DOING BUSINESS WITH PANAMA

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Caribbean Export Development Agency
P.O.Box 34B, Brittons Hill
St. Michael
BARBADOS
Tel: 246-436-0578; Fax: 246-436-9999
E-mail: info@carib-export.com
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1. GENERAL INFORMATION

Official Name: Republic of Panama

Location: Panama is situated at the southernmost point of Central America. The country lies south of Costa Rica and north of Colombia. In fact, Panama was previously part of the country of Colombia until the turn of the 20th Century when under the influence of the United States it seceded and became independent thereafter. Part of the plan by the United States was to build a canal in the area. The initiative gave rise to the Panama Canal which allows for the passage of vessels from the Pacific into the Caribbean and vice versa. The Canal was operated by the United States until 1997 when it was handed over to the people of Panama. The country is bound to the East by the Caribbean Sea and to the West by the Pacific Ocean.

Area: Total area 78,200 square metres

Land area: 75,990 square metres; Water 2,210 square metres

Capital: Panama City (813,097 population).

Other Cities: San Miguelo (339,500 population), Colon (198,550), David (138, 240).

Language: Spanish (official language), English. Many Panamanians are bi-lingual.

Population: 3.2 million. Population growth rate averages 1.6 percent

Head of State: President Martin Torrijos Espino. He has been President since September 1, 2004.

Government: Constitutional democracy. The country has a President and two Vice Presidents. There is a Unicameral National Assembly. There are 78 elected members. There are plans to reduce the numbers to 71 come 2009. Legislators from outlying rural areas are chosen on a plurality basis. Districts in the more populous areas elect multiple legislators by means of a proportionate formula.

Judicial Branch: Supreme Court of Justice or Corte Supreme de Justicia. Nine judges are appointed for 10 year terms, five superior courts and, three Courts of Appeal.

Ethnic Composition:
- Meztizo (70 %)
- Amerindian and Mixed (14%)
- Whites (10%)
- Indians (6%)

Religion: Roman Catholic (85 percent), Protestant (15 percent).

Education: Education in Panama is free and compulsory for children ages 7 to 15 years. Fees may be charged for higher education. The main universities are the University of Panama, a state institution with six campuses, and the University of Santa Maria La Antigua, a Catholic institution. There are also other private universities.

Literacy rate: 93 percent.

Birth rate: 21.5/1 000
Infant mortality rate: 16.0/1 000

Life Expectancy: Males - 72 years; Females - 77 years.

Terrain: Interior is mostly steep. There are rugged mountains and dissected upland plains. The coastal areas are largely plains and rolling hills.

Climate: Tropical, hot and humid. There is a prolonged rainy season (May to January) and a short dry season, (February to May). Temperatures on the Pacific side of the country are lower than on the Caribbean side.

Geography: Coordinates 9 00 N, 80 00 W.

Natural Resources: Copper, mahogany forest, shrimp and hydropower.

Weights and Measures: The metric system is used in Panama. However, many units of the British system – pounds, ounces, gallons, inches and yards are used.

Electricity: Electricity is supplied at 110/220 volts and 60 cycles. There are ongoing projects to expand and to upgrade the generation capacity.

Telecommunications: Cable and Wireless (Panama) provides the telecommunication services in Panama. This company provides also a 100 percent digital network and national and international voice telecommunications.

Time Zone: GMT minus five hours.

Public Holidays 2008

January 1    New Year’s Day
January 9    National Martyr’s Day
March 21    Good Friday
May 1    Labor Day
August 15    Old Panama City Day (Only in Panama City)
November 3    Independence Day (from Colombia)
November 5    Independence Day (Colon City only)
November 10    First call for Independence from Spain
November 28    Independence Day (from Spain)
December 8    Mother’s Day
December 25    Christmas Day

For public holidays falling on a Sunday the following Monday will be observed as a holiday. Where these holidays fall mid-week, the following Monday will be observed as the holiday.
2. THE ECONOMY

2.1 Economic Data

Panama is one of the leading upper middle income countries in Latin America and the Caribbean. Its services sector particularly banking, finance and tourism are the major contributors to the country’s economy. These economic fundamentals are furthered bolstered by positive social indicators of good health care facilities, relatively low unemployment, good educational opportunities and adequate expenditure on social security schemes. Table 1 provides basic economic data.

Table 1 Basic Economic Data

<table>
<thead>
<tr>
<th></th>
<th>US $18.3 Billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>US $18.3 Billion</td>
</tr>
<tr>
<td>Annual Growth Rate</td>
<td>6.5%</td>
</tr>
<tr>
<td>GDP per Capita</td>
<td>US$4661</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.8%</td>
</tr>
<tr>
<td>Unemployment</td>
<td>13.6% (2005)</td>
</tr>
<tr>
<td>Official Exchange Rate</td>
<td>US$ dollar</td>
</tr>
<tr>
<td>Currency</td>
<td>Balboa, US Dollar</td>
</tr>
<tr>
<td>Foreign Debt</td>
<td>US $10 billion</td>
</tr>
<tr>
<td>Exports</td>
<td>US $4 Billion</td>
</tr>
<tr>
<td>Imports</td>
<td>US $8 Billion</td>
</tr>
</tbody>
</table>

See Appendix A for Economic Statistics

2.2 Structure of the Panama Economy

Panama has a dollarized economy. This means that the American dollar is the legal tender in the country, although there is the national currency known as the Balboa. The economy has in recent years peaked and continues to do well following a slump during 2000 to 2003.

