

INVESTING IN

PANAMA



*A summary of information concerning investments
in Panama*

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prepared by

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The following is a summary of available information on investing in Panama and is presented as a matter of general information. A thorough investigation of local conditions and prospects for particular activities is, of course, indispensable, and the assistance of a counselor or an agency thoroughly familiar with the Panamanian situation is advisable.

Information and assistance for persons interested in specific activities can be obtained from us or our associated company in the City of Panama by contacting:

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JULY, 1958

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The Crossroads of the World

Since the days of the Spanish Conquistadores, Panama has been a focal point of commerce in the western world. Within the past few years, Panama has assumed an even more important role, not only as a trading area, but also as a center of international business and finance.

Completion of the Panama Canal in 1914 accelerated national development, causing a rapid growth of population and a corresponding expansion of the capital city. In addition, Panama's modern Tocumen International Airport and the recently established International Free Trade Zone in Colon, both of which are important gateways to the vast Latin American market, have further emphasized Panama's position as a "Crossroads of the World".

Within the past ten years, because of the relatively undeveloped agricultural, industrial and raw material resources of Panama, plus the Republic's unrivalled strategic geographi-

cal location, there has been a growing realization that opportunities for investment exist in several fields. Furthermore, the Government, through the Investment Incentive Act of February 1957, has indicated its wholehearted support and encouragement of foreign investments. This Act states that the Government "will encourage the investment of private capital in the exploitation of natural resources, agricultural activities, cattle raising, fisheries and in profitable industries". This law grants a number of privileges and concessions to encourage productive activities. These include exemption from a variety of taxes, including import and export taxes, for periods ranging up to fifteen years. Under certain conditions, tariff protection may also be offered against competitive foreign imports.

Panama's advantages for productive new enterprises or for establishing subsidiary corporations make it one of the most desirable countries in the dollar area for investment. These advantages may be summarized as follows:

- No approval is necessary for the opening and operation of United States dollar bank accounts.
- There are no transfer restrictions of any kind on foreign-owned assets, dividends and interest.
- The currency is maintained at par with the United States dollar.
- Panama is the hub of a great transportation network, reaching to all points in the Western Hemisphere. Sixty-four steamship lines of 34 nations touch regularly at Canal

Zone Ports and 15 international airlines regularly use Tocumen International Airport near Panama City.

- Panama's business law generally makes no distinction between national and foreign companies in the formation and management of business enterprises; the corporation laws of Panama are liberal and allow a great deal of flexibility.

- Panamanian income taxes are low by U. S. standards, and Panama does not tax profits earned outside the Republic, nor are there excess profits taxes or taxes on capital gains.

- Mineral, land and forest resources are virtually untapped, and offer outstanding possibilities for development.

- The Colon Free Zone offers unique geographical, tax and operating advantages in tapping Western Hemisphere markets.

- There is no language barrier, since a large percentage of the working population in the cities is fluent in both Spanish and English.

The Country

Although Panama connects North and South America, the isthmus runs east and west with the Republic of Colombia on the eastern border and Costa Rica on the west. The country is 480 miles long and varies in width from 30 to 120 miles, with a total area of 28,753 square miles—about the size of South Carolina. The Canal Zone is 50 miles long and 10 miles wide, and divides the Republic

into two nearly equal parts. From the Caribbean Port of Cristobal, the Canal runs roughly southeast to the Pacific Port of Balboa.

The total estimated population of the Republic of Panama in 1957 was approximately 986,000, concentrated mostly around the cities of Colon and Panama, adjacent to the Canal terminal cities of Cristobal and Balboa. The total working population was estimated at 300,000 that year. Some 48,000 workers, or 16 per cent, are under social security. The population of the Canal Zone totals an additional 38,000, exclusive of uniformed personnel of the U. S. Armed Forces.

The remainder of the population is concentrated largely in the western part of the Republic, especially in the province of Chiriqui, bordering Costa Rica. The rest of the country is sparsely settled or even unexplored virgin wilderness.

The principal city and capital of the Republic is Panama, located near the Pacific entrance of the Canal. With a population of about 220,000, this city is the center of the country's banking, commercial, industrial, political and social life. The province of Panama, of which Panama City is also the capital, contains by far the greater part of industry in the country and has the largest electric power facilities.

