the 2006 fiscal period;
- Withholding of 10% on the business expenses applicable to the public and private sectors and over professional fees provided for under a labor relation;
- Increases in fines for: consigning false data in the tax returns, not keeping books or certified registries up to date, refusing to provide reports or documents to the tax authority and non compliance by independent professionals and natural persons in not keeping a journal.

### **c) Real Estate Tax**

- The exempt real estate tax base is increased from US\$20,000 to US\$30,000;
- Increase in the exempt tax base for real estate dedicated to the agriculture and cattle raising business from US\$100,000 to US\$150,000;
- A reduced alternative rate is established that ranges from 0.70% on the excess of US\$30,000 and reaches 1% on the excess of US\$75,000, as long as a valuation of the appraised value is presented. The present rate ranges from 1.75% over the excess of US\$20,000 and reaches 2.10% over the excess of US\$75,000.

### **d) Real Estate Transfer Tax**

- The concept that the tax is paid for *onerous transfers* is eliminated and includes that the tax is payable on real estate *donations*, except those made to the State or to family members within the first degree of consanguinity and to spouses;
- The tax exemption in the transfer of homes of social interest and of priority social interest, is eliminated;
- The 5% option, which consisted in paying Income Tax on the sale or transfer at a rate of 5% over the updated appraised value, instead of paying the Real Estate Transfer Tax, is eliminated.

## **4. International Maritime Commerce**

The income from international maritime commerce or merchant ships registered under Panamanian law is not subject to income tax in Panama even if the transportation contracts are signed in Panama. The owner of a ship registered in a foreign country is not liable for tax on income from Panamanian sources, provided that the country in which the ship is registered grants reciprocal treatment for income earned in that country by the ships of the Panamanian merchant marine. The exemption granted in Panama extends to a foreign individual or company deriving income from Panamanian sources through the

operation of a foreign registered ship, provided that the country of nationality of the individual or incorporation of the company grants reciprocal treatment for income earned by an individual of Panamanian nationality or company incorporated in Panama.

## **5. International Transportation**

International transportation companies are taxed, regardless of the place of incorporation or domicile, by the income obtained from freight, passengers, cargoes, and other similar services rendered, if they originated in Panama with destination abroad or vice versa. However, at the tax payer's option, 3% of the total gross income can be considered as taxable income instead of determining the taxable income under the general rules.

## **6. Telecommunication Companies**

Only 50% of the net income received by telecommunication companies established in Panama, for providing international communication services, will be considered as Panamanian source income.

## **7. Categorization of Taxes**

The most important taxes for businessmen and business entities are:

- a) Corporate income tax;
- b) Taxation on individuals;
- c) License tax;
- d) Value added tax;
- e) Excise tax.

### **7.1 Corporate Income Tax**

Panama income tax is levied only upon net income obtained from operations within Panama. Income obtained from offshore operations is not considered as income obtained from "sources within Panama" and is, therefore, not taxable.

With this in mind, even though a Panamanian corporation has an office, employees, and a license to engage in business, all in Panama, it still does not pay Panamanian income tax as long as the operations are not carried out in Panama. In this regard, no tax liabilities arise even though payment of the merchandise is made from Panama, or payment is received in Panama, or if the sale or purchase operations are directed from an office situated in Panama, provided the merchandise involved in the transaction does not physically come to Panama.

Pursuant to Law N° 6 of 2005, the taxable rate payable by legal entities is maintained at a flat rate of 30%.

As of the estimated tax declaration for the 2006 fiscal year and subsequent fiscal years, an alternative calculation for the payment of corporate income tax is

established. Consequently, the tax rate for legal entities will be 30% over the net taxable income that results whichever is higher between:

- The net taxable income calculated over income less costs and expenses and incentives; or
- The net taxable income that results from deducting 95.33% from the total net income.

## **7.2 Taxation on Individuals**

The territorial concept of income applies also to individuals. Income tax on individuals (*impuesto sobre la renta a personas naturales*) is only charged on income derived from Panamanian sources. However, some income is exempt.

As a result of the reforms made to the tax legislation by Law N° 6 of 2005, it is now also considered as produced within the national territory that income received for services carried out by individuals that implicates work within or outside the national territory, as long as:

- The individuals have remained in Panama for at least 70% consecutive or alternate calendar days of the year;
- The work has an effect on the production of their income.

Services rendered outside of Panama that are not related with the taxable income that the individual carries out in Panama and the sporadic services such as consulting, conferences and similar, are exempted from the paying of income taxes.

As in the case of companies, the extent of income tax liability does not primarily depend on residence, although residence is of importance in relation to withholding taxes. There are no statutory residence rules, however individuals are considered resident for tax purposes if they are physically present in Panama for 180 consecutive or alternate days in any tax year.

Taxable income is the aggregate of all income from Panamanian sources after deduction of allowable expenses and losses and the exclusion of exempt income. Included are income from employment and from rendering independent personal services, income from business activities, and investment income.

Employment termination indemnities, as well as other types of income, are taxed separately at reduced rates. Employees are taxed on remuneration earned for work done in Panama regardless of where payment is made or received.

Another important reform introduced by Law N° 6 of 2005 in regard to individuals was the increase of the minimum taxable base from US\$3,000 to US\$9,000; and the reduction of tax rates, establishing a rate of up to 27% when the net taxable income exceeds US\$30,000.

The following table provides the progressive tax rates for individuals:

<b>If the taxable income is</b>	<b>The tax will be</b>
(US\$)	(US\$)
Up to 9,000	0
More than 9,000 up to 10,000	73% for the excess of 9,000 up to 10,000
More than 10,000 up to 15,000	730 for the first 10,000 and 16.5% over the excess up to 15,000
More than 15,000 up to 20,000	1,555 for the first 15,000 and 19% over the excess up to 20,000
More than 20,000 up to 30,000	2,505 for the first 20,000 and 22% over the excess up to 30,000
More than 30,000	4,705 for the first 30,000 and 27% over the excess

### **7.3 License Tax**

#### **a) Commercial License Tax**

Commercial or industrial companies (except if they operate in the Colon Free Zone) are required to obtain a license to carry out their activities (see chapter IV, supra). An annual business and industrial license tax (*impuesto de patentes comerciales e industriales*) is levied at the rate of 2% on the net worth of the company concerned, as reflected in the last balance sheet submitted to the tax authorities, which is increased by amounts owed to any parent company or head office. This license tax ranges from a minimum of US\$100 to a maximum of US\$40,000.

#### **b) Municipal Taxes**

Municipalities levy various taxes, including municipal business license taxes (*impuestos municipales sobre la operación comercial*), which is usually based on gross sales, production, or paid in capital and must be paid by both individuals and companies that carry on any business.

### **7.4 Value Added Tax**

Established in 1977 as a tax to be paid by the final consumer, the value added tax or general turnover tax (*impuesto a la transferencia de bienes corporales muebles*) referred to by the Spanish acronym of **ITBM**, is a tax on the transfer of personal property by sale and purchase, exchange, contribution to a company, assignment, or any other act transferring the property. Imports of personal property are also taxable.

As of April 1, 2003, the application of this tax is expanded to include services (*impuesto a la transferencia de bienes corporales muebles y la prestación de servicios*) referred to by the Spanish acronym of **ITBMS**.

The expansion of the taxable base includes all types of services rendered by businessmen, manufacturers, industrialists, professionals, lessors and the rendering of services in general, excluding those of a personal nature that are rendered by dependent employees.

The tax base in the case of the transfer of personal property is computed based on the difference between the price of the transaction, including the auxiliary costs or in the case of imports, the value for the purpose of customs plus the applicable import duties tax paid. The tax base in the case of services, is the amount of the fees charged for the services rendered. In the leasing of real estate and other acts of enjoyment or use of the asset, the base will be the value invoiced of the lease.

The **ITBMS** is paid on a monthly basis or every three months depending on the taxpayer's gross income. The standard **ITBMS** is 5%, however a 10% rate applies to imports and whole sale and retail sales of liquor and 15% in the whole sale and retail sales of tobacco derived products, such as cigarettes, cigars among others.

Exemptions include inheritances, gifts, negotiable instruments, exports, food, medicines, school utensils, crude oil and derivative products and transfers made in the free zones as well as the provision of services related to the health sector, the lease and sublease of real estate for the exclusive use as a home of the lessee, professional services rendered to persons domiciled abroad, lease services provided to ships engaged in international commerce recorded in the national merchant marine and the transportation of cargo, including passengers, whether by air, sea or land, among others.

The credits in regard to **ITBMS** can be recognized through:

- Direct credits in the declaration payment of the tax;
- Deductible expenses when the **ITBMS** is not transferred;
- The granting of Power Payment Certificates in the case of exports.

Power Payment Certificates are documents issued by the State for the development of activities considered of exportation, re-exportation or assimilated thereto, when paying the value added tax it is determined that there exists an excess tax credit arising from the tax paid on exports as well as the tax paid on internal purchases.

## **7.5 Other Taxes**

### **a) Capital gains**

Gains on the sale of real estate are regarded as taxable income. Special tax regulations allow the taxpayer a choice between methods of computing the tax. Gains on the sale of shares and other securities issued by companies doing business in Panama or owning capital assets located in Panama are subject to income tax as ordinary income. However, if the securities are listed with the

National Securities Commission, gains on their sale are exempt. Gains on the sale of other personal property are subject to income tax as ordinary income.

The sale of shares or participation quotas of a company organized under Panama law are not subject to tax if the activities of said company are carried out exclusively outside the national territory (*offshore*).

#### **b) Withholding Taxes**

Basic withholding tax rates are given below. Panama has not entered into any comprehensive double tax treaties that would provide lower rates. As income from foreign sources is not taxable, no relief is allowed by way either of credit or a deduction for taxes paid abroad on foreign source income.

Notwithstanding the above, it is important to point out that Panama has exchanged notes or agreements with various countries in order to avoid double tax imposition, in connection with the international exploitation of ships and/or airplanes.

#### **c) Dividends**

Corporations distributing dividends or profits to their share holders must withhold 10% of such amounts as a dividend tax. If dividends or profits are not distributed, or the total dividends or profits distributed are less than 40% of the net income of the corresponding fiscal period, less the taxes paid by the corporation, the latter must cover the 10% difference or 20% in the case of bearer shares.

The branches of foreign corporations must withhold and pay 10% of their total net income as a “Complimentary Tax” (*Impuesto Complementario*), as long as they do not distribute profits.

In the case of bearer shares the withholding tax at the source is set at 20%. The distribution of profits from foreign source income is not subject to dividend tax. The distribution of earnings derived from export and reexport sales from companies established in the Colon Free Zone are not subject to dividend taxes. However, the distribution or earnings derived from internal sales to Panama of said companies are subject to dividend tax.