The slump came about largely because of a slowdown in the Colon Free Zone, fallings exports (mainly agricultural commodities) and the withdrawal of US military personnel a couple years after the Panama Canal was handed over to Panamanians. Gross Domestic Product (GDP) which was six per cent in 2004 has maintained a steady performance.

The Panama economy is largely service oriented with the Panama Canal, banking, insurance and tourism, being the principal areas of activity. However, apart from these, manufacturing, mining, agriculture, and construction are other sectors which are quite active and make meaningful contributions to GDP.

2.2.1 Panama Canal

This is a significant contributor to the economy of Panama. It was conceived as both a strategic military asset for the west and an economic asset in that it reduces shipping costs and times for international trade. Just under 10 percent of world trade in goods through the Canal. This is reflected in shipping fees and other revenues accruing to the government. Furthermore, the creation of the Colon Free Zone (as is discussed later) gives an impetus to the national economy.

2.2.2 Tourism

This is one of the key sectors in the Panama economy. The country is a major attraction for both long stay and cruise ship passengers which estimates suggest increased by 12.5 percent in
2006 and even higher in 2007. Much of the increase came from the cruise lines that visit Panama. The main hotels are located in Panama City, the capital. Overall Panama has enjoyed moderate growth in tourism and this is expected to continue.

To this end Panama has been investing heavily in both the creation of new hotels and cruise ship facilities. In addition, new restaurants, cruise port terminals and duty free shops have been created. In 2006 tourism output lifted the hotel and restaurant trades by 12.5 percent.

2.2.3 Banking

Panama has a modern and innovative banking sector which contributes to about eight percent of GDP. Along with the banking system is an offshore sector which is said to be one of the oldest in the world. According to Gustavo Villa of the Superintendence of Banks of Panama, a regulatory agency, the banking sector provides a wide range of services for local and international clientele. There are 41 banks with general license, 33 with international license that allow them to do business from their national countries, and 10 others.

The Offshore sector includes international business companies and captive and exempt insurance companies. The equities market is fully developed with daily trading of shares on stock exchanges. Most of the listed companies are financial institutions and market capitalization is estimated in excess of US$4 billion.

2.2.4 Manufacturing

Unlike most Latin American countries, manufacturing in Panama is a small industry with its contribution to GDP somewhat below the high regional average of around 8 percent. Nonetheless the production of foods and beverages, leather craft, furniture, clothing, and products used in the construction industry, are among the products manufactured in Panama. The latter products include fabricated metals, chemicals (paints), cement and other building materials. Virtually all the products produced in the Colon Free Zone are exported.

2.2.5 Agriculture and Fishing

Like manufacturing this is another sector which is not as fully robust as in other parts of Latin America. The principal agricultural activities are sugar, coffee, forestry and fishing. Logging is significant in some parts of the country and in particular where teak is grown on some plantations. Fishing is a vibrant activity in Panama. The country’s fishing fleet works mainly in the rich grounds of the Pacific Ocean. Many of the fishermen operate refrigerated boats which allow them to spend considerable time at sea. Most of the large shrimp and prawn catches are exported to the United States.

2.2.6 Construction

Panama boasts a very active construction sector. Construction activity expanded to 17.4 percent in 2006, reflecting a continuing property boom across the country. This program which saw also the construction of highways, public
buildings and hotels, fuelled a 12.8 percent growth in the banking sector. With more work set to commence on an expanding the Panama Canal, the construction sector is geared for even more growth.

2.2.7 Wholesale and Retail

These are two very important areas of the Panamanian economy given the investments in their operations and the intense competition among wholesalers and retailers. They have also been performing creditably. Imports of food, consumer goods, and intermediate goods have been on the increase. In 2007 the wholesale and retail sector grew 11 percent due mainly to the fast growth of domestic demand, resulting from the economic boom in Panama. While a fair amount of construction materials is sourced locally, imports are still significant.

2.2.8 Banking System

Panama has a well developed banking system catering to a variety of needs in the country. However, unlike its Latin American neighbors Panama does not have a central bank which acts as a regulatory agency for the banking system. Regulation of the banks and other financial institutions is undertaken by the Panama Superintendence of Banks. For other actors in the financial system like stock exchanges, insurance companies and non-bank financial institutions, the regulatory authorities are the Securities Commission and the Superintendent of Insurance.

2.3 Prices and Income

Prices in Panama are considerably low when compared with some of the country’s neighbours. Consumer prices which increased to 1.4 percent in 2004 from the 1.1 percent the previous year have remained relatively stable. While they have trended upwards to almost 3 percent in 2006, they retreated last year to 2.6 percent and are projected to be lower in 2008, according to the International Monetary Fund in one of its regular Article IV Consultation Report on Panama. However, this will depend on what happens to the international price of oil whose pass through effects in the economy, include higher consumer prices. See Table 2 for further information.