The City of Colon, with a population of approximately 58,000, is the second largest city of the country, and is situated at sea level adjacent to the Canal Zone Atlantic terminal Port of Cristobal. This city depends largely on commerce, which centers around the extensive port facilities and the important International Free Trade Zone.

David is the third largest city of the country, with a population of 18,000. As the capital of the province of Chiriqui, David is the center of commerce for the western part of the country, and is a concentration point for agricultural products, livestock and lumber, which are the principal products of the region. The National Railway connects David with its port, Pedregal, which plays an important part in the coastwise shipping between this section of the country and Panama City. The railway also connects David with the Pacific Port of Puerto Armuelles, near the Costa Rican border.

Goods and services supplied to the Panama Canal Zone provide one of the more important sources of income to the Republic. The Colon Free Zone (see page 30) is becoming an increasingly important factor in the country's commercial life. The tourist trade also represents a very significant contribution to Panama's economy. Panama's important industrial activities include fishing and fish processing, bananas, lumbering, construction, food processing, cement, small manufacturing and, more recently, oil and minerals exploitation. Nevertheless, the majority of people outside Panama City and Colon still depend upon livestock raising and agriculture as a means of livelihood.

In 1955, according to the United States Department of Commerce, Panama had 1,350 miles of roads, of which 440 miles were paved. There are two main road systems. The Pan-American Highway parallels the Pacific Coast, connecting the larger towns in the western part of the country with Panama City. Several routes east of Panama City, through the dense jungle province of Darien to the Colombian

border, have been surveyed. However, the final location for this section of the Inter-American Highway has not been selected.

An excellent concrete Trans-Isthmian highway, approximately 50 miles in length, crosses the Republic paralleling the Panama Canal, and connects Colon on the Atlantic side with Panama City on the Pacific. The Panama Railroad, owned and operated by the U. S. Government, also parallels the Panama Canal from Colon to Panama City.

The Economy

Panama's foreign trade is predominantly with the United States. Several reasons account for the fact that Panama has not been subject to the balance-of-payments difficulties in recent years, with which most other Latin American countries have had to contend. The principal factors in Panama's economic stability are: the large and steady inflow of dollars from the Canal Zone; Panama's geographical position, which gives the country a good income from tourism and transit trade; and the close tie between the balboa and the United States dollar.

Panama's imports in 1957 totaled \$115 million, and its exports were \$38 million. Although this was the largest trade deficit in Panama's history, it was more than offset by such items as Canal Zone revenues, tourist expenditures and income from services. Therefore, Panama ended the year 1957 with short-term dollar assets amounting to \$136 million, one of the highest reserves in the country's history, and up substantially from the \$109 million at the

end of 1956. An important addition to national income may develop from the exploitation of Panama's mineral deposits, principally bauxite and manganese, as well as petroleum, if exploration is successful. The large fees paid in 1957 by foreign companies for oil and mineral prospecting rights constituted a new source of income for the Government. Total oil concessions now number 60 and cover almost the entire area of Panama.

The economic outlook for Panama continues to be very encouraging. The country should continue to be completely free of foreign exchange problems. Economic conditions are expected to remain at high levels, due to expanding income from the Canal Zone, increased activity in the Colon Free Zone, exploration for and exploitation of oil and mineral deposits, and other private investment. Panama's merchant marine is one of the largest in the world, ranking sixth, with a registry of 994 ships, totalling 4,970,500 gross tons.

Over \$10 million of expenditures are scheduled to be incurred in 1958 by six companies searching for petroleum. It is expected that Kaiser Aluminum & Chemical Company and Aluminum Company of America soon will begin to develop the country's bauxite deposits. Additional sums are being spent in the development of Panama's manganese resources, and the first export shipment was made in March 1958. Also, a recently announced 90 per cent reduction of income taxes in the Colon Free Zone and a new warehouse financing program undoubtedly will lead to further increases in investment activity.

Opportunities for Development

The Republic of Panama, through The Institute for Economic Development and the United States "Point 4" mission to Panama, has identified several areas as "Targets for Future Development", including manufacturing, food processing and exploitation of minerals, forest resources and fisheries. Under the Investment Incentive Law of February 1957, the Government of Panama offers special privileges and tax concessions for many of these development opportunities.