#### **d) Interest**

Interest payments not exempted are subject to withholding tax at the source when made to nonresident companies or individuals. Pursuant to Law N° 6 of 2005, 50% of all interest remittances are subject to withholding tax at the source, calculated at the rate applicable to individuals or corporations, as the case may be.

#### **e) Royalties**

The total amount of royalties paid to nonresidents is subject to withholding tax at the source. Corporate tax rates are charged in the case of corporate recipients and

personal tax rates are charged in the case of individuals, on 50% of the amounts paid or credited abroad. The recipient may discount deductible expenses and costs by filing a tax return as any other ordinary tax payer.

**f) Social Security Contributions**

Employers and employees must make social security contributions (*contribuciones al seguro social*) over salaries and wages that increase in stages from 10.75% in the year 2005 up to 13.25% in the year 2010 corresponding to the dues paid by the employers and 7.25% in the year 2005 up to 9% in the year 2010 corresponding to the dues paid by the employees.\*

The employers must also contribute 1.50% and employees 1.25% over salaries and wages to educational programs (*contribuciones al seguro educativo*)

**g) Real Estate Tax**

Real estate located in Panama, whether urban or rural, are subject to a real estate tax (*impuesto de inmuebles*). Owners pay tax according to a progressive scale that ranges from 1.75% on the excess over US\$30,000 to 2.1% on the excess over US\$75,000.

The taxable base is the assessed value determined by the Land Commission (*Oficina de Castastro*). Various exemptions are available including buildings and improvements used by non-profit-making organizations or government entities, with a value of less than US\$30,000 and those exemptions contained in incentive laws.

The construction permits for improvements made on real estate which are granted before September 1, 2005, are exempted from real estate tax for a period of 20 years, as long as they are recorded at the Public Registry before August 31, 2006.

The construction permits for improvements that are granted as of September 1, 2005 are exempted from the payment of real estate tax from the moment the occupation permit has been granted, based on the following table:

<b>Value of the Improvements</b>	<b>Years of exemption</b>
<i>1. Improvements for Residential Use:</i>	
Up to US\$100,000	15
More than US\$100,000 up to US\$250,000	10
More than US\$250,000	5
<i>2. Other Improvements:</i>	
Any value	10

\*The Social Security contributions can soon be ammended; therefore the reader should not rely on them without seeking legal advice.



## **h) Real Estate Transfer Tax**

A 2% tax is levied on the transfer of real estate (*impuesto de transferencia de bienes inmuebles*) based on either the sale price or on the assessed property value, whichever is higher. The assessed property value is calculated on the registered value of the land, plus the value of the improvements on the property, and a sum equivalent to 5% of the value of the property, including improvements for each complete calendar year between the acquisition date and the date of the sale. Sale of new residential property is exempt from this tax when the sale is carried out in a period of not more than 2 years as of the date of the housing occupation permit.

In accordance with the reforms introduced by Law N° 6 of 2005 to this provision, it is important to point out the following:

- The concept that the tax is on transfers “**by onerous title**” is eliminated and in addition includes that this tax is paid on “**donations**”, payment or any other agreement that serves to transfer title to the real estate, except those made to the State and to relatives within the first degree of consanguinity and to spouses;
- Permits the deductibility of the real estate transfer tax only from the income tax caused as a result of the disposal of real estate object of the transfer, determined in accordance with the procedure established in the Tax Code.

## **i) Inheritance and Gift Tax**

Inheritance and gifts are not taxed in Panama.

## **j) Official Paper and Stamp Tax**

In Panama official or stamped paper has been eliminated. Commercial paper and documents, such as contracts, invoices, promissory notes, checks, landing permits and bills of lading must have tax stamps attached.

The amount of stamps depends on the value and type of document involved. Contracts and invoices must be stamped at a rate of US\$0.10 for each US\$100 or fraction thereof of the value stated in the document. The stamps are paid by means of a sworn statement and the purchase of postal stamps by means of a postal meter or any other means authorized by the Directorate General of Income.

## **k) Import Duties**

All imports are subject to import duties, unless specifically excluded by law or as a result of an incentive contract with the Government. Rates vary according to the local availability of items and to the tariffs applicable in each case.

## **(l) Export Duties**

Exports are not subject to taxes, except for the following: (1) Precious metals, such as: silver, gold and platinum; (2) industrial metals, such as: iron, copper, bronze and scrap metal; (3) natural resources; and (4) foreign currencies. The export of products subject to export taxes requires an export permit issued by the Ministry of Economics and Finance.

## **m) Excise Tax**

The following are subject to excise tax:

- All soft drinks, wines, beers, licor and products derived from tobacco, such as cigarettes and cigars, among other, whether produced locally or imported;
- Vehicles used to transport persons, when their CIF value exceeds US\$15,000 or US\$18,000 in the case of vehicles with four wheel traction;
- Motorcycles with two or more wheels with a motor of more than 125 cc of cylinder capacity, outboard motors with more than 75 cc cylinder capacity, yachts, sail boats, recreation or sport vessels, jet-skies, ships and airplanes for non commercial use and helicopters;
- Jewels and firearms, except for firearms acquired by the State;
- Cable television or by short wave or by satellite services, as well as cell phone services, except for cell phone by card;
- Prizes of more than US\$300 won in slot machines paid by private companies that exploit activities of game and chance by means of a concession or any agreement with the State.

Soft drinks and the consumption of all of the assets herein before stated are taxed at a rate of 5%; with the exception of licors that are taxed at a rate that ranges between US\$0.1325 to US\$0.35 applicable for each degree of alcohol or each liter of alcohol depending on the product; the production of cigarettes at a rate of 32.5% of the retail price and prizes of more than US\$300 won in slot machines at a rate of 7%.

The **ITBMS** is excluded, when determining the taxable base of this tax.

## n) Taxes on Banking Institutions and Exchange Houses

Banks and Exchange Houses are subject to annual rate taxes based on their total assets as follows:

a. Banks with a General License	Annual Tax
(US\$)	(US\$)
Up 100 million in total assets	50,000
More than 100 million and up to 200 million in total assets	75,000
More than 200 million and up to 300 million in total assets	100,000
More than 300 million and up to 400 million in total assets	175,000
More than 400 million and up to 500 million in total assets	250,000
More than 500 million and up to 750 million in total assets	300,000
More than 750 million and up to 1,000 million in total assets	325,000
More than 1,000 million in total assets	350,000
During the first year of operations, the new banking entities with a General License shall pay 50% of the annual tax referred to above.	
b. Banks with an International License.	50,000
c. Promotion Banks and Micro Finances.	15,000
d. Exchange Houses	2,500

Payment is made during the first three months of the year. State banks are also subject to this tax.

The annual commercial license tax of 2% of the net worth (up to maximum of US\$40,000) is also levied on banks with a General License.

Loan-making finance companies (*compañías financieras*) must pay an annual tax of 2.5% of their paid capital; this tax may not exceed US\$12,500.

## o) Taxes on Insurance companies

All insurance operations in Panama are subject to a tax on gross premiums.

The gross premium tax rate is 2% for all insurance sold in Panama. An additional tax of 5% is established on gross premiums paid to insurance companies, payable by the persons subscribing policies, with the exception of fire, individual life, group life, agricultural, and livestock insurance policies.

Gross insurance premiums on fire risks are subject to a 7% tax of which 5% is assigned to the fire departments in Panama. Stamp taxes are calculated on the amount of the premiums.

#### **p) Miscellaneous Taxes**

There are other taxes and fees, to wit: (1) hotel bills; (2) fuel consumption and oil derivatives such as gasoline, kerosene and diesel, among others; and (3) airplane tickets.

#### **8. Tax Treaties**

Panama has not entered into tax treaties with any country. However, Panama maintains an exchange of notes or has signed agreements with various countries with the purpose of avoiding double taxation, in regard to the international exploitation of ships and airplanes.

### **XXII. LABOR**

#### **1. Introduction**

As a result of the rapid development of the services and financial sectors, there exists in Panama a high degree of competition for executive and technical skills. The situation changes as one moves to lower levels of skills, where at current wage rates, the supply of unskilled labor is larger than the demand.

Moreover, due to the significant economic growth over the last two decades the skill level of the labor force has improved noticeably. This improvement was brought about primarily through direct training programs sponsored by both the government and private corporations.

In this regard, 68.5% of the employed population (except those in agriculture) have received a university education, while thirty 31.5% of the total labor force are without any formal education.

#### **2. Sources of Law**

The Labor Code enacted in 1971, regulates Panamanian labor relations and the individual rights and duties of employer and employee. The principal elements of any labor relationship are subordination, which is defined as the employer's legal right to control and direct the employee and the latter's corresponding duty to obey the employer, and economic dependency. Even though the parties may otherwise designate their agreement, there is a labor relationship, with all the rights and obligations corresponding under the Labor Code if the service performed is personal, subordinated and economically dependent.

An employment contract sets forth the conditions for the performance of services. The absence of a written document does not deprive the employee of his rights under the Labor Code. In labor matters, the burden of proof is on the employer. Collective agreements concluded between employer and employee organizations may further regulate terms and conditions of employment.

### **3. Social Security**

The Social Security Institute (*Caja de Seguro Social*) manages the social security system of Panama which covers health, maternity leave, disability, retirement pensions, and death by causes not originating on the job. It also manages a workmen's compensation system which covers work-related personal injuries and death and occupational diseases. All employees of the central Government and of its autonomous institutions and other public entities are covered as well as employees of private entities within the national territory. Self-employed workers and those affiliated with guilds that have recognized legal status are also required to be covered by the system. Affiliation is compulsory for all self-employed or independent workers that provide services to the State or to private persons within the national territory.

It is the employer's duty to file registration with the Social Security Institute once an employee has started work. The employer pays a part of the social security contributions and also deducts the employee's social security contributions from his salary, and channels the money directly to the Social Security Institute.

As of January 1, 2007, the retirement age will start increasing in stages until January 2015m when it will be maintained at 60 years of age for women and 65 years of age for men.\*

### **4. Foreign Employees**

All foreigners who wish to work in Panama must obtain a work permit from the Ministry of Labor and Work Development (*Ministerio de Trabajo y Desarrollo Laboral*). Such permits are issued for a particular employment, are valid for one year and can be renewed annually for a maximum of five years in the case of work permit for technicians, and indefinitely in the case of immigrants who have more than 10 years of continuous residence in the country.