Table 2: Prices and Income

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumer Prices (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>1.8</td>
</tr>
<tr>
<td>2003</td>
<td>-0.3</td>
</tr>
<tr>
<td>2004</td>
<td>1.6</td>
</tr>
<tr>
<td>2005</td>
<td>3.4</td>
</tr>
<tr>
<td>2006</td>
<td>2.2</td>
</tr>
<tr>
<td>2007</td>
<td>2.3</td>
</tr>
</tbody>
</table>


2.4 Employment

Figures on employment in Panama show that the level of unemployment continues to decline. IMF data show that whereas in 2002 unemployment was 13.5 percent of the country’s labor force, the numbers fell to 8.6 percent in 2006 and were projected to decline even further in 2007.
The falling unemployment level stems from the spectacular economic growth Panama continues to experience and the increasing levels of foreign direct investment flowing into the economy. Investments have been made in financial services, tourism, manufacturing, agriculture, and several areas of business operations in the Panama Canal Zone. Most of the workforce is employed in services, followed by agriculture and industry. Tables 3, 4 and shows the breakdown of the labour force.

Table 3 Labor Force

<table>
<thead>
<tr>
<th>Service</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>61.2</td>
</tr>
<tr>
<td>Agriculture</td>
<td>20.8</td>
</tr>
<tr>
<td>Industry</td>
<td>18.0</td>
</tr>
</tbody>
</table>

Table 4 Social Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economically Active Population</td>
<td>2.1 million</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>9.8% (2006)</td>
</tr>
<tr>
<td>Informal Employment Rate</td>
<td>23.8%</td>
</tr>
<tr>
<td>Rate of Extreme Poverty</td>
<td>19%</td>
</tr>
</tbody>
</table>

Table 5 Share of Total Income

<table>
<thead>
<tr>
<th>Citizens</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poorest</td>
<td>1.5</td>
</tr>
<tr>
<td>Wealthiest</td>
<td>63</td>
</tr>
</tbody>
</table>

Source: Treasury and the Ministry of Economic and Finance

2.5 Economic Outlook

A number of agencies making projections about Panama are forecasting a strong economic outlook for the country. The International Monetary Fund projects that the economy will grow by about 6.6 percent in 2008, the highest by any of the Latin American countries. The Economic Commission for Latin America, the Inter-American Development Bank, and the Panamanian government has all forecast an upbeat performance for the country.

These projections are on top of the four years of strong growth that averaged about 7.3 percent. An inflation rate of 2.4 percent for 2008 is also on the cards, the second lowest in the region, even when taking into consideration how the rising price for oil has affected oil importing nations.

Increasingly, Panama is being viewed as a destination for more visitors as well as investments by Multinational Corporations. The Centre for International Finance and Development believes that this country of 3.2 million is destined for better things to come.

While the improved outlook is based on stable economic policies and a regime where economic sectors are being opened to competition, some of it has to do with a set of ambitious plans to widen the Panama Canal which at present generates a fair share of the country’s GDP. Under the plan earmarked to cost US$5.2 million, there will be two three-chamber locks which will be built at both ends of the Canal. These will create a third of traffic wide enough to handle the largest of modern containers ships and tankers. The area will be further
enhanced by new residential and commercial construction, as well as highway improvements and other Government infrastructure.

These activities will add to the investments flowing into the country and an already booming construction sector and generate additional jobs and economic activity in the country. Since the beginning of 2007, some US$1.25 billion has been invested in construction in Panama.

In August 2007 the country enacted Law 41 which gives immigration, fiscal and tax incentives to companies seeking to bring regional or global headquarters’ operations into Panama. The law coupled with the geographic position of Panama in the centre of the Western Hemisphere and the continuing difficulties in getting visas to the USA for training and consultation, is enticing large MNCs into setting up regional training and coordination centers in Panama.

Panama also has free trade agreements with El Salvador, Taiwan, and Singapore, and preferential trade agreements with the Dominican Republic and partial agreements with Colombia and Mexico. It is also one of the 34 hemispheric countries involved in the Free Trade Area of the Americas. See Tables 6, 7 and Appendix B

Table 7 Foreign Trade

<table>
<thead>
<tr>
<th>Indicators of US$ Billion</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports of goods</td>
<td>7.62</td>
<td>8.91</td>
<td>10.31</td>
</tr>
<tr>
<td>Exports of Goods</td>
<td>6.08</td>
<td>7.59</td>
<td>8.51</td>
</tr>
<tr>
<td>Trade Balance</td>
<td>-</td>
<td>1.54</td>
<td>-1.80</td>
</tr>
<tr>
<td>Current/Account</td>
<td>1.06</td>
<td>0.78</td>
<td>-0.38</td>
</tr>
</tbody>
</table>

2.6 Overview of Trade

2.6.1 Imports

Since its accession to the World Trade Organization (WTO) and the Association of Caribbean States (ACS), Panama has pursued an open policy that has seen it doing more trade with a number of countries and in the process tapped into the markets of these countries. Bilateral investment treaties have been signed with the United States, France, the UK, Germany, Spain, Uruguay and Cuba.

Table 7 GDP per Activity

<table>
<thead>
<tr>
<th>Sector</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and Fishing</td>
<td>7.90</td>
<td>7.65</td>
<td>7.24</td>
</tr>
<tr>
<td>Industry and Mining</td>
<td>17.02</td>
<td>16.37</td>
<td>16.46</td>
</tr>
<tr>
<td>Services (%)</td>
<td>75.07</td>
<td>75.98</td>
<td>76.30</td>
</tr>
</tbody>
</table>

Source: Federation of International Trade Association.