Forest Resources: Commercial forests cover an estimated 12,400,000 acres or 70 per cent of Panama's total area. The most extensively forested provinces are Darien, Panama, Bocas del Toro and Colon. This timber is nearly all of the hardwood or broad-leaf class located in non-homogeneous stands. Mahogany and Spanish cedar are the most common woods.

There are now about 75 sawmills operating in the Republic, ranging in size from a daily capacity of 20,000 board feet to a few hundred feet. There are only two drying kilns in the Republic, so most of the boards are air dried. There is one efficient plywood plant just outside Panama City, and this firm has recently begun exporting this product.

In recent years, several important studies have been made of Panama's forest resources. A 1955 study by an agency of the Organization of American States (OAS) pointed out that the relatively unexplored jungle areas of the province of Darien offered the most favorable opportunities for industrialization of forest resources in Panama. The internal system of waterways, and the presence of large quantities

of high quality woods are combined in the Province of Darien in a manner rarely found in the Western Hemisphere.

The following have been cited as possibilities for integrated development: sawmills, veneer and plywood plants, a pressed board plant, a pulp and paper plant, a cellulose mill, a match factory and a variety of specialty items, such as boxes, crates, doors and furniture.

Important steps have been taken recently to stimulate development of natural timber resources in Panama. A conservation committee, composed of timber interests, industrialists, legislators and Government officials, has agreed upon a series of basic steps for improved forest resource utilization, which include drafting a new law providing, for the first time, a Forestry Office to make necessary technical studies and to promote and establish essential conservation practices. In addition, a testing laboratory has been set up in the University of Panama, with facilities for testing physical and mechanical properties of woods and other materials.

Processing Agricultural Products: Most of Panama's agricultural production comes from the region between the Canal Zone and the Costa Rican border on the Pacific watershed. Among the more important commercial crops are bananas, cacao, corn, beans, rice and coffee.

Dairying and beef cattle-raising are also progressing rapidly, because of increased purchases in the Canal Zone, the expansion of dairy-product manufacturing, and Government promotion activities. The country is now self-sufficient in beef cattle, and regularly exports this item.

The Government of Panama has shown considerable interest in the development of agriculture by promoting farm mechanization, and providing facilities for grain storage, especially for corn and beans. Two loans have recently been negotiated with the International Bank for Reconstruction and Development (World Bank), providing \$1.2 million for agricultural machinery and equipment, and nearly \$300,000 for grain storage facilities. Although the Government's farm policies, which are designed to make the Republic self-sufficient in food production, have met with considerable success in certain products, over-all farm output has barely kept pace with population growth. At present, food and beverages make up 15 per cent of Panama's total imports. Thus, much remains to be done if the nation is to become truly self-sufficient in food production.

Panama still has large areas of uncultivated and potentially fertile lands, both in the tropical lowlands and temperate highlands. Much of this territory is public land which can be allotted, sold or leased under provisions of Title IV, Chapter I of the Panamanian Fiscal Code.

Panama produces all the familiar varieties of tropical fruits and vegetables and a number of Temperate Zone vegetables as well, but only tomatoes are processed in the Republic at present. There is no citrus fruit industry either, although the Republic grows oranges, grapefruit, lemons and limes. Recently, however, there has been increased interest in the development possibilities of the food processing industries, including such items as baby food (banana puree), coconuts (grated or shredded—copra is already being processed for oil),

pineapples and other tropical fruits. All of these activities together could provide a base for year-round food and vegetable processing operations. At present, however, the Republic and Canal Zone annually import substantial quantities of processed foods, fruit and juices.

A recent important addition to the nation's food processing industry is a powdered milk plant in Chiriqui Province, utilizing milk that was formerly wasted, because of the lack of transportation and refrigeration facilities. The production of this plant will eventually eliminate the necessity of importing powdered milk into the Republic.

Fisheries: Panamanian waters are remarkably rich in fish, including shrimp, corvina, red snapper, Spanish mackerel, tuna and anchovy. Nevertheless, with the exception of the shrimp industry, which has achieved phenomenal growth in the past few years, these resources have been little utilized. Panama's exports of shrimp and other shellfish to the United States have soared from less than \$170,000 in 1951 to \$6,261,000 in 1957.⁽¹⁾ Outside the large and efficient shrimp processing and freezing industry, no large scale industry exists for canning, smoking, salting or otherwise processing fish products for domestic needs or export. Some experimentation in these fields is now going on, however, and a start has recently been made in exportation of frozen fish and lobster tails (Florida crawfish type), but in relatively small quantities. One plant has been constructed to process fish into fish meal, fertilizer, and to extract fish oil for soap, margarine and cooking oils.