The Labor Code establishes that each employer can hire ordinary foreign personnel in a proportion of no more than 10% of his regular labor force. The employer can, however, employ foreign specialized or technical personnel that do not exceed 12% of the positions in the total labor force. Notwithstanding, a larger percentage of foreign specialists or technicians may be permitted, prior recommendation by the respective Ministry and approval by the Ministry of Labor and Work Development.

### **5. Duration of Employment Relationship**

Any individual employment relationship is subject to the principle of "job stability", which is the right of the employee to keep his job for as long as the job exists and is gained when said employee has more than two years of continuous employment.

If the relationship is for a specific job or term, the employee has the right to keep his job until his specific task is completed. On the other hand, if the relationship is for an indefinite period of time the employee can be dismissed without the

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\*The Social Security System may soon be amended; therefore the reader should not rely on it without seeking legal advice.

employer having to prove “just cause”, as long as the term of employment has been for less than 2 years. When the employee for an indefinite period of time has more than 2 continuous years on the job it is understood that the job is permanent and for this reason there has to be “just cause” for his dismissal. A general principle contained in the Labor Code is that the employment agreement is presumed to have been executed for an indefinite period of time unless the type of service to be performed calls for a specific activity or period of time.

Notwithstanding the above, the employer can include in the labor agreement a clause establishing a probation period of up to three (3) months. During this time either party can terminate the agreement without any responsibility.

## **6. Termination of Employment Relationship**

The termination of employment contracts is highly regulated. However, the parties are free to terminate the employment at any time, by mutual consent. Contracts for a definite period will end when the contract period has elapsed. Employment contracts for an indefinite period can be terminated either by resignation of the employee or by dismissal pursuant to any of the “just causes” set forth in the Labor Code, without liability for the employer. If an employer is unable to prove the existence of the alleged “just cause”, the employee with stability is entitled to receive: (1) an indemnity payment which will depend upon the time of service with the employer or (2) reinstatement under the same terms and conditions that existed prior to dismissal. Moreover, an employee of trust (*trabajador de confianza*), is entitled to receive a 25% surcharge, and an ordinary worker (*trabajador ordinario*) a 50% surcharge above the indemnization in lieu of reinstatement. In addition to the indemnities an employee who has been dismissed is entitled, as severance benefits, to proportional vacation and proportional thirteenth month and in the case of employees with less than two years employment, notice of dismissal payment equivalent to a month salary. In the event that the employment has lasted for ten or more years, the employee is additionally entitled to a seniority bonus of one week salary for every year of employment.

## **7. Labor/Management Relations**

Labor/Management relations are also regulated by the Labor Code, which promotes unionization of labor and encourages workers to join freely any of the existing unions. The Labor Code establishes special labor privileges (*fuero sindical*) granted to union organizers and representatives and provides that employees protected by said privileges may not be dismissed without previous authorization from the labor courts. Unions are authorized by law to engage in collective bargaining agreements. They also have the right to strike if an employer refuses to negotiate or if the conciliation procedures have been exhausted. Additional requirements regarding the legality of a strike include the following:

- A valid purpose, such as obtaining higher wages or a collective labor agreement;
- Previous notification to the labor authorities and a formal declaration by a vote of the majority of the workers at least five days in advance.



**a) Unions**

Approximately 11% of all wage earners in Panama outside the public sector belong to trade unions, the most important being the Banana Workers Union and the Construction Workers Union. Unions in Panama are organized both by trade and company. Most unions are affiliated with one of three existing national labor organizations called “*Centrales*”. They are of comparable strength and represent the three main international labor movements.

**b) Conciliation**

When parties in a dispute fail to reach a direct settlement, the workers’ union may request the conciliation services of a Ministry of Labor and Work Development representative who is required to mediate and seek an amicable solution. For a strike to be called there is a 20-day waiting period required after the end of the conciliation process. This waiting period may be extended for up to 23 working days.

**c) Arbitration**

Disputes which cannot be resolved through negotiation or conciliation may be submitted to arbitration at the request of both parties or at the request of the labor sector.

In the event that the strike concerns a public service enterprise, the Ministry of Labor and Work Development can submit the dispute to arbitration if it is determined that by the duration of the strike the social and economic conditions of the region or country are gravely affected.

## **8. General Regulations**

### **8.1 Hours**

The regulation of working time in Panama is laid down in the Labor Code. In addition, individual employment contracts or collective agreements frequently limits working hours and/or increase compensation for certain period of working time and in particular for overtime. The average working day is eight hours, with a maximum of 48 hours a week.

### **8.2 Wages**

Statutory labor law contains certain regulations on the issue of wage formation. However, and as a general rule, this matter is mainly left to collective bargaining agreements and, above that to individual agreements, therefore, employers are rather unrestricted in how compensation is calculated as long as the minimum wages as set out by law are met. The great majority of Panamanian employees are paid on the basis of time on the job. Minimum wages for white collar workers depend on the type of work performed and to a large extent on seniority. Very roughly, minimum wages for white collar employees range from about US\$300, – per month for Junior and low qualified employees up to US\$1,500, – per month for senior and higher qualified employees. Minimum wages for blue collar workers regularly do not depend on seniority but on the type of work and geographical area where it is performed. Very roughly minimum wages range from US\$0.82 to US\$1.56 per hour.

There exists a Minimum Wage Commission (*Comisión de Salario Mínimo*) composed of members of labor, management and the Government that meets every two years to establish the national minimum wages.

If the parties cannot reach an unanimous agreement, the government will decide on this matter.

### **8.3 Paid holiday and vacation**

All employees in Panama are legally entitled to 11 statutory paid holidays plus an additional day every five years for Presidential inauguration day and an annual paid vacation of 30 calendar days.

In addition, the Executive Branch is empowered to authorize the compulsory closing of professional and commercial establishments on national mourning days.

## **9. Labor Reform**

Pursuant to Law N° 44 of 1995, certain important amendments were introduced to the Labor Law. The most relevant aspects of the new provisions are summarized as follows:

### **9.1 Labor Contract**

The contract must be in writing and in three copies, a copy of which has to be forwarded to the Ministry of Labor and Work Development or to any of the regional Bureaus for registration purposes.

### **9.2 Definite and Indefinite Term Labor Contracts**

- Definite term contracts are restricted; these contracts may not be used to hire new workers that should occupy permanent positions;
- Indefinite term contracts have a trial period up to three months. After the trial period has elapsed the employer may dismiss the employee by unilateral decision within the first two years of the labor relationship, without having to invoke a justified cause;
- In order to determine if a contract is for an “indefinite term” various elements will be taken into consideration i.e., the existence of successive contracts for a definite term or determined work, the amount, the duration of the contract, and others.

### **9.3 Salaries and Production Premiums**

Payments made to the employee in the form of production premiums, bonuses and rewards will not be considered as salary. However, in calculating vacation

payments, maternity license and seniority bonus, the production premiums may not exceed 50% of the basic salary.

The conditions of salary for assignments, commissions or complementary premiums may be amended by agreement with the employees. Nevertheless, the periodical fluctuations of employee income due to variances in production, sales or performance will not be considered as increase or reduction of salary.

There is no obligation to pay social security tax or education security tax on remuneration corresponding to performance premiums, seniority premiums, Christmas bonus and indemnification for unjustified dismissal.

#### **9.4 Functional or Horizontal Mobility**

The new amendments allow for the employer to make changes in the employee functions or position, either of a temporary or permanent nature.

#### **9.5 Sexual Harassment**

Sexual harassment is established as a justified cause for dismissal. As sexual harassment was not defined in the Law, the courts are left with the decision to determine which acts are to be considered sexual harassment.

#### **9.6 Seniority Premium**

Remains at the rate of one week for each year worked or the proportional part thereof.

#### **9.7 Severance Fund**

The Law imposes the obligation on the employer of creating a severance fund in favor of those employees that have been hired for an indefinite period existing at the time the fund was created and for those employees hired thereafter. The severance fund is created to cover severance payments and seniority premiums.

Payments into the fund are made quarterly comprised of a quota part of the seniority premium and 5% of the quota part of the indemnification to which the employee might be entitled to in case of unjustified dismissal.

The fund has to be set up by means of a trust at any one of the qualified private trust companies chosen by the employer. Payments made by the employer to the fund constitute a deductible expense for income tax purposes.

#### **9.8 Termination of the Labor Relationship**

The stability in the work place continues to be acquired after two years of continued service. However, the new amendment expands the category of persons who are exempted from the stability system and also extends the causes for

justified dismissal of a disciplinary nature; of an economic nature and causes not attributable to the employer.

### **9.9 Corporate Committee**

The Law allows for the establishment of a corporate committee in those entities with 20 or more employees. The committee is to be constituted by two representatives of the employer, and two representatives of the workers, before which matters relative to performance, productivity, training and other issues may be submitted for discussion.

### **9.10 Union Provisions**

The Law includes a gamut of provisions favoring unions.

### **9.11 Collective Bargaining Agreement**

The Law widens the scope for collective bargaining agreements by providing that:

- The parties may agree on general stipulations and particular working conditions including salary, corporate committee, labor mobility, severance funds, productivity, work shifts, vacations, retirement age and others;
- Allows for clauses that substitute one employee benefit for another;
- In those cases where the union is dissolved or disqualified, the stipulations of the bargaining agreement remain in force;
- During the term of the bargaining agreement it can be reviewed or amended by the parties;
- The reluctance of any party to appear at the summons to negotiate shall be considered as abandonment of conciliation;
- During the time the bargaining agreement is being negotiated the employees are protected by privilege and cannot be dismissed.

## **10. Work at Sea**

The work at sea and in navigable waterways is regulated by Decree Law N° 8 of 1998.

The Decree Law regulates in its totality the relations between capital and labor on board Panamanian registered vessels; the relations between employers and workers on board ships engaged in domestic and international trade; the exploitation of living or non living resources and other activities in the navigable waterways.

The Decree law creates two Maritime Labor Courts, one in the district of Panama (Maritime Labor Court of the Pacific Coast) and another in the district of Colon (Maritime Labor Court of the Atlantic Coast).

As a result of the enactment of Decree Law N° 8, the provisions contained in the Labor Code dealing with seamen were abrogated, with the exception of certain procedural rules.

### **11. Incentives for the Offer of a First Employment**

Pursuant to Law N° 12 of 2002, incentives for the offer of a First Employment in the private sector are established, directed towards young persons between 18 and 25 years of age that have not established a labor relationship.

The First Employment Contract is defined as, a labor relationship for the purpose of providing young persons with labor experience, practical work and theoretical knowledge.

This Law creates a tax incentive to promote the First Employment Contract, that permits the employer to deduct, in addition to the current tax deductions, once the taxable income has been determined for the corresponding tax period, the total amount of minimum salaries and labor benefits paid during said period, to each employee that has rendered services pursuant to a First Employment Contract, with the limitations established in the Law.

