

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 payed 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:

- 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;
- Rotation of the worker without affecting his labor conditions;
- 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

- 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;
- 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

- 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;
- 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;
- 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;
- 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.
- 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 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:

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

- 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;
- Conduct business and exercise rights in foreign countries;
- Agree upon dissolution according to law, voluntarily or for other reasons;
- 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;
- 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:

- Name of vessel;
- International Maritime Number (I.M.O.);
- Owners name address and fax number;
- Present name of the vessel;
- Name of the authority in charge of the radio accounts;
- Present nationality;
- Place and date of building;
- Name of the Builders;
- Number of decks, mats and funnel;
- Material of the hull;
- Main measurements: length, breadth and depth;
- Kind of service given by the vessel;
- Type and number of engines;
- Number and type of cylinders;
- Brand or name of engines manufacturers;
- Speed of the vessel;
- Horse power;

- Name of the Classification Society;
- Type of call letters (radio telephonic or radio telegraphic);
- 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:

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

- 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.

- 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.

- 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:
 - That the lessee returns the equipment;
 - That a new agreement be executed;
 - That the lessee acquires the equipment.

4.2 Types of leasing

1. **Local Leasing.** Pertains to chattel which will be used totally or partially to produce or preserve Panama source income; and
2. **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:

-

Assets are situated outside of Panama;

-

Money deposited by individuals or legal entities, whose source of income is not Panamanian, or is not taxable in Panama for any reason; and

-

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:

1. **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;
2. **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;
3. **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.

4. 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.

5. 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 “Commission”, 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:

- Securities which are the object of a public auction;
- 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;
- 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:

- Billing the sale of merchandise from an office established in Panama for an amount higher that they were billed to the office established in Panama, provided the merchandise or goods move exclusively abroad;
- Transactions conducted from an office in Panama, but perfected, consummated, or having effect abroad;
- 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;
- 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;
- 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;

- 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:

If the taxable income is (US\$)	The tax will be (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

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

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:

Value of the Improvements	Years of exemption
<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

(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 (US\$)	Annual Tax (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 independant 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 2015, 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 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.

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

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:

- As an employee in a position of trust;
- As a foreign employee within the allowable 10% for foreign employees. (See chapter XXII, supra);
- As an executive of the Colon Free Trade Zone;
- As a temporary technician (3 months);
- 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:

- At the request of the debtor or his legal representative;

- At the request of a legitimate creditor;
- 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:

- That they are adopted for causes of public utility or social interest and in accordance with the Political Constitution;
- That they are not discriminatory;
- 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

NATIONAL DIRECTORSHIP OF IMMIGRATION
AND NATURALIZATION
– DIRECCIÓN NACIONAL DE MIGRACIÓN Y NATURALIZACIÓN
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

INSTITUTO 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

Fax: (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

Via 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 HUNGRÍA

– 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 Nº 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 Nº 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.
AKTIENGESELLSHAFT

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