(1) U. S. Department of Commerce, Bureau of the Census. "United States Imports of Merchandise for Consumption" May, 1958.

The best fishing area is the Gulf of Panama on the Pacific side. In addition to offshore fishing, the possibilities for fish trapping and salt water sea food farming using ponds (both relatively inexpensive) are favorable because of the range of Pacific tides, which have a peak of more than 21 feet. Fisheries on the Caribbean side, however, are not as well known, except for lobster (crayfish), and the special hydrographic conditions which contribute to the rich fishing grounds in the Gulf of Panama are lacking in the Caribbean. In addition, trawlable bottom in the Caribbean is more limited and the waters in general are not as calm as Pacific waters.

The Gulf of Panama is also well known as a sport fisherman's paradise—with black marlin, Pacific sailfish, tuna, wahoo, dolphin, bonito and mackerel heading the list. This region boasts of a number of world-record catches.

Manufacturing: Good possibilities for increasing the present small industrial nucleus in Panama exist for light and medium industry, based on agriculture, forestry, fisheries and mineral resources. Opportunities also exist for assembly operations and service industries which can profitably exploit Panama's strategic location and transportation advantages.

The majority of manufacturing industries now in Panama are small to medium size enterprises producing mainly consumer goods and construction material, and are concentrated in and around Panama City. Products of these industries include plywood, building and floor tile, vitreous sanitary ware, sanitary pipe, cement blocks, refined sugar, vegetable

oils, soaps and detergents, canned and powdered milk, canned tomato products, cigarettes and shoes.

Among the larger industries which have developed during the past few years are the shrimp processing and freezing plant (mentioned earlier in connection with "Fisheries"), a cement plant and a new steel mill.

Cement: One of the outstanding recent industrial developments in Panama was the inauguration, in 1948, of the domestic cement industry. Since this cement plant began operating, it has supplied all the country's cement requirements. In addition, it produces enough to export standard Portland cement to neighboring countries and to supply the Canal Zone.

Steel: Another very important new industry is Siderurgica Panama, S.A. (the Panamanian Steel Corporation) which is constructing a plant near Panama City. This newly formed company of Panamanian and United States investors is the first steel plant in the Republic and will have an initial annual output of about 10,000 tons. Additional equipment can be installed as needed to meet future demands since the plant has a total potential capacity of up to 50,000 tons a year. Siderurgica Panama will start production during the middle of 1958, using scrap iron rather than ore, and employing a three-ton electric arc furnace for melting the scrap, and a newly developed continuous rolling mill to form reinforcing rods, merchant bars, angles and other small shapes. This company is expected to supply a large part of Panama's steel requirements. (In the past, steel has been imported at a cost of about \$1,500,000 per year.) In addition to the

domestic steel market, this new company also expects to export to other Central American countries. Referring to the participation of U. S. investors in this new Panamanian company, an official of the company recently stated that Panama offers "an inviting environment for Americans, because of its stability and its lack of foreign exchange problems, which are important factors for the new investor".

In order to supply the electric power requirements of this new steel plant, which will be the largest individual industrial consumer of electricity in the Republic, the American & Foreign Power subsidiary, Cia. Panameña de Fuerza y Luz, has built a special \$125,000 transmission line to serve the steel mill.

Boat Construction: Another industry which has grown substantially within the past few years is the construction of fishing boats to meet the demands of the growing fishing industry. At the beginning of 1958, 42 fishing boats were under construction in local shipyards.

Mining and Petroleum: Panama's mineral and petroleum resources, until about three years ago, were largely unexplored, with practically no exploitation activities on a commercial scale. Very recently, however, there has been a considerable interest in Panama's mineral resources, especially in the fairly extensive deposits of manganese, asphalt, bauxite and other metallic and nonmetallic minerals known to exist in the Republic. However, the extent and quality of many of these deposits are still largely unknown, since there has been no detailed mineral resources survey of the Country.