## **XXIII. IMMIGRATION**

### **1. Introduction**

The legal requirements concerning the immigration and residency of foreign nationals are regulated in Decree Law N° 16 of 1960 and Law N° 47 of 1999. The Law classifies foreign nationals as tourists, transients, travelers in transit, travelers in direct transit, temporary visitors and immigrants.

### **2. Types of visas**

The types of visas necessary to reside in Panama, whether on a temporary or permanent basis, are the following:

- a) Tourist Visa.
- b) Transient Visa.
- c) Temporary Visitor's Visa
- d) Special Temporary Visitor's Visa
- e) Immigrant Visa
- f) Pensioner's Tourist Visa
- g) Retiree Visa

### **3. Purposes**

Each type of visa has a specific purpose:

#### **a) Tourist Visa**

This visa is granted to foreign nationals who come to Panama for recreational purposes. Tourists may be admitted to the country with a tourist card or a visa valid for a stay of up to 90 days, renewable for a period of 90 days.

#### **b) Transient Visa**

This visa is granted to foreign nationals who come to Panama for a period of no more than three months and for purposes that are not exclusively recreational.

Customarily, this visa is applicable to performers, artists, athletes and technicians.

#### **c) Temporary Visitors Visa**

This visa customarily covers foreign nationals such as businessmen, technicians or specialized workers who do not plan to work in Panama for a period of more than 5 years.

It also covers foreign nationals that come to Panama to visit relatives (no more than nine months); to undergo medical treatment; to study; to work for foreign embassies or consulates; to work for the government of Panama, to perform scientific, cultural or religious missions and also political refugees.

#### **d) Special Temporary Visitors Visa**

This type of visa, also known as an *Executive Visa*, serves foreign senior executives with representative powers who receive their salary from abroad and will only use Panama for residence purposes, as they will not be authorized to work in the country. The main advantage of this visa is that it enables executives to represent their companies in nearby countries, while at the same time receiving all the advantages that Panama offers as an international financial center.

#### **e) Immigrant Visa**

This type of visa is only applicable to foreign nationals who wish to become permanent residents of Panama. There are four (4) types of immigrant visas:

##### **1. Immigrant Visa under resolution from the Ministry of Labor**

This visa is for foreign nationals who are company employees and who plan to be permanent residents of Panama. The employee must earn a salary of no less than US\$1,200.

## **2. Immigrant Visa as an Investor**

There are three (3) types of Immigrant visas as an investor:

- **Investor for Export Processing Zones**  
This type of visa is for foreign investors in Panama, who must invest a minimum of US\$250,000;
- **Investor for Macro Enterprises**  
This type of visa is for foreign investors in Panama, who must invest a minimum of US\$151,000;
- **Investor for Micro Enterprises**  
This type of visa is for foreign investors in Panama, who must invest a minimum of US\$40,000 up to US\$150,000.

## **3. Immigrant Visa married to a Panamanian**

This type of immigrant visa may be obtained by foreign nationals married to Panamanians, who wish to establish their conjugal domicile in Panama.

## **4. Immigrant Visa based on Self Support**

To obtain this type of visa, the foreign national must establish a fixed term deposit, with any local bank, for a minimum period of one year and in an amount of no less than US\$200,000.

### **f) Pensioner's Tourist Visa**

Granted to retired or pensioned foreign nationals from any country or private enterprise, who wish to permanently reside in Panama. The retired or pensioned foreign national must have a minimum pension of US\$500, plus the amount of US\$100 for every dependent or their spouse.

### **g) Retiree Visa**

This visa is granted to foreign citizens who maintain a time deposit at the National Bank of Panama that provides them with a minimum monthly income of US\$750 free from encumbrances or liens of any kind. The deposit must be established for a minimum period of five years which corresponds to the term of the visa. If the visa is to be extended then the deposit would have to be renewed for that same period.

## **4. Taxes**

All persons that work in Panama and who hold, either an Immigrant Visa or Temporary Visitors Visa, must pay income tax, education and social security contributions.

Persons who hold a Pensioner's or Retiree Visa are not allowed to work in the country, and as such are not subject to income tax, educational and social security contributions.

## **5. Work Permits**

There are various types of Work Permits:

- a) As an employee in a position of trust;
- b) As a foreign employee within the allowable 10% for foreign employees. (See chapter XXII, supra);
- c) As an executive of the Colon Free Trade Zone;
- d) As a temporary technician (3 months);
- e) As a foreign national married to a Panamanian.

## **6. Relation between the Visa and the Work Permit**

The National Directorate of Immigration and Naturalization (*Dirección Nacional de Migración y Naturalización*) regulates all matters, which pertain to visas, and the Ministry of Labor and Work Development (*Ministerio de Trabajo y Desarrollo Laboral*) authorizes work permits.

The National Directorate of Immigration and Naturalization requires that all foreigners obtain some type of visa. On the other hand, the Ministry of Labor and Work Development requires that all foreign citizens that work in Panama must obtain a duly authorized work permit.

For these reasons, every foreigner that wishes to work in Panama requires a work permit issued by the Ministry of Labor, after having previously changed his migratory status at the Directorship of Immigration and Naturalization.

## **7. Visas and Work Permits for Executives of “Off Shore” Corporations or Representation Offices**

In the case of “Off Shore” corporations, or representation offices, work permits can be requested as employees in a position of trust and a Special Temporary Visitors Visa. In the case of corporations with domestic operations, the work permit can be requested within the allowable 15% of foreign employees and a Temporary Visitors Visa as a qualified technician.

# **XXIV. DISSOLUTION, INSOLVENCY AND BANKRUPTCY**

## **1. Dissolution**

Under Panama corporate law, if the board of directors of any corporation decides that the corporation be dissolved, by a majority of votes of its members it may propose a dissolution agreement, and within the next ten days, shall call, or cause to be called, pursuant to the provisions of the law, a meeting of the shareholders with a right to vote to decide upon the agreement of the board of directors. The resolution that the shareholders adopt has to be notarized, recorded at the Public Registry Office and published once in a local newspaper.

Nevertheless, if all the shareholders with the right to vote state in writing their consent to the dissolution, neither the meeting of the board of directors nor the meeting of the shareholders shall be necessary, but the consent has to be notarized, recorded at the Public Registry and published once in a local newspaper.

The existence of every corporation, which ends by expiration of its term or by dissolution, will continue, nevertheless, for a period of three years from that date for the specific purpose of settling its affairs; but in no case can it continue the business for which it was organized. During this period the directors shall act as trustees of the corporation with power to settle its affairs, collect its credits, sell and transfer its assets of all kinds and distribute its properties among its shareholders once the debts of the corporation have been paid. Moreover, they shall also be empowered to initiate judicial proceedings in the name of the corporation with respect to its credits and assets, and to represent it in the proceedings that may be brought against it.

## **2. Insolvency**

Under the Commercial Code (*Código de Comercio*) there exists cause to call for the dissolution of a company when the capital appears to have been reduced by fifty percent; unless the partners are willing to restore it or if the corporate charter provides for another alternative.

If in a bilateral contract, the rights of one of the parties are in risk because the other has become insolvent, the party so in risk can refuse compliance until he has been guaranteed of the obligation in his favor. In the event that he has requested the guarantee and not received it within a prudent period, he can rescind the contract.

## **3. Bankruptcy**

Pursuant to the Commercial Code there exists cause for the declaration of bankruptcy when any individual or company is incapable of meeting one or more of his liquid and certain obligations, resulting from acts of commerce. The declaration shall be issued by the Circuit Judge in which the debtor has his commercial domicile:

- a) At the request of the debtor or his legal representative;
- b) At the request of a legitimate creditor;
- c) At the request of the Government Attorney in case the debtor has escaped or is in hiding and has not appointed a representative.

The commercial debtor, who has suspended payment of a mercantile obligation, must within a period of two days of its expiration, file with the competent Judge a declaration of said circumstances dated and signed by him or his attorney, in order for the bankruptcy to be declared.

In the case of a company, this obligation corresponds to the managing partners, the administrator, directors or liquidators. Failure to meet this obligation could result in personal liability of these representatives towards the creditors under civil law and in criminal prosecution.

Upon the declaration of bankruptcy, the debtor is deprived of all rights to make any dispositions with respect to his property or business activities. Any pending litigation or actions for enforcement of claims against the debtor must join the bankruptcy process. This includes all pending legal actions, proceedings and suits which have been initiated within the four preceding years.

Upon deciding to declare bankruptcy the court appoints a receiver under the supervision of the court and the creditors committee. The receiver has complete control over the administration of the bankruptcy estate. However, he requires prior approval from the judge or the creditors committee in order to sell or convert assets.

Under Panama law a distribution of the debtor's assets does not discharge the debtor of his debts towards the creditors; the debtor remains liable for all unsettled debts for a period of 15 years. In the case of companies or partnerships the bankruptcy will in every case imply the personal bankruptcy of the partners; while in the case of corporations the bankruptcy will not affect the shareholders personally.

#### **4. Creditors Agreement**

Panamanian law does not regulate other proceedings such as moratorium and debt re-composition. However, the debtor who has complied with the obligations imposed by law, and whose bankruptcy has not been declared fraudulent, can, at any stage of the proceedings, after the meeting to verify credits, propose an agreement to his creditors. The agreement must be approved by an absolute majority vote of all of the creditors present at the respective general creditors meeting and which represent at least three fourths of the total liabilities. The agreement must be ratified by the Court.

#### **5. Foreign Declaration of Bankruptcy**

Except for the provisions that may be contained in special treaties, foreign judgments declaring the state of bankruptcy will only be effective in Panama after having received the *exequatur* (recognition of foreign judgment) in accordance with the law; however, even before complying with this requirement, the bankruptcy can be declared by virtue of letters rogatory, requesting preventive measures over the assets located in Panama, which are the property of the foreign bankrupt.

The foreign judgment will not in any manner affect the existing rights of creditors residing in Panama. In this regard, resident creditors are considered to be those whose credits must be satisfied in Panama even if they are domiciled abroad.

## **XXV. INTERNATIONAL RELATIONSHIPS**

### **1. General**

Panama has been a member of the United Nations since its founding, and participates in all the specialized agencies of that body; having served several terms as an elected member of the Security Council. Panama is also a member of the Organization of American States (OAS) and of the Latin American Economic System (SELA). Panama is one of the founding members and key promoters of the Union of Banana Exporting Countries (UPEB), and the headquarters of UPEB is located in Panama. In 1975 Panama became a member of the Conference of Non-Aligned Nations.

Panama is a member of the International Bank for Reconstruction and Development (World Bank), the Inter-American Development Bank (IDB), and the International Monetary Fund (IMF).