2.6.1 Exports

See Appendix C
1. 3. GENERAL MARKETING FACTORS

3.1 Import and Distribution System

Business practices in Panama are very similar to those in a number of advanced market economies in Europe, Canada and the United States. A combination of large, medium and small companies is involved in the import and distribution system in Panama. However, the business is dominated by the big companies which have outlets at specific locations throughout the country and which are serviced by deliveries using road transportation system. Direct importers act as wholesalers and in many cases as retailers. Estimates by International Marketers suggest that on average Panama City (the capital) accounts for about 60 percent of total national sales of consumer goods, the remainder is distributed among the other principal cities of David, Colon, Santiago, and Chitre. Because Panama City is the key center for shopping there is a heavy concentration of stores, shops, supermarkets, shopping malls and similar retail outlets.

The marketing and distribution, and sales channels are deemed as very straightforward. The situation whereby importers act as both wholesalers and retailers is common in the case of apparel, automotive parts, and hardware products. There is a different set up for food, other consumer goods and medicines where the retail operation is separate from wholesale operations.

3.1.1 Wholesale Food Distribution

One of the remarkable features about wholesale food distribution in Panama is the competitive nature of the business. Most of the food imported into Panama is done by importers, distributors and wholesalers. These wholesalers and importers are very knowledgeable about the Panama market; they have highly distribution resources and firm contacts with suppliers in the United States, Canada and in Europe.

However, it is common practice for some Panama retailers to assume the role of middlemen, thereby covering all or most aspects of the product supply chains. Research has shown that some supermarket chains in Panama, import products from food manufacturers directly and distribute it to their own stores, and to smaller distributors and retail stores. Importers also sell directly to hotels and restaurants in the country.

3.1.2 Retail Food Distribution

There are several retail food outlets across Panama and they range in size from large establishments to medium sized and smaller ones. Many of the large sized businesses who sometimes do their own importing supply the smaller entities which lack the resources to do their own importation. Lower income consumers who do not have access to supermarkets tend to patronise the smaller businesses that include convenient stores. Stores are strategically located throughout Panama City and in surrounding areas to reach a large proportion of population normally served by small and medium sized family-owned businesses. Some of the main supermarkets in Panama City are
Casa de la Carne, Super Extra, Puba South, Machetazo, Supermercado RY, Super 99, and Basica Specialty and Gourmet food stores also exist.

3.2 Use of Agents and Distributors

Panama has a wide network of agents and distributors acting on behalf of the several importers and wholesalers spread across the country. Under Panamanian Law, nationals and foreigners are treated equally. Both must fulfill the same basic requirements to organise and to operate business activities in Panama. However, there are restrictions on foreigners participating as retail trade agents. Agents are appointed to help in the distribution of goods. There are no laws regulating the relationship between international suppliers and local agents and local distributors. This relationship is governed by the private agreement between the parties involved.

3.3 General Market Conditions

3.3.1 Sales Service/Customer Support

Market conditions in Panama are such that they have engendered enormous activity in the retail sector. There is a booming economy, especially tourism and construction and these together have generated demand. In addition inflation is low and with consumers very fashion and conscious about brand names, all of this tend to act as a drawing card for customers. Consumers with high disposable income tend to follow the sophisticated US and European consumption patters.

3.4 Major Sales Promotion Methods

Retailers in Panama use a variety of tools to promote sales to attract customers and to promote sales. Attractive layout of items, displays and store ambience are some of the key marketing tools undertaken. Sampling of products, discounts, store promotions and regular sales are also undertaken.

Television, radio and newspaper advertising are used to good effect to get across messages. Shopping on line and e-mail marketing are becoming very popular, especially for services. Panama has a very competitive advertising market with standard prices and very good production quality. There are also well trade shows and exhibitions which are held regularly. Special sales around such occasions as Easter, Mother’s Day, Father’s Day and back to school are usually advertised in newspapers, magazines and other periodicals during weekends. Most foreign manufacturers of consumer goods maintain a high profile in Panama through advertising, billboards, sponsored sporting events and television displays.

3.4 Advertising and Publicity

There are many advertising and publicity businesses in Panama. These are grouped under specific segments in areas of business. However, one of the main umbrella body in Panama for the sector is the Panama Association of Publicity Agency. Both the print and electronic media systems are the principal medium for disseminating advertising messages.
3.5 Transport and Communications

3.5.1 Travel and Transportation

Panama has excellent travel and transportation facilities that incorporate buses, taxi, railways, marine, and air travel. Panama has a total of 11 kilometres of paved highways. This figure includes 30 kilometres of express unpaved roads.

**Buses:** This form of transportation in Panama is very developed and its service is very dependable. Buses traveling outside the City to the interior of the country, leaves from one specific location, the Allbrook Mall Terminal. This area acts as a hub for rides to Coronada, Santa Clara, Santiago, and even as far as Costa Rica. Bus rides vary in prices and up to 2007 fares ranged from a few cents up to a few dollars. Every part of the country is accessible by bus, even the International Airport, and between Panama and Costa Rica.

**Taxis:** Taxis are also very plentiful in Panama. They can be recognized easily by their numbered markings, although they come in all sizes, shapes and colors. All fares are based on zones or areas and not determined by meters. Cab drivers are required to carry a copy of the Zone chart with them at all times. However, most fares within the metropolitan areas average between B/1.00 to B/1.50 and a B/0.25 surcharge. Trips from Panama City to the Tocumen International Airport cost approximately B/.15; 00 per person with each addition passenger paying B/5.