By the end of 1957, the Government of Panama had granted over 60 concessions to six companies for oil exploration, and these concessions now cover almost all of Panama's 29,000 square miles. Over \$10,000,000 is expected to be spent in drilling operations by these six companies in 1958.

Equally important is the extensive commercial development of Panama's rich bauxite deposits being undertaken by Kaiser Aluminum & Chemical Corporation and the Aluminum Company of America. Both firms are planning substantial investments to explore and develop these deposits, which will mean important additions to the nation's total economic activity in 1958 and coming years. The first exportation of manganese ore from Panama was made in March, 1958. This ore came from an open-pit mine in wooded country east of Colon.

Two United States firms have obtained authorization from the Government of Panama to build 55,000 barrel-per-day oil refineries in the Colon area on the Atlantic Coast, to produce marine diesel fuel, bunker oil and gasoline.

Tourism: Both local and foreign business interests are exploring the possibilities of going into the motel business, in anticipation of the eventual completion of the Central American portion of the Inter-American Highway, sometime during 1959. If tourism in Panama increases as expected, there will be a requirement for modern hotels and other tourist facilities, especially along the route of the Inter-American Highway.

Public Utilities

Cia. Panameña de Fuerza y Luz, a subsidiary of American & Foreign Power Company, provides electric, gas and telephone service in the two largest cities, Panama City and Colon.

Electric Power: Consumption in Panama has been steadily increasing, and the American & Foreign Power subsidiary is continually expanding to meet the ever-increasing demand. The increase in the use of electric power has resulted from a steady growth of new, small industries, a larger population and improved economic conditions. The company also provides electric service to the Colon Free Zone. By the middle of 1958, the company will place an additional 7,500 kw into service, resulting in a total installed capacity of over 37,000 kw, an increase of more than 140 per cent over the 15,000 kw capacity in 1946. An additional thermo-electric unit of 12,650 kw capacity will be placed in operation in 1960, to keep pace with the increasing demand for electrical energy. Since 1946, Cia. Panameña de Fuerza y Luz has invested nearly \$10,000,000 in expanding and improving its electric generating and distribution facilities. The electric supply is single and three phase, 60 cycle A.C. with utilization voltages similar to those of the United States.

Telephone Service: As of January, 1958, the telephone division of Cia. Panameña de Fuerza y Luz had more than 21,000 telephone subscriber stations, an increase of 50 per cent over the total at the end of 1951. Since 1946, over \$5,000,000 has been spent on extending telephone facilities in Panama City and Colon. During 1958, another exchange is scheduled

to be added to the automatic system in Panama City, which is designed for an ultimate capacity of 10,000 lines. The company's telephone system is also interconnected with the U. S. Army and Navy communications systems in the Canal Zone.

Gas: The company supplies manufactured gas to Panama City, Colon and to certain military posts in the Canal Zone.

Cia. Panameña de Fuerza y Luz has cooperated with the Panamanian Government and other local groups in stimulating the economic and industrial progress of Panama. On January 26, 1958, the company opened an impressive Panama Exhibit at the International Trade Mart in New Orleans, Louisiana, which ran for two months. The purpose of this exhibit was to call attention to the outstanding commercial, cultural and tourist attractions of the Republic of Panama. The Trade Mart exhibit, which was inaugurated by the Ambassador of Panama to the United States, attracted nearly 10,000 persons, and was an outstanding example of this company's efforts to stimulate interest in Panama among United States businessmen. Cia. Panameña de Fuerza y Luz, in cooperation with the Industrial Development Center of Panama's Institute for Economic Development, also maintains a continuing program to stimulate a variety of small industries in the Republic.

Education and Public Health

Panama offers a complete system of education from kindergarten through the University, including vocational training at the secondary school level. The National University of

Panama was established in 1935. The University, which now has an enrollment of nearly 2,000, occupies a spacious campus with ultra-modern buildings housing the following schools: Philosophy, Letters and Education; Law and Political Science; Medicine; Sciences; Civil and Architectural Engineering; Public Administration and Business.

Some of the best equipped hospitals and laboratories in Latin America are found in Panama. Of the hospitals, 14 are government-operated and six are private. In general, medical, health and sanitary facilities are excellent in Panama City and Colon.