Panama is a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA), organized to cover political risks.

In 1984 the European Economic Community (EEC) signed a Cooperation Agreement with the countries of the Central American Isthmus. Panama is a full member of this agreement. In 1993 Panama subscribed the Protocol to the General Treaty for the Economic Integration of Central America (*Protocolo de Guatemala*), which establishes the basis to reach in a voluntary, gradual, complementary and progressive manner the economic union of Central America. Panama has also subscribed the Agreement for Cooperation with the Permanent Secretariat of the General Treaty for the Economic Integration of Central America (SIECA), by which Panama will receive assistance and technical and administrative cooperation from the regional organism to develop the formation of specialized technical personnel in those areas relating to the economic integration of the region. In 1998 Panama became a full member of the World Trade Organization (WTO).

### **2. Bilateral Agreements**

#### **2.1 Bilateral Agreements to Promote and Protect Investments**

Panama has concluded bilateral agreements with France, United Kingdom, United States, Switzerland, Germany and the Republic of China (Taiwan), to promote and protect investments. Under these treaties, Panama is bound to maintain legal stability regarding foreign investments and in this manner reduce the risk of expropriation or nationalization.

#### **2.2 Bilateral Trade Agreements**

Panama has concluded preferential bilateral trade agreements with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Mexico, Colombia, the Dominican Republic and Peru. In addition, Panama has also entered into trade agreements

with Germany, Bulgaria, Czechoslovakia, Hungary, Rumania, Russia and Poland, for the purpose of expanding the market for traditional Panamanian exports.

## **XXVI. LEGAL PROTECTIONS FOR THE FOREIGN INVESTOR**

### **1. Contractual Choice of Law and Jurisdiction**

Panama law permits the contractual choice of law and jurisdiction.

The following are different provisions of law on this issue:

- *Civil Code*. Provides for the parties to establish the agreements, clauses and conditions that they may consider convenient, as long as they do not contravene the law, moral or public order (Article 1106).
- *Commercial Code*. Establishes that the parties may choose the laws that will govern the essence, effects and manner of performance of their acts of commerce (Article 6).
- *Judicial Code*. Contains the principle that a judge's jurisdiction can be extended either by disposition of the parties, by contractual clause or by a subsequent act of the parties. The same principle would also apply to arbitration proceedings (Articles 243, 244, and 248).
- *Law N° 8 of 1982*. In the matter of maritime proceedings, it is established that the parties can subject their controversies to arbitration or to a foreign court provided that said dispositions are contained in a written contract (Article 19).
- *International Private Law Code (The Code of Bustamante)*. Reiterates the principle contained in the Civil Code, as above mentioned, to the effect that the parties are free to establish the agreements, clauses and conditions that they may deem convenient, including the choice of law and jurisdiction.

### **2. Arbitration**

#### **2.1 General**

Like in most other Latin American countries, arbitration is of growing importance in Panama. The four (4) regimes most widely used are:

1. The Compromise Clause of the Chamber of Commerce, Industry and Agriculture of Panama that is governed by the legal provisions contained in the Judicial Code and the Code of Maritime Law (*Cláusula Compromisoria de la Cámara de Comercio, Industrias y Agricultura de Panamá que se regirá por preceptos legales del Código Judicial y la ley de procedimiento Marítimo*);

2. The arbitration clause recommended by the InterAmerican Commission on Commercial Arbitration and the Organization of American States (*Cláusula de Arbitraje recomendada por la Comisión Interamericana de Arbitraje Comercial*);
3. The model clause on Arbitration of the International Chamber of Commerce (*Cláusula modelo de Arbitraje de la Cámara de Comercio Internacional*);
4. The Compromise Clause recommended by the United Nations (*Cláusula Compromisoria recomendada por las Naciones Unidas*).

In addition Panama has also approved the following laws regarding arbitration:

- *Law N° 11 of 1975.* Approves the Industrial Conventions on International Commercial Arbitration.
- *Law N° 5 of 1983.* Approves the Convention on Recognition or Execution of Foreign Arbitration Judgment.
- *Law N° 6 of 1988.* Regulates Arbitration involving the State in matters related to construction projects and other services.
- *Law N° 13 of 1996.* Approves the 1966 Convention on the Settlement of Investment Disputes which created the International Center for the Settlement of Investments Disputes (ICSID).

## **2.2 Arbitration, Conciliation and Mediation Law**

Pursuant to Decree Law N° 5 of 1999, a general arbitration, conciliation and mediation regime is established.

The following are a few salient features of the Law:

- Any person legally capable of being obligated can submit his controversies to the judgment of one or more arbiters, pursuant to the provisions of this Law;
- The arbitration can be in law or in equity. It is in law when the power granted by the parties to the arbiters is to resolve the issues in accordance with the rules of law. In this case the arbiters must be qualified attorneys, either local or foreign. It is in equity when the arbiters are to resolve the issues in accordance with their best judgment;
- The arbitration can be institutionalized, when carried out by an institution of arbitration authorized by this Law and chosen by the parties in the arbitration agreement or afterwards, or ad-hoc, when carried out in accordance to the rules of procedure specifically established by the parties, but in any event subject to the provisions of this Law;

- Defines the elements that constitute international commercial arbitration;
- Stipulates the types of arbitration agreements, requiring that these always be in written form;
- The arbitration tribunal will be composed of one or three arbiters, except in the event of numerous parties when the number may vary;
- The arbitration judgment is final and only subject to the recourse of annulment before the General Business Chamber of the Supreme Court, for the causes contained in the Civil Code;
- Foreign arbitration judgments will be recognized and executed in Panama in accordance with international treaties and agreements to which the Republic of Panama is a part, and in the absence thereof by the provisions of this Law, which also defines the circumstances under which foreign arbitration judgments will not be recognized;
- Provides for conciliation and meditation as alternative means to resolve controversies, which also can be institutionalized or ad-hoc;
- The Law applies to arbitration agreements executed previous to its enactment;
- The Law repeals all contrary legal provisions.

### **3. The Court System**

Panama has a four tier court system: the Supreme Court, the Superior District Courts, the Circuit Courts, and the Municipal Courts.

#### **3.1 Supreme Court**

The Supreme Court is made up of 12 magistrates and has exclusive jurisdiction over the constitutionality of laws, decrees, resolutions and other acts of the Administration. It also handles Habeas Corpus proceedings and is the final appellate court on decisions of lesser courts and quasi-judicial acts of the Administration.

The Supreme Court is divided into four (4) chambers:

- The Civil Chamber (*Sala Civil*), which acts as a Court of Appeals on civil matters;
- The Criminal Chamber (*Sala Penal*), which handles criminal cases concerning high state authorities and as a Court of Appeals receiving criminal or penal cases;

- The Administrative Chamber (*Sala de lo Contencioso-Administrativo*), which reviews decisions, statutes and ordinances of administrative bodies accused of being illegal;
- The General Business Chamber (*Sala de Negocios Generales*), which handles enforcement of foreign judgments and proceedings relating to foreign legal procedures and other internal administrative functions within the Judicial System.

### **3.2 Superior District Courts**

The Superior District Courts (*Tribunales Superiores de Distrito*) handle Habeas Corpus proceedings and summary proceedings to guarantee constitutional rights against the actions of public employees. They also hear criminal cases involving Consuls, Judges and District Attorneys, criminal cases against persons with authority and jurisdiction, homicides, abortion and appeals from circuit courts on civil cases.

### **3.3 Circuit Courts**

Circuit Courts (*Juzgados de Circuito*) handle (a) cases involving more than US\$5,000; (b) cases in which the state is involved; (c) expropriation cases. They also act as a Court of Appeals for municipal courts.

### **3.4 Municipal Courts**

The Municipal Courts (*Juzgados Municipales*) handle both civil and criminal cases.

Municipal Courts handle cases against private property up to US\$1,000 with penalties of up to two years in prison and civil cases involving more than US\$250 up to US\$5,000.

## **4. Enforcement of a Foreign Judgment**

The Judicial Code establishes that foreign awards have the same force of law as provided for in the respective treaty. If a treaty does not exist on an issue, then the principle of reciprocity applies, meaning that the judgment can be executed in Panama in the event that Panamanian Court decisions are also given the same treatment by the foreign country.

The recognition of the foreign judgment has to be requested before the General Business Chamber of the Supreme Court.

## **5. Requirements for Recognition of a Foreign Judgment**

- The court where the judgment was rendered, would in similar circumstances, recognize judgments of Panamanian Courts as final and conclusive;

- The judgment has been issued as a consequence of an action “in personam”;
- The defendant was personally notified of the judgment;
- The cause of the action on which the judgment was based must be licit in Panama;
- The documents evidencing the judgment are in authentic form according to the laws of the country where it was rendered and have been either duly legalized by the Panamanian Consul or apostilled if that country is signatory of the Hague Convention of 1961.

## **6. Admiralty Law**

Panama offers to the international maritime community not only stable shipping and mortgage registration and a corporate structure of international acceptance but also a well structured and efficient judicial system to resolve maritime lawsuits based on modern techniques, such as:

- 24 hour court access;
- Oral, public, and centralized proceedings without excessive solemnities;
- Procedural economy and judgments based on the reasoned opinion of a judge.

## **7. Juridical stability of investments**

Pursuant to Law N° 54 of 1998, certain measures are issued to ensure the juridical stability of investments in Panama.

The purpose of the Law is to protect local and foreign investors that invest within the country in any of the following projects: tourism, industries, agriculture, exports, forestry, mining, processing zones, commerce and oil, free zones, telecommunications, construction, railroad and ports developments, generation of electrical energy, irrigation and efficient use of hydric resources and all other projects approved by the Cabinet Council (*Consejo de Gabinete*).

To be protected by the Law, the enterprise must be registered at the National Directorate of Business Development of the Ministry of Commerce and Industries (*Directorio Nacional de Desarrollo Empresarial del Ministerio de Comercio e Industrias*), referred to by the spanish acronym of DINADE, which has the authority to approve or deny the request for registration.

To classify, the enterprise must have a minimum investment of US\$2,000.000 and the project must be finalized in a maximum period of two years, unless the DINADE approves an extension.

In accordance with the Law, the investor that complies with the requirements will be benefited by juridical stability; tax stability at a national and municipal level; stability in the customs regimes; and stability in the labor regime.

Lack of compliance, of any of the obligations, will result in the investor losing the benefits afforded by the Law.

Any controversies that may arise between the State and the investor (excluding fiscal actions by the tax authorities) by reason of the application, execution or interpretation of Law N° 54 shall be settled by conciliation in accordance with the Regulations of Conciliation of the Center of Conciliation and Arbitration of Panama.