**Boats:** These are the primary means of transport in many regions of Panama, particularly between Boca del Toro and San Blas archipelago. Also Kuma Indian Merchant ships carry both passengers and cargo between Puebla Obald and Colon.

**Railway:** The Panama Canal, a 47.6 mile transcontinental railroad operating parallel to the Panama Canal, offers passenger service between Panama City and Colon, Monday through Friday. The train departs Panama City from Colon at 5.15 p.m. The trip lasts one hour. Tickets cost about US$22, while tickets for round trips cost US$38.

**Air Travel:** Tocumen International Airport is the main link between Panama and other international, regional and domestic destinations. The airport lies 15 miles from Panama City. Many international airlines service the airport. Among them are American Airlines, Air France, Continental, Delta, Air Madrid, Lufthansa and Korean Air, among others. There are as well regional carriers which create links between Panama and Latin American cities. Air Panama offers domestic and international services.

In 2006 Tocumen underwent a major expansion and renovation program in order to modernize and to improve its facilities. It is presently the only airport in Panama with two runways and is also the largest in the country. The name of the airport was briefly changed to the Omar Torrijos International Airport after the Panamanian leader, Omar Torrijos who had died in the early 1980s. However, it was reverted back to Tocumen following the overthrow of Manuel Noriega, Panamanian President.
### Table 8  Passenger and Cargo Volume of Tocumen

<table>
<thead>
<tr>
<th>Year</th>
<th>Passengers (mil)</th>
<th>Cargo</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>2.14</td>
<td>-</td>
</tr>
<tr>
<td>2004</td>
<td>2.40</td>
<td>83 684</td>
</tr>
<tr>
<td>2005</td>
<td>2.75</td>
<td>103 132</td>
</tr>
<tr>
<td>2006</td>
<td>3.21</td>
<td>82 186</td>
</tr>
<tr>
<td>2007</td>
<td>3.75</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Tocumen Airport Report.
2. 4. MARKET ACCESS CONDITIONS

4.1 General Import Policy

In 2007 the World Trade Organization (WTO) issued a Trade Policy Review for Panama which showed a liberal trade regime. The country maintains an essentially liberal trade and investment regime that is characterised by low tariffs and few non-tariff barriers. The WTO said that is in keeping with the vital role that trade plays in the Panamanian economy.

According to the WTO, the country’s service oriented economy acts as an international hub for activities such as maritime transport, distribution services and banking. In contrast, the production of a number of agricultural and manufactured goods receives assistance through border protection and fiscal incentives.

4.1.1 Import Tariff System

The tariff is Panama’s main trade instrument. All tariffs are ad valorem. The average MFN – Most Favored Nation – tariff is 8.5 percent; the average tariff of 14.2 percent for agricultural products is considerably higher than for other products (5.6 percent). The WTO has however described the tariff structure as complex with three tiers (including duty free system).

Panama has also bound all tariff lines, thereby providing greater predictability to its trade regime. There is nonetheless a reduction of some 15 percentage points between average applied and bound tariffs. There are at least three tariff lines for which the applied tariff is higher than the bound rates.

In addition to tariffs, imports are subject to a customs service fee levied at a specific rate. This is known as transfer tax (5 percent) which is levied on the c.i.f value and on other handling charges. Pharmaceuticals, foods, and school supplies are exempt from the transfer tax. Panama does not allow import licenses on manufactured goods in the country, provided the importing entity holds a commercial or individual license to operate in Panama.

4.1.2 Taxation

Internal Taxes: There is a wide range of taxes in Panama. They range from the personal income tax to the Value Added Tax, and other impositions.

Income Tax: This tax is charged on income derived from Panamanian sources. The rate for individual taxpayers varies from four percent to 33 percent, and 30 percent for incomes in excess of US$200 000. As in the case of legal entities the extent of income tax liability does not depend primarily on residence although residence is important. In addition to withholding taxes, statutory residence rules.

Corporation Tax: This tax is fixed at a flat rate of 30 percent. Specified small businesses benefit from favorable tax rules contained in a regulation that applies to individuals as well as to corporate tax rates. Non residents as well as residents and legal entities are liable for corporation tax only on income derived from Panamanian sources.
Theref ore a non-resident company with a branch in Panama is liable for corporation tax on the income of the branch.

**Valued Added Tax (VAT):** First introduced in 1977, as a tax paid by the final consumer, the VAT is levied on the transfer of personal property by sale and purchase exchange, contributions to a company, assignment or any other act transferring control over the movable property. Imports of personal property are also subject to the VAT. The taxable base is the price of the transaction. It is paid monthly, or every three months, depending on the taxpayer’s gross receipts. The standard rate is 5 percent but a 10 percent rate applies to importers and sellers of liquors and cigarettes. Exceptions include inheritance, legacies, negotiable instruments, exports, food, medicines, school supplies, crude oil and its buy products and transfers made in Free Zone services.

**Real Estate Tax:** Real estate in Panama is subject to a real estate tax. Owners pay the tax according to a progressive scale that ranges from 1.75 percent on the excess over US$20 000 to 2.1 percent on the excess over US$75 000. The taxable base is the assessed value determined by the Land Commission. Various exemptions are available, including buildings and improvements used by non-profit organizations or government entities and those with a value of less than US$20 000. The improvement constructed over the real estate is exempt from taxes for a period of 20 years.