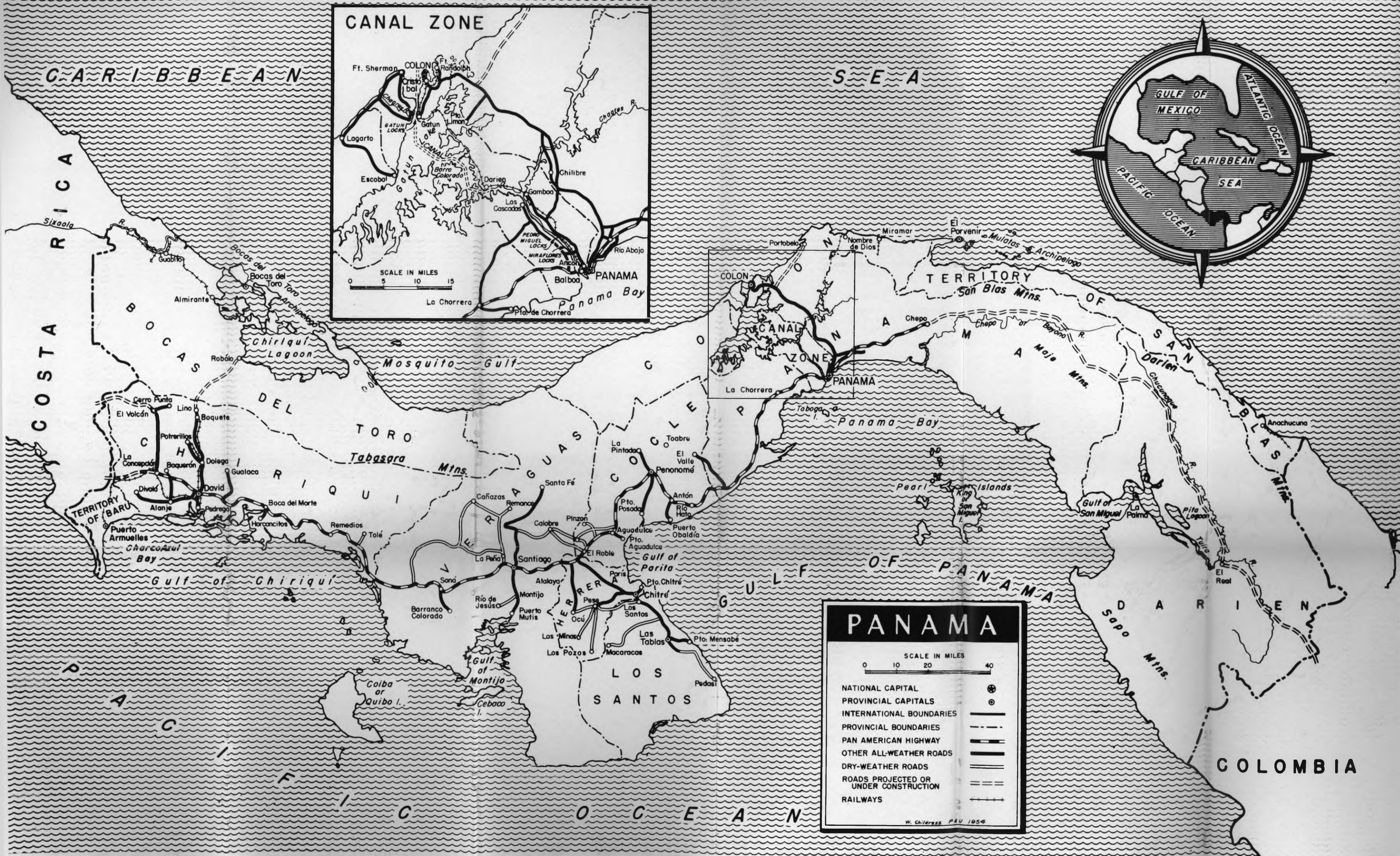
Finance

There is no established securities market in Panama. Sales of Government bonds and of private stocks and bonds are negotiated between the buyer and seller, sometimes with the assistance of a broker or banker as intermediary, sometimes through advertisements in local newspapers, or both. New issues are announced by advertisement. In Panama City there is also a branch office of a United States brokerage firm, which is a member of the New York Stock Exchange, offering trading facilities in all United States markets.

Interest rates are limited by the Government. Official banks are limited to a charge of six per cent on loans. Private lenders may charge maximum interest of seven per cent on commercial loans and a maximum of nine per cent on noncommercial obligations.