In the event that the matter is not settled by conciliation the parties may have the controversy settled by:

- The decision of the competent administrative or jurisdictional authority;
- Arbitration, in accordance with the Regulations of Arbitration of the Center of Arbitration Conciliation and Arbitration of Panama. The Arbitration Judgments are final and obligate the parties in litigation, except, in those cases where there exists causes for cassation or annulment before the Supreme Court.

Law N° 54 clearly provides that the State shall not carry out any measures of expropriation or nationalization, including the modification or abrogation of laws which have the same effect, against the investments that are protected under the present law, except if said measures comply with the following conditions:

- a) That they are adopted for causes of public utility or social interest and in accordance with the Political Constitution;
- b) That they are not discriminatory;
- c) That they are accompanied by dispositions for the payment of an indemnification.

## **XXVII. ENVIRONMENTAL LAW**

### **1. General**

The General Environmental Law of the Republic of Panama, was enacted pursuant to Law N° 41 of 1998. The Law establishes the basic principles and norms for the protection, conservation and recuperation of the environment by promoting the sustainable use of natural resources.

### **2. National Environmental Authority**

The National Environmental Authority (*Autoridad Nacional del Ambiente*), known by the Spanish acronym of ANAM, is created as the ruling autonomous agency of the Government in matters of natural resources and the environment. ANAM has

powers to insure compliance and applicability of the laws and regulations; formulate the national environmental policy and the use of natural resources; establish environmental quality norms and the technical and administrative provisions assigned by law"; and prescribe the extent, guidelines and terms of reference for the submission of environmental impact studies.

As a result of Law N° 41, ANAM assumes all powers, duties and rights previously assigned to INRENARE, which was the governmental agency previously in charge of regulating environmental matters.

### **3. Environmental System**

The Law establishes that the associated public institutions with environmental competence shall form the Environmental Inter-institutional System (*Sistema Interinstitucional del Ambiente*) to maintain coordinating and consultation mechanisms among themselves, following the parameters set forth by ANAM.

### **4. Environmental Impact Studies**

Any activities, works or projects; public or private, which by their very nature, characteristics, effects, location or resources, may generate an environmental risk, require an environmental impact study prior to their execution, according to the regulations of the law, which shall include a restrictive list of activities that must comply with this requirement. ANAM shall approve or reject, by prior analysis, all environmental impact studies, which shall be made public.

### **5. Pollution**

Every natural or juridical person is bound to prevent environmental damages and implement control pollution. The pollution caused by the infringement of the allowable limits, or of the norms, processes and prevention mechanisms established in the law and other existing norms, warrants civil, administrative or penal responsibility as the case may be.

### **6. Objective Responsibility**

Represents the obligation of whoever causes the damage or pollutes directly or indirectly persons, the environment or things, to compensate for the damages caused. The administrative responsibility is irrespective of the civil responsibility for damages to the environment, as well as any criminal responsibility that may derive from punishable acts.

The collective and diffuse interests are acknowledged to legitimize any citizen or civil organization in the administrative, civil and criminal processes for damages to the environment.

## **7. Sanctions**

Failure to comply with the provisions or regulations of law will merit sanctions depending on the seriousness of the infringement that can range from a mere admonishment to suspension of the activities to fines that can reach a maximum of US\$ 10,000,000.

## **8. Investigation of Environmental Offenses**

The Attorney General's Office (*Procuraduría General de la Nación*) is the government agency in charge of initiating, investigating and submitting all evidence pertaining to environmental crimes. In this regard, an Environmental Superior District Attorney Office is created with seat in the Province of Panama. Moreover, numerous Circuit District Attorney Offices are created through out the country to handle these types of crimes.

## **9. Legal Actions**

Legal actions filed by the State, municipalities, non-governmental organizations and individuals in protecting the right to a healthy environment, shall be carried out pursuant to summary proceedings, and will not incur in legal costs, except in the case of groundless suits. The environmental civil action will have as its object, to restore the affected environment and indemnify the damage caused; this action expires within ten years of the date the damage was done or the date when they became aware of the damage.

## APPENDIX 1

### KEY GOVERNMENTAL AGENCIES

#### MINISTERIO DE RELACIONES EXTERIORES

– MINISTRY OF FOREIGN AFFAIRS

Fuerte Amador, Edificio Principal

Panamá, República de Panamá

*Telephone:* (507) 211-4241

*Fax:* (507) 228-5315

#### MINISTERIO DE GOBIERNO Y JUSTICIA

– MINISTRY OF GOVERNMENT AND JUSTICE

Ave. 7 Central, 2-24

Catedral calle 3 detrás del Teatro Nacional

Panamá, República de Panamá

*Telephone:* (507) 212-2000

*Fax:* (507) 212-2071

#### MINISTERIO DE ECONOMÍA Y FINANZAS

– MINISTRY OF ECONOMICS AND FINANCE

Ave. Perú y Calle 36

Panamá, República de Panamá

*Telephone:* (507) 269-4133

*Fax:* (507) 264-5388

#### MINISTERIO DE DESARROLLO AGROPECUARIO (MIDA)

– MINISTRY OF AGRICULTURAL DEVELOPMENT

Curundu

Panamá, República de Panamá

*Telephone:* (507) 207-0600

#### MINISTERIO DE EDUCACION

– MINISTRY OF EDUCATION

Ave. Justo Arosemena y Calle 27

Panamá, República de Panamá

*Telephone:* (507) 315-7300

*Fax:* (507) 315-7885

**MINISTERIO DE OBRAS PUBLICAS**

– MINISTRY OF PUBLIC WORKS

Curundu

Panamá, República de Panamá

*Telephone:* (507) 207-9400

*Fax:* (507) 207-9419

**MINISTERIO DE SALUD**

– MINISTRY OF HEALTH

Antiguo Hospital Gorgas

Panamá, República de Panamá

*Telephone:* (507) 212-9100

*Fax:* (507) 212-9200

**MINISTERIO DE VIVIENDA**

– MINISTRY OF HOUSING

Edison Plaza, 4 piso

Panamá, República de Panamá

*Telephone:* (507) 279-9200

*Fax:* (507) 321-0028

**MINISTERIO DE LA PRESIDENCIA**

– MINISTRY OF THE PRESIDENCY

Avenida 4, San Felipe

Panamá, República de Panamá

*Telephone:* (507) 227-9600

*Fax:* (507) 227-4622

**MINISTERIO DE COMERCIO E INDUSTRIAS**

– MINISTRY OF COMMERCE AND INDUSTRIES

Edificio Plaza Edison, Piso 2 y 3

Panamá, República de Panamá

*Telephone:* (507) 360-0600

*Fax:* (507) 360-0663

**VICEMINISTERIO DE COMERCIO INTERIOR**

– VICE MINISTRY OF INTERNAL COMMERCE

Tumba Muerto, Plaza Edison, piso 2

Panamá, República de Panamá

*Telephone:* (507) 360-0706

*Fax:* (507) 360-0600

**VICEMINISTERIO DE COMERCIO EXTERIOR**

– VICE MINISTRY OF FOREIGN COMMERCE

Tumba Muerto, Plaza Edison, Piso 3

Panamá, República de Panamá

*Telephone:* (507) 360-0700

*Fax:* (507) 360-0600

**MINISTERIO DE TRABAJO Y DESARROLLO LABORAL**

– MINISTRY OF LABOR AND SOCIAL WELFARE

Edison Plaza, Piso 5

Avenida Ricardo J. Alfaro

Panamá, República de Panamá

*Telephone:* (507) 360-1100

*Fax:* (507) 360-1153

**MINISTERIO DE LA JUVENTUD, LA MUJER,  
LA NIÑEZ, LA FAMILIA Y EL MENOR**

– MINISTRY OF YOUTH, WOMEN, CHILDHOOD, AND FAMILY

Edison Plaza, 4 piso

Panamá, República de Panamá

*Telephone:* (507) 279-0701

*Fax:* (507) 270-0832

**PROCURADURIA DE LA ADMINISTRACION**

– OFFICE OF ADMINISTRATION ATTORNEY GENERAL

Ave. Perú y Calle 33

Panamá, República de Panamá

*Telephone:* (507) 225-3350

*Fax:* (507) 227-7636

**DIRECCIÓN NACIONAL DE MIGRACIÓN  
Y NATURALIZACIÓN**

– NATIONAL DIRECTORSHIP OF IMMIGRATION AND NATURALIZATION

Ave. Cuba, entre calle 29 y 28

Panamá, República de Panamá

*Telephone:* (507) 207-1800

(507) 207-1830

AUTORIDAD DE LA REGION INTEROCEANICA (ARI)

– INTEROCEANIC REGION AUTHORITY

Fuerte Amador, Edificio 1214

Panamá, República de Panamá

*Telephone:* (507) 211-9600

(507) 211-9700

INSTITUTO PANAMEÑO DE TURISMO (IPAT)

– PANAMANIAN NATIONAL TOURISM INSTITUTE

Via Israel, San Francisco

Centro de Convenciones ATLAPA

Panamá, República de Panamá

*Telephone:* (507) 226-7000

*Fax:* (507) 226-4849

INTITUTO NACIONAL DE CULTURA (INAC)

– NATIONAL INSTITUTE OF CULTURE

Plaza de Francia, San Felipe

Panamá, República de Panamá

*Telephone:* (507) 211-4000

*Fax:* (507) 211-4908

AUTORIDAD NACIONAL DEL AMBIENTE (ANAM)