**License Tax:** Commercial or industrial enterprises are required to obtain a license to carry on their activities. An annual business and indirect license tax is levied at the rate of one percent on the net worth of the company concerned, and which is increased by amounts owed to any parent company or head office located abroad. License tax may not exceed US$20 000. The license does not permit company holding it to engage in agriculture, the cattle industry, or the rental of real estate. However, companies engaged exclusively in offshore or Colon Free Trade Zone or other free zones are not required to have a license.

**4.2 Non Tariff Barriers**

**4.2.1 Import Licensing**

No import licenses are required in Panama. Any company holding a commercial license can freely import goods into Panama. A commercial or industrial license is however required by individuals or companies wishing to engage in commercial or industrial activities. Phytosanitary permits are required to import agricultural products. Special import permits must be obtained as well for all types of firearms, ammunition, fertilizers. Certain food import permits are obtained from the Ministry of Government and Justice.

In addition to tariffs, imports into Panama are subject to a customs service fee levied at a specific rate. This is known as transfer tax (five percent) and applied on the c.i.f value and on other handling charges. Pharmaceuticals, foods and school supplies are exempted from the transfer tax. Panama does not apply import licenses on manufactured goods.
4.2.2 Special Customs Provisions

The Colon Free Zone offers free movement of goods and complete exemption from taxes on imports and on re-exports. There are no taxes on the export of capital or on the payment of dividends. In addition there are reduced income tax rates on earnings from export sales. Furthermore, firms located in the CFZ are exempted from import duties as well as from guarantees, licensing and other requirements and limitations on imports.

4.3 Samples and Carnets

Samples with commercial value are subject to temporary entry requirements. Samples with no commercial value are admitted duty free. If samples arrive in large containers they will be dutiable even though they may be marked as free samples.

4.4 Labelling and Marketing Requirements

Panama business style is usually considered a mix of both North American and Latin American customs. Though English is widely spoken in Panama, it is a requirement that local literature be made available in Spanish. In fact regulators require labels to be in the Spanish language, although this is not enforced except for medicines, agricultural chemicals, toxic products and food products that require specific instructions or warnings due to risks to the health of humans. Labels are required to have basic information regarding the name and address of manufacturers, expiration date, list of ingredients, lot number and the contents of the product.

4.5 Documentary Requirement

To invest in Panama, the entrepreneur must furnish to the country’s authorities enough pertinent documentation to fulfill the investment and the ambition of doing business in Panama. Up front the name of the corporation must be given. It may be in any language but it must terminate in a word or an abbreviation indicating that it is a corporation.

Other documentations required are:
- Information on the objective and purposes of the corporation;
- The amount of the authorized capital. Usually the authorized capital will consist of US$10 000 divided into 100 shares of US$100 each. Shares may be nominated or bearer shares;
- Information on the duration of the corporation, usually perpetual;
- The full name and addresses of at least three or more directors and/or officers;
- The domicile of the corporation.

The time period usually involved in setting up a corporation takes between 15 days and 60 days. Attorney fees usually range from US$600 to US$1 500 per corporation. Exemption for business license requirements are granted to persons or legal entities engaged exclusively in agriculture, cattle, bee or poultry husbandry, or in the manufacture and sale of handicraft, provided that the work is not done by hired workers.

For real estate development, Panamanian laws permit investors to submit plans and documentations to such government
agencies as Environmental Enforcement Agency, Panama Institute of Tourism, Ministry of Housing, Ministry of Economics and Finance, Ministry of Commerce and Consumer Affairs, and the Fire Department. Each agency has to be fully in tune with the project in a way to ensure that regulations are adhered to. In addition, copies of appropriate legislation are required to guide investors in their specific area of real estate development.

4.6 Other Regulations and Factors that affect Trade

4.6.1 Foreign Exchange Controls

There are no foreign exchange controls in Panama. This is in keeping with the country’s commitment to trade, investment and financial liberalization. While the unit of currency in Panama is the Balboa, the American dollar is the national currency and there are no restrictions on capital flows in or out of the country. The US dollar circulates freely with the Balboa.
5 INVESTMENT PROFILE

5.1 Investment Incentive Schemes

A WTO 2007 Trade Policy Review highlights the increasingly openness of the country’s investment and trade regime. This regime, the WTO said, is characterized by relatively low tariffs and a few non-tariff barriers in consonance with the vital role that trade plays in the Panamanian economy.

Country surveys undertaken by the USA, Canada, the UK and some other countries reveal that Panama maintains a rather liberal regime for foreign investment. This has borne fruit as the country continues to attract sizeable foreign direct investment (FDI), amounting in 2006 to US$3.0 billion, surpassing the US$1.29 billion fuelled by the privatization of state assets in 1997.

The Investment Stability Law guarantees all foreign and domestic investors equal rights in terms of their investment and business practices. It helps to further the country’s long standing policy of promoting a foreign investment environment that requires no special authorizations, permits or prior registration.

The Stability Law provides a 10-year stability as of the registration that at legal, tax, customs, municipal and labor rules will remain identical to those in force at the time of registration. Business Panama said that this is an important guarantee to secure no changes will affect the amortization of investments.