Banking and Insurance

There are two general types of banking institutions in Panama, official and private.



The official banks have boards of directors interlocked to a considerable degree through the Comptroller General, the Minister of Finance and Treasury, and the Manager of the National Bank of Panama. Their operations have been mostly in the field of real estate loans and agricultural credits.

The official banks consist of the National Bank of Panama; the Economic Development Institute, known as IFE; Bank of Colon; Bank of Chiriqui; the Savings Bank; and the Social Security Fund, which operates in some respects as an investment bank.

A large part of the regular commercial banking business of Panama and the Canal Zone is carried on by branches of The Chase Manhattan Bank, The First National City Bank of New York and the Banque Nationale pour le Commerce et l'Industrie of Paris which controls and operates the Panama Bank and Trust Company in Panama City.

The insurance business in Panama is regulated and supervised by a Commission of the Ministry of Agriculture, Industry and Commerce. There are four locally incorporated insurance companies, and one incorporated branch of a United States insurance company, selling life, fire, auto and casualty insurance in the Republic.

Foreign Investors in Panama

Panamanian business law generally makes no distinction between national and foreign companies in the formation of an enterprise. Requirements for organizing a business are simple and the corporation laws of Panama are liberal and flexible.

A Panamanian corporation may be formed by filing properly certified organization papers with the Government, together with a statement of the capital to be invested. Corporations doing business within the Republic are required to obtain a license. A resident agent, authorized to act for the company, must also be appointed. There are many competent Panamanian attorneys well versed in Panamanian and international business laws and practices.

Under the Constitution, Panamanian authorities are bound to protect the life, honor and property of both citizens of Panama and of aliens within the country's jurisdiction. Both citizens and foreigners are equal before the law. Nevertheless, the Constitution also provides that, by law, aliens may be restricted in or prohibited from exercising certain activities because of reasons of health, morality, public security or national economy. For example, in the case of operating aircraft for hire, a controlling interest of 51 per cent must be held by citizens of Panama and the president and two-thirds of the board of directors must be Panamanians. Also, persons engaged in retail trade must reside in the Republic. Under the Constitution, the Government is also permitted to restrict wholesale activities by aliens if it is necessary to protect such trade for Panamanians.

Foreigners have the same rights as Panamanian nationals with respect to the acquisition of lands, exploitation of agricultural enterprises, water rights, mining, petroleum and other subsoil concessions, except that foreigners may not acquire lands within ten kilometers (six miles) of the frontiers.

Additional advantages for Panamanian corporations include:

- Foreign investors may own all or part of any enterprise and there is complete freedom to manage the business.

- United States owners of a Panama corporation can, without interest or penalty, postpone indefinitely the receipt of dividends, thereby retaining the money in the business to earn additional profits. Moreover, they may, in certain cases, minimize the United States tax upon eventual withdrawal of such income.

- Panama has model corporation laws, in which there have been no substantial changes in the past twenty years.

- Dividends are not subject to double taxation in Panama.

- Officers and directors may be nonresidents of Panama.

- There are no requirements as to stock ownership by Panamanian nationals.

- There are no requirements that books and records of transactions outside of Panama be kept.

Living Conditions and Costs

According to a 1954 U. S. Department of Commerce report, "Living and Office Operating Costs in Panama", Panama City is a "modern cosmopolitan metropolis. . . . United States citizens who have resided in Panama for many years are reported to be well satisfied with living conditions here".

The U. S. Department of State's living cost index (excluding housing) for the cities of

Colon and Panama City as of April 1957 was slightly higher than in Washington, D. C., in comparison with the normal expenditure pattern of an American in Washington, D. C. Reflected in this index, however, are the costs of servants and additional spoilage due to humid climate.

The Climate

Except in the mountainous regions, Panama's climate is tropical throughout the year, but the two sides of the isthmus are in great contrast. The Caribbean Coast is rainy, receiving in many places more than 150 inches a year. As a result, there is a luxuriant cover of tropical rain forests. At the crest of the mountain ranges, moisture diminishes so that on the Pacific side of the isthmus there is less precipitation. Panama City has an average annual rainfall of 68.6 inches and, in contrast to the dense evergreen forest on the Atlantic side, there is a semideciduous growth on the drier Pacific side. Fresh winds and breezes, especially on the Pacific side, moderate the relatively high humidity and temperature of the isthmus.