– NATIONAL ENVIRONMENTAL AUTHORITY

Edificio 804

Albrook

Curundu

Panamá, República de Panamá

*Telephone:* (507) 315-0855

*Fax:* (507) 315-1019

## APPENDIX 2

### FINANCIAL AND CREDIT INSTITUTIONS

#### BANCO HIPOTECARIO NACIONAL

- NATIONAL MORTGAGE BANK

Ave. Balboa y Calle 40

Panamá, República de Panamá

*Telephone:* (507) 227-0055

*Fax:* (507) 225-6956

#### BANCO DE DESARROLLO AGROPECUARIO

- AGRICULTURAL DEVELOPMENT BANK

Ave. de los Mártires y Calle L

Panamá, República de Panamá

*Telephone:* (507) 262-0266

*Fax:* (507) 262-1713

#### CAJA DE AHORROS

- SAVING BANK

Via Espana

Frente a Felix B. Maduro

Panamá, República de Panamá

*Telephone:* (507) 208-1900

*Fax:* (507) 208-1985

#### CAJA DE SEGURO SOCIAL

- SOCIAL SECURITY INSTITUTE

Via Bolivar, Transístmica

Panamá, República de Panamá

*Telephone:* (507) 261-7555

*Fax:* (507) 261-2208

#### BOLSA DE VALORES

- STOCK EXCHANGE

Calle 49 y Avenida Federico Boyd

Panamá, República de Panamá

*Telephone:* (507) 269-1966

*Fax:* (507) 269-2457

## APPENDIX 3

### REGULATORY AGENCIES

#### CONTRALORIA GENERAL DE LA REPUBLICA

- THE COMPTROLLER GENERAL'S OFFICE

Ave. Balboa y Federico Boyd, Piso 8

Panamá, República de Panamá

*Telephone:* (507) 210-4777

*Fax:* (507) 263-9322

#### SUPERINTENDENCIA DE BANCOS

- SUPERINTENDENCY OF BANKS

Torre HSBC, Ave. Samuel Lewis, Pisos 1, 2, 8, 9, 17, 18

Piso No.8, Panamá, República de Panamá

*Telephone:* (507) 206-7800

*Fax:* (507) 264-9422

#### SUPERINTENDENCIA DE SEGUROS Y REASEGUROS

- SUPERINTENDENCY OF INSURANCE AND REINSURANCE

Calle Ricardo Arias, Campo Alegre

Panamá, República de Panamá

*Telephone:* (507) 214-7484

*Fax:* (507) 214-7483

#### COMISION NACIONAL DE VALORES

- NATIONAL SECURITIES COMMISSION

Avenida Balboa, al lado de Dunkin Donuts, ofic. 206

Panamá, República de Panamá

*Telephone:* (507) 263-0739

#### ENTE REGULADOR DE LOS SERVICIOS PUBLICOS

- PUBLIC SERVICES REGULATORY AGENCY

Via Espana

Edificio Office Park

Panamá, República de Panamá

*Telephone:* (507) 278-4500

*Fax:* (507) 278-4600

COMISION DE LIBRE COMPETENCIA Y  
ASUNTOS DEL CONSUMIDOR - CLICAC  
– CONSUMER PROTECTION AND FREE TRADE COMMISSION

Vista Hermosa y Vía Fernández de Córdoba  
Panamá, República de Panamá

*Telephone:* (507) 261-1919

*Fax:* (507) 229-6958

DEFENSORIA DEL PUEBLO

– OMBUDSMAN'S OFFICE

Calle 50, Edif. Don Camilo, Planta Baja  
Panamá, República de Panamá

*Telephone:* (507) 214-9835

*Fax:* (507) 214-9839

## APPENDIX 4

### COMMERCIAL INSTITUTIONS AND OTHER ORGANIZATIONS

#### CAMARA DE COMERCIO, INDUSTRIAS Y AGRICULTURA

– CHAMBER OF COMMERCE, INDUSTRIES AND AGRICULTURE

Ave. Cuba y Ecuador, 33A-18

Panamá, República de Panamá

*Telephone:* (507) 227-1233

*Fax:* (507) 227-0115

#### AMERICAN CHAMBER OF COMMERCE AND INDUSTRY OF PANAMA

Nº 7 Calle Uruguay y 47

Bella Vista

Panamá, República de Panamá

*Telephone:* (507) 269-3881

*Fax:* (507) 223-3508

#### SERVICIO COMERCIAL - EMBAJADA DE FRANCIA

– COMMERCIAL SERVICE - FRENCH EMBASSY

Las Bovedas, Plaza de Francia

Panamá, República de Panamá

*Telephone:* (507) 211-6200

#### SERVICIO COMERCIAL - EMBAJADA AMERICANA

– COMMERCIAL SERVICE - AMERICAN EMBASSY

Clayton, Edificio 520

Panamá, República de Panamá

*Telephone:* (507) 207-7000

#### COLEGIO NACIONAL DE ABOGADOS

– PANAMA BAR ASSOCIATION

Ave. Méjico y Calle 38 E

Panamá, República de Panamá

*Telephone:* (507) 225-6371

*Fax:* (507) 225-0189

**COLEGIO DE CONTADORES PUBLICOS AUTORIZADOS DE PANAMA**

– CHAMBER OF CERTIFIED PUBLIC ACCOUNTANTS OF PANAMA

Calle 1-6 N° j-18 Urbanización Los Angeles

Panamá, República de Panamá

*Telephone:* (507) 236-6571

*Fax:* (507) 236-6570

**ASOCIACION PANAMEÑA DE EJECUTIVOS DE EMPRESAS - APEDE**

– PANAMANIAN ASSOCIATION OF EXECUTIVES OF ENTERPRISES

Altos del Korea Exchange Bank

Calle 42 y Avenida Balboa

Panamá, República de Panamá

*Telephone:* (507) 227-3511

*Fax:* (507) 227-1872

**CAMARA PANAMEÑA DE LA CONSTRUCCION**

– PANAMANIAN CHAMBER OF CONSTRUCTION

Frente al Hotel Ejecutivo

Calle Aquilino de la Guardia, 19

Panamá, República de Panamá

*Telephone:* (507) 265-2500

*Fax:* (507) 213-0471

**SINDICATO DE INDUSTRIALES DE PANAMA**

– INDUSTRIAL SYNDICATE OF PANAMA

Vía Ricardo J. Alfaro

Panamá, República de Panamá

*Telephone:* (507) 230-0169

*Fax:* (507) 230-0805

**CAMARA DE TURISMO DE PANAMA**

– PANAMANIAN CHAMBER OF TOURISM

Calle Ricardo Arias

Panamá, República de Panamá

*Telephone:* (507) 213-9800

**CAMARA OFICIAL ESPAÑOLA DE COMERCIO DE PANAMA**

– OFFICIAL SPANISH CHAMBER OF COMMERCE

Edificio Banco Bilbao Viscaya, Ave. Balboa

Panamá, República de Panamá

*Telephone:* (507) 225-1487

*Fax:* (507) 225-6608

**CAMARA DE COMERCIO E INDUSTRIAS PANAMEÑA ALEMANA**

– GERMAN-PANAMANIAN CHAMBER OF COMMERCE AND INDUSTRIES

Calle 51 y Manuel Maria Icaza

Magna Corp., Piso 6, oficina 602

Panamá, República de Panamá

*Telephone:* (507) 269-9358

*Fax:* (507) 269-9359

**CONSEJO EMPRESARIAL ESTADOS UNIDOS – PANAMA**

– US-PANAMANIAN BUSINESS COUNCIL

Calle 50

Panamá, República de Panamá

*Telephone:* (507) 269-2178

**CONSEJO INTERAMERICANO DE COMERCIO Y PRODUCCION**

– INTERAMERICAN COMMERCE AND PRODUCTION COUNCIL

Torre Global Bank, Piso 22

Panamá, República de Panamá

*Telephone:* (507) 269-2178

## APPENDIX 5

### EMBASSIES AND CONSULATES

#### EMBAJADA AMERICANA

– AMERICAN EMBASSY

Ave. Balboa

Panamá, República de Panamá

*Telephone:* (507) 207-7000

*Fax:* (507) 227-1964

#### EMBAJADA DE FRANCIA

– FRENCH EMBASSY

Las Bovedas, Plaza de Francia

Ciudad de Panamá, República de Panamá

*Telephone:* (507) 211-6200

#### EMBAJADA DEL JAPON

– JAPANESE EMBASSY

Calle 50 y Calle 60E, Obarrio

Ciudad de Panamá, República de Panamá

*Telephone:* (507) 263-6155

*Fax:* (507) 263-6019

#### EMBAJADA DE ALEMANIA

– GERMANY EMBASSY

Edificio WTC, Piso 20

Calle 53, Urbanización Marbella

Panamá, República de Panamá

*Telephone:* (507) 263-7733

*Fax:* (507) 223-6664

#### EMBAJADA DE ARGENTINA

– ARGENTINE EMBASSY

Calle 50 y Calle 53,

Edificio del Banco Iberoamerica, Piso 7, Obarrio

Panamá, República de Panamá

*Telephone:* (507) 264-6561

*Fax:* (507) 269-5331

EMBAJADA DE BOLIVIA

– BOLIVIAN EMBASSY

Calle Jose G. Duque

El Cangrejo, casa N° 3

Panamá, República de Panamá

*Telephone:* (507) 269-0274

(507) 264-3868

EMBAJADA DE BRAZIL

– BRAZILIAN EMBASSY

Avenida Ricardo Arango y Calle Elvira Méndez

Edificio el Dorado, Piso 1, Campo Alegre

Panamá, República de Panamá

*Telephone:* (507) 263-5322

*Fax:* (507) 263-5943

EMBAJADA DE CANADA

– CANADIAN EMBASSY

WTC, Galeria Comercial, Piso 1

Calle 53-E, Urbanización Marbella

Panamá, República de Panamá

*Telephone:* (507) 265-8274

*Fax:* (507) 263-8083

EMBAJADA DE COLOMBIA

– COLOMBIAN EMBASSY

Calle 53 Este

Urbanización Marbella

Panamá, República de Panamá

*Telephone:* (507) 264-9513

*Fax:* (507) 223-1134

EMBAJADA DE COREA

– KOREAN EMBASSY

Calle Ricardo Arias y Calle 51

Campo Alegre, Edificio Plaza, planta baja

Panamá, República de Panamá

*Telephone:* (507) 264-8203

*Fax:* (507) 264-8825

EMBAJADA DE CUBA

– CUBAN EMBASSY

Avenida Cuba y Avenida Ecuador

Panamá, República de Panamá

*Telephone:* (507) 227-0359

*Fax:* (507) 225-6681

EMBAJADA DE CHILE

– CHILEAN EMBASSY

Edificio Banco de Boston Piso 11

Calle Elvira Méndez y Vía España

Panamá, República de Panamá

*Telephone:* (507) 223-9748

*Fax:* (507) 223-9006

EMBAJADA DE REPUBLICA DE CHINA (TAIWAN)

– TAIWANESE EMBASSY

Avenida Samuel Lewis, BancoUnión Piso 10

Panamá, República de Panamá

*Telephone:* (507) 223-3424

*Fax:* (507) 269-8757

EMBAJADA DE ECUADOR

– ECUADORIAN EMBASSY

Calles 50 y 53

Urbanizacion Marbella

Panamá, República de Panamá

*Telephone:* (507) 269-0477

*Fax:* (507) 264-2654

EMBAJADA DE EGIPTO

– EGYPTIAN EMBASSY

Calle 55, El Cangrejo, Casa 15

Panamá, República de Panamá

*Telephone:* (507) 263-5020

*Fax:* (507) 264-8406

EMBAJADA DE EL SALVADOR

– SALVADOREAN EMBASSY

Calle 58 y Ave. Samuel Lewis

Panamá, República de Panamá

*Telephone:* (507) 223-3020

EMBAJADA DE ESPAÑA

– SPANISH EMBASSY

Ave. Perú y Calle 33 (frente a Plaza Porras)