A significant share of the FDI in 2006 went to Panama’s Colon Free Zone and to the financial sector. The spike in 2006 was also influenced by HSBC’s acquisition of Banistino, the largest national bank at a cost of US$1.77 billion. It is wide expected that the pending United States – Panama Free Trade Agreement and the Panama Canal expansion will trigger more FDI flows into Panama.

Another area attracting FDI is real estate. “We are the geographic hub of Latin America,” said Ivan Calucci, President of the Panama Association of Real Estate Brokers and Developers. The country is a drawing card for businesses, residents, and investors. Accommodating them has created a demand for housing and Calucci said 11,000 new housing units are scheduled to come on stream in 2008. When he spoke in late 2007 approximately 99 percent of the units had been sold.

5.2 Free Trade Zone/Industrial Parks

The Colon Free Zone (CFZ) in Panama is the largest free zone in the Americas and the second largest in the world. Created in 1948 the CFZ is administered as an autonomous institution of the Panama government. The CFZ is an imposing area that does business with every major country one can imagine. According to Business Panama, the CFZ houses 1,751 merchants, it receives more than 250,000 visitors annually from all parts of the world and generates exports and re-exports valued in excess of US$7 billion in 2006.
The CFZ is located at the Caribbean entrance of the Panama Canal with access to three ports in the Atlantic and one in the Pacific. “The products most often imported in the CFZ are electric appliances, clothing, watches, perfumes and cosmetics, textiles, gold jewelry, liquors and cigarettes,” said Business Panama in a February 2008 Report of the zone. Business Panama ranks Venezuela as one of the best clients of the CFZ due to its high purchase index, followed by Colombia. However, Hong Kong (China) is the largest importer.

The benefits to Panama’s national economy from the operations of the CFZ are significant. The zone’s contribution to Panama’s GDP is approximately 7.5 percent. In 2006, re-exports from the CFZ were up 15.6 percent in value and 23.5 percent in metric tonnes. The value of imports increased 11.1 percent and 8.6 percent in metric tonnes.

The success of the CFZ is due to a combination of such factors as the geographic location of Panama at the crossroad of the world, the fact that the US dollar is legal tender and a large and booming banking and financial services sector on its doorstep, several container ports and a favorable business environment.

Most CFZ merchandise is transshipped from Panama to other ports around the world. Imports come mainly from the Far East and notably Hong Kong and Taiwan, and from the USA, Japan, Korea, France, Mexico, Italy, Puerto Rico, Switzerland, UK, Germany and Malaysia. Colombia is the largest buyer of merchandise, accounting for almost 16 percent of all CFZ exports. Other key purchases are Venezuela, Panama (domestic) market and other Latin American countries.
6. ESTABLISHMENT OF BUSINESSES

6.1 Intellectual Property Rights

6.1.1 Laws of Patents, Trademarks and Copyrights

**Patents:** Patents are the protection of trade secrets. To effect this policy the Government of Panama enacted a new Industrial Property Law that provides sweeping powers to ensure that patent rights are observed and for the protection of trade secrets. Provision is made for 20 years of patent protection from the date of filing. There are some exceptions with one of them being pharmaceutical patents which are allowed 15 years and renewed for a further 10 years. However, this depends on if the patent owner licenses a national company to take advantage of the patent.

**Trademarks:** Panama has in place a modern Trademark Registration Office which guides the country’s regulations in this area. It has modern databases of registered trademarks. Within the Trademark Registration Office in Panama, trademark protection is guaranteed under the same law which outlines the regime for patents.

Once registered, trademarks can also be renewable for 10 years periods. Provision is made within the law to authorize government agencies to investigate and where necessary, confiscate materials and other goods deemed to have been used illegally. In 1997 the Customs Department created a special office for enforcing Intellectual Property Rights.

**Copyrights:** Panama has a Copyright Office which gives leadership to the enforcement of copyright violations. The country’s 1994 Copyright Law modernized protection in the state. It also provides for the payment of royalties, facilitating the prosecution of violators, protecting computer software and making certain copyright infringements a felony. The Government of Panama is a signatory to the World Intellectual Property Organization’s (WIPO) Copyright Treaty and the WIPO Performances and Phonographic Treaty.

The lead prosecutor for IPR cases in Panama is the Attorney-General. The Panama Trade Promotion Agreement with the United States provides Panama with more tools to encourage the compliance of copyright standards.
7. CULTURAL PRACTICES

7.1 Business Hours

Most private business offices in Panama are open from 8 a.m. until 6 p.m. It is customary for all offices and stores to close for the lunch period for at least one and a half hours. Banks open from 8 a.m. to 1 p.m. Monday through Friday. Office hours for government departments vary.

7.2 Entry Requirements

Persons entering Panama require valid passport and proof of adequate funds to cover the cost of the stay in the country. The passport must be presented to Immigration officials when arriving and exiting Panama. Upon entering Panama persons will pay US$5 for a transit visa. Panama Law requires that visitors carry official identification documents at all times. This is because of an increasing number of illegal immigrants in the country, leading police to undertake period checks to clamp down on persons remaining illegally in Panama. Visitors are allowed to stay for 30 days with the possibility of a 60 day extension. If the visitors require to remain beyond the 30 days they must two days prior to the expiry of those 30 days seek an extension from the Immigration Department. Requirements for extension can be obtained from the department.
8. APPENDICES