Panamá, República de Panamá

*Telephone:* (507) 227-5122

*Fax:* (507) 227-6284

EMBAJADA DE MEXICO

– MEXICAN EMBASSY

Calle 58 y Ave. Samuel Lewis

Urbanización Obarrio

Panamá, República de Panamá

*Telephone:* (507) 263-4900

*Fax:* (507) 263-5446

EMBAJADA DE LA FEDERACIÓN DE RUSIA

– RUSSIAN EMBASSY

Calle Manuel E. Batista

Panamá, República de Panamá

*Telephone:* (507) 264-1408

EMBAJADA DE GRAN BRETAÑA

– BRITISH EMBASSY

Calle 53, Urbanización Marbella

Torre Swiss Bank, Piso 4 y 5

Panamá, República de Panamá

*Telephone:* (507) 265-0794

*Fax:* (507) 265-0794

EMBAJADA DE GUATEMALA

– GUATEMALAN EMBASSY

Calle 48 y Ave. Federico Boyd, Bella Vista

Edificio Versailles, Piso 2, apartamento 2B

Panamá, República de Panamá

*Telephone:* (507) 269-3406

*Fax:* (507) 223-1922

EMBAJADA DE HAITI

– HAITIAN EMBASSY

Calle Manuel María Icaza

Edificio Grobman, Piso 7

Panamá, República de Panamá

*Telephone:* (507) 269-3443

*Fax:* (507) 223-1767

EMBAJADA DE HONDURAS

– HONDURURIAN EMBASSY

Avenida Balboa

Panamá, República de Panamá

*Telephone:* (507) 264-5513

EMBAJADA DE INDIA

– INDIAN EMBASSY

Vía España #120

Edificio Banco Continental, Piso 5

Panamá, República de Panamá

*Telephone:* (507) 264-3043

*Fax:* (507) 264-2855

EMBAJADA DE ISRAEL

– ISRAELI EMBASSY

Urbanización Campo Alegre

Edificio Grobman, Piso 5

Panamá, República de Panamá

*Telephone:* (507) 264-8022

EMBAJADA DE ITALIA

– ITALIAN EMBASSY

Avenida Balboa, 25

Panamá, República de Panamá

*Telephone:* (507) 225-8948

*Fax:* (507) 227-4906

EMBAJADA DE JAPON

– JAPANESE EMBASSY

Calle 50 y 60E, Obarrio

Edificio San Camilo, planta baja

Panamá, República de Panamá

*Telephone:* (507) 263-6155

*Fax:* (507) 263-6019

EMBAJADA DE NICARAGUA

– NICARAGUAN EMBASSY

Quarry Hights Amador, 16

Panamá, República de Panamá

*Telephone:* (507) 264-8225

*Fax:* (507) 211-2113

EMBAJADA DE PARAGUAY

– PARAGUAYAN EMBASSY

Calle Juan XXIII

Edificio Venecia, Piso 5B

Punta Paitilla

Panamá, República de Panamá

*Telephone:* (507) 263-4782

*Fax:* (507) 269-4247

EMBAJADA DE PERU

– PERUVIAN EMBASSY

Edif. World Trade Center

Piso 12, oficina 1203

Panamá, República de Panamá

*Telephone:* (507) 223-1112

*Fax:* (507) 269-6809

EMBAJADA DE POLONIA

– POLISH EMBASSY

Calle Anastacio Ruíz, Marbella,

Torres del Pacífico, Torre B, Piso 10

Panamá, República de Panamá

*Telephone:* (507) 263-5097

*Fax:* (507) 223-3717

EMBAJADA DE REPUBLICA DOMINICANA

– DOMINICAN EMBASSY

Edificio de Banco de Bogotá

San Francisco

Panamá, República de Panamá

*Telephone:* (507) 236-6355

(507) 263-7725

EMBAJADA DE FRANCIA

– FRENCH EMBASSY

Las Bóvedas, San Felipe

Plaza de Francia, N° 1

Panamá, República de Panamá

*Telephone:* (507) 211-6200

*Fax:* (507) 211-6235

EMBAJADA DE URUGUAY

– URUGUAYAN EMBASSY

Calle 50

Panamá, República de Panamá

*Telephone:* (507) 264-2838

*Fax:* (507) 264-8908

EMBAJADA DE LA REPUBLICA BOLIVARIANA DE VENEZUELA

– VENEZUELAN EMBASSY

Ave. Samuel Lewis

Torre HSBC, Piso 5

Panamá, República de Panamá

*Telephone:* (507) 269-1244

*Fax:* (507) 269-1916

EMBAJADA DE COSTA RICA

– COSTA RICAN EMBASSY

Avenida Samuel Lewis

Panamá, República de Panamá

*Telephone:* (507) 264-2980

*Fax:* (507) 264-4057

EMBAJADA AL YAMAHIRIA ARABE DE LIBIA POPULAR SOCIALISTA

- Al Yamahiria Arab of Popular Socialist Libia Embassy

Calle 32 y Avenida Balboa

Panamá, República de Panamá

*Telephone:* (507) 227-3342

CONSULADO DE AUSTRIA

– AUSTRIAN CONSULATE

Calle 53 Urb. Marbella

Edif. World Trade Center, Piso 14, Ofic. 14-01

Panamá, República de Panamá

*Telephone:* (507) 265-3855

*Fax:* (507) 265-3855

#### CONSULADO DE BELICE

– BELIZEAN CONSULATE

Villa de las Fuentes N° 1, F-32

Calle 22

Panamá, República de Panamá

*Telephone:* (507) 236-4132

*Fax:* (507) 221-3103

#### CONSULADO DE CHILE

– CHILEAN CONSULATE

Vía España y Calle Elvira Mendez

Edif. Banco de Boston, Piso 11

Panamá, República de Panamá

*Telephone:* (507) 223-8488

*Fax:* (507) 263-5530

#### CONSULADO DE CHIPRE

– CYPRIOT CONSULATE

Torre HSBC, Piso 6

Avenida Samuel Lewis

Panamá, República de Panamá

*Telephone:* (507) 264-0257

*Fax:* (507) 263-7887

#### CONSULADO DE DINAMARCA

– DANISH CONSULATE

Vía Cincuentenario, Edif. Monipat

28A / Calle 50, San Francisco

Panamá, República de Panamá

*Telephone:* (507) 270-0944

*Fax:* (507) 270-0874

#### CONSULADO DE LAS FILIPINAS

– PHILIPPINE CONSULATE

Edificio Sucre, Castro y Reyes, planta baja

Calle 48, Bella Vista

Panamá, República de Panamá

*Telephone:* (507) 264-1355

*Fax:* (507) 236-0928

CONSULADO DE FINLANDIA

– FINNISH CONSULATE

Vía Transístmica

Calle 64 oeste

Panamá, República de Panamá

*Telephone:* (507) 279-9803

*Fax:* (507) 260-4800

CONSULADO DE HUNGRIA

– HUNGARIAN CONSULATE

Calle 64E, Via Porras

Panamá, República de Panamá

*Telephone:* (507) 229-7575

*Fax:* (507) 269-5272

CONSULADO DE NICARAGUA

– NICARAGUAN CONSULATE

Ave. J. San Martín N° 31

Panamá, República de Panamá

*Telephone:* (507) 264-6431

*Fax:* (507) 269-6721

CONSULADO DE NORUEGA

– NORWEGIAN CONSULATE

Edificio Comosa, Piso 5

Avenida Samuel Lewis

Panamá, República de Panamá

*Telephone:* (507) 263-1955

*Fax:* (507) 263-1960

CONSULADO DE HOLANDA

– DUTCH CONSULATE

Calle 50

Edificio Tower Plaza, Piso 1

Panamá, República de Panamá

*Telephone:* (507) 264-7257

*Fax:* (507) 269-0526

CONSULADO DE GRECIA

– GREEK CONSULATE

Antiguo Edificio NCR, Piso 3

Avenida Manuel E. Batista

Panamá, República de Panamá

*Telephone:* (507) 263-0932

*Fax:* (507) 263-0411

CONSULADO DE SUECIA

– SWEDISH CONSULATE

Avenida Balboa

Edif. Las Galerías, Piso 2

Panamá, República de Panamá

*Telephone:* (507) 264-3748

*Fax:* (507) 264-6358

CONSULADO DE SUIZA

– SWISS CONSULATE

Vía Transistmica

Panamá, República de Panamá

*Telephone:* (507) 279-1530

*Fax:* (507) 279-1530

CONSULADO DE MALTA

– MALTESE CONSULATE

Calle Elvira Mendez N° 10

Calle Elvira Mendez, Edificio Banco do Brasil

Panamá, República de Panamá

*Telephone:* (507) 223-9401

*Fax:* (507) 223-2598

CONSULADO DE INDONESIA

- Indonesian Consulate

Calle Elida 10 del Carmen, 43

*Telephone:* (507) 269-1250

*Fax:* (507) 210-0042

UNION EUROPEA

- European Union

Oficina de enlace

Marbella

Panamá, República de Panamá

*Telephone:* (507) 265-3235

*Fax:* (507) 265-3239

## **APPENDIX 6**

### **LARGE PANAMANIAN BANKS AND SUBSIDIARIES OF FOREIGN BANKS**

BANCO NACIONAL DE PANAMÁ  
(National Bank of Panama)

CAJA DE AHORROS  
(Savings Bank)

BANCO HIPOTECARIO NACIONAL  
(National Mortgage Bank)

BANCO DE DESARROLLO AGROPECUARIO  
(Agricultural Development Bank)

BANCO GENERAL S.A.

BANCO CONTINENTAL DE PANAMÁ, S.A.

PRIMER BANCO DEL ISTMO, S.A.

BANCO CUSCATLAN DE PANAMA, S.A.

BANCO DEL PACÍFICO (PANAMÁ) S.A.

HSBC BANK PLC.

CITIBANK, N.A.

BNP PARIBAS SUCURSAL PANAMA

DRESDNER BANK LATEINAMERIKA, A.G.  
AKTIENGESELLSCHAFT

BANCO LATINOAMERICANO DE EXPORTACIONES - BLADEX

BAC INTERNATIONAL BANK (PANAMA), INC.

INTERNATIONAL COMMERCE BANK OF CHINA

BANCO ALEMAN PLATINA S.A.

GLOBAL BANK CORPORATION

MULTI CREDIT BANK

BANK OF CHINA

CREDICORP BANK, S.A.

THE BANK OF NOVA SCOTIA

BANCO UNO, S.A