Appendix A  Economic Statistics

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2006</th>
<th>2007</th>
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<tr>
<td><strong>Real Economy</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Nominal GDP</td>
<td>3.9</td>
<td>5.4</td>
<td>9.8</td>
<td>7.3</td>
<td>6.8</td>
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<tr>
<td>Real GDP (1996 Prices)</td>
<td>2.3</td>
<td>4.2</td>
<td>7.6</td>
<td>5.5</td>
<td>4.5</td>
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<tr>
<td>Consumer Prices</td>
<td>1.8</td>
<td>-0.3</td>
<td>1.6</td>
<td>3.4</td>
<td>1.9</td>
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<tr>
<td>Unemployment</td>
<td>13.5</td>
<td>13.1</td>
<td>11.8</td>
<td>9.6</td>
<td>8.0</td>
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<tr>
<td><strong>External Sector</strong></td>
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<tr>
<td>Current Account</td>
<td>-0.8</td>
<td>-3.9</td>
<td>-7.9</td>
<td>-5.1</td>
<td>-4.6</td>
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<tr>
<td>Capital Account</td>
<td>3.0</td>
<td>1.0</td>
<td>3.2</td>
<td>9.0</td>
<td>4.3</td>
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<tr>
<td>Effective Exchange Rate</td>
<td>-0.1</td>
<td>-7.3</td>
<td>-4.0</td>
<td>-0.6</td>
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<tr>
<td>Foreign Public Debt</td>
<td>51.7</td>
<td>50.3</td>
<td>50.8</td>
<td>50.1</td>
<td>48.9</td>
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</table>

Source: IMF

Appendix B  Trade and GDP (%)

<table>
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<tr>
<th>Activity</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
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<tr>
<td>Share of Foreign Trade in GDP</td>
<td>131.5</td>
<td>143.5</td>
<td>144.5</td>
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<tr>
<td>Share of Imports of Goods and Services in GDP</td>
<td>63.9</td>
<td>68.7</td>
<td>71.1</td>
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<tr>
<td>Share of Exports of Goods and Services in GDP</td>
<td>67.6</td>
<td>74.8</td>
<td>73.4</td>
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<tr>
<td>Imports of Goods and Services (annual % change)</td>
<td>14.4</td>
<td>10.8</td>
<td>10.0</td>
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<tr>
<td>Exports of Goods and Services (annual % change)</td>
<td>18.5</td>
<td>11.6</td>
<td>11.1</td>
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</table>
Appendix C  Export Data

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Rank</th>
<th>Percent Change</th>
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<tr>
<td>2003</td>
<td>$5,800,000,000</td>
<td>73</td>
<td></td>
<td>2002 est.</td>
</tr>
<tr>
<td>2004</td>
<td>$5,237,000,000</td>
<td>80</td>
<td>-9.71 %</td>
<td>2003 est.</td>
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<td>2005</td>
<td>$5,699,000,000</td>
<td>81</td>
<td>8.82 %</td>
<td>2004 est.</td>
</tr>
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<td>2006</td>
<td>$7,481,000,000</td>
<td>77</td>
<td>31.27 %</td>
<td>2005 est.</td>
</tr>
<tr>
<td>2007</td>
<td>$8,087,000,000</td>
<td>81</td>
<td>8.10 %</td>
<td>2006 est.</td>
</tr>
</tbody>
</table>

Appendix D – Address Listings

Newspapers and Magazines
- Critica en Linea
- Espasa
- DiaaDia online
- El Siglo
- Espana en Linea
- The Bocas Breeze
- La Prensa
- Panama America
- The Panama News
- Ya
- La Estrella de Panama

Radio Stations
- La Mega
- Marabello Estereo
- Los 40 Principales
- Omego Stereo
- Radio 10
- RPC Radio
- Super Q
- WAO 97.5

Television Stations
- FE TV Canal 5
- RPC TV
- Telemetro Panama
- TV Nacional Canal
- PCM Television

Some Manufacturers and Commercial Organizations
- American Chamber of Commerce and Industry of Panama
- Banking Association of Panama
- Colon Chamber of Commerce
- Colon Free Zone Administration
- Colon Free Zone Users Association
- Construction Chamber of Panama
- Council for Investment and Development
- Council Investment and Development
- Exporters Association of Panama
- Manufacturers Association of Panama
- National Association of Small and Medium Sized Businesses
• Panama Chamber of Commerce, Industry and Agriculture
• Panama Association of Business Executives
• Panama Institute of Foreign Trade
• World Trade Center of Panama

**Industrial Business Consultants**

Given that Panama is mainly a services oriented economy, this has created opportunities for a wide range of business consultants in the country. They spread across a wide spectrum from exporting and importing, to financial services, legal practices, accountancy, other management services among others. PanamaCityDirect is one of the leading sources of information for business consultancy information. Panama City Yellow Pages is another source.

**Government Offices**

• Ministry of Agriculture
• Ministry of Commerce and Works
• Ministry of Economy and Finance
• Ministry of External Commerce
• Ministry of Education
• Ministry of Energy
• Ministry of External Affairs
• Ministry of Health
• Ministry of Interior and Justice
• Ministry of Labor and Social Welfare
• Ministry of Planning and Economy
• Ministry of Public Works

This is not an exhaustive list as there are several other ministries in Panama. There are as well several government departments and agencies relating to animal health, plant health, energy, science and technology, women’s affairs, the environment, maritime and the Panama Canal. A full list is available on request from the Government.