Currency and Exchange

Panama has no exchange controls and, under existing laws, full convertibility of local currency into foreign exchange is allowed for all transactions, including remittances of dividends and interest. No limitations are imposed on the amount of foreign-owned assets and/or personal currency or checks entering or leaving the country.

The Panamanian monetary unit is the silver balboa, which is equivalent to one United

States dollar. United States currency is the only paper currency available, however, and circulates freely, with the local currency comprising only the silver balboa and subsidiary coins. The balboa has remained at par with the United States dollar continuously since its inception in 1904.

Tariff System and Trade Controls

Panama has maintained a system of tariffs on imports for many years, but there has been a notable absence of direct controls, such as licensing or quotas, over most imports. The principal exceptions to this are the controls over certain food products and other items unimportant to import trade. Importation of potatoes, coconuts, rice and coffee, for example, are controlled and subject to predetermined quotas. Flowers, plants, animals and livestock are subject to import license and duties.

Exports generally are not subject to control, with the exception of scrap metal and precious metals such as silver, gold and platinum, which require an export permit and are subject to duties. The re-exportation of certain products, like wheat flour, is subject to export licensing when it is felt that re-exportation would run counter to the country's benefit.

A new Panamanian tariff, which went into effect January 1, 1958, provides numerous changes in classifications and duty rates of import commodities. One of the most important changes in the tariff is the consolidation of consular fees and import duties into one tariff. Tariff classifications are in accordance with the Commodity Index for Standard International Trade Classifications of the United Nations.

One of the principal objectives of the new tariff is to foster economic development and, through protective rates, promote production and consumption of products manufactured locally. Under the new tariff, duty rates are higher for imported products competing with those produced by local industries. Luxury items and other nonessential goods likewise are subject to higher rates, but tourist items and goods needed for the establishment and operation of domestic industries, including agricultural activities, are generally lower, and some items are duty free.

Under the new tariff, most products are subject to ad valorem rates and a relatively smaller number to specific rates. Ad valorem rates are levied on f.o.b. value of imported merchandise, defined as the value of such merchandise placed on board a carrier at port of shipment. Dutiable value does not include cost of preparation and handling of shipping documents.

Duties have been raised on many commodities, including rice, corn, flour, alcoholic beverages, most tobacco products, wood products, and printed material except books and magazines. They are also raised on higher priced automobiles and on radio and television sets.

Duties have been lowered on other items, including wheat, cotton, fertilizers, most chemical products, many pharmaceutical products, paper and newsprint, industrial machinery, agricultural machinery and trucks, tools and household articles not produced in the Republic.

Taxation

A tax, to which all persons are subject, is imposed by Panama on net income produced

in Panama arising from any business or professional activity, from real or personal property, or from any source whatsoever.

Net income is determined by deducting from gross income such amounts as may be permitted, being generally the expenses incurred or paid in obtaining the income. Not all receipts are included in gross income, for the law specifically excludes, among other things, amounts received as interest on the Government's securities, interest on savings accounts in banks established in the country, national lottery winnings, gifts, devises and bequests, insurance payments, and income arising from the international maritime commerce of merchant ships lawfully registered in Panama. Capital gains arising from the sale of properties are not included in gross income when the same do not arise as a result of a business involving such activities and when two years have elapsed between the purchase and sale. Likewise, dividends received by shareholders are excluded since the tax must be withheld by the company.

Among items specifically mentioned as not deductible for the purpose of determining net income are personal and family living expenses, expenses for recreational trips, amounts paid out to repair damages resulting from natural wear and tear or from construction work and permanent betterments, appropriations from profits to reserve funds, and amounts otherwise deductible not satisfactorily supported by proof. Reserves for depreciation or depletion may be deducted, according to percentages fixed by governmental action, and reserves for bad debts, if deemed reasonable by the Tax Department, are also deductible.

Special rules are in effect to determine net income with respect to rents received from building leases, and producers and distributors of moving picture films are likewise subject to special income tax rules.

Progressive business and personal income taxes range from two per cent on the first \$2,400 of net income to an effective tax rate of approximately 25.24 per cent on an income of \$1,000,000, with a maximum tax of 34 per cent on all income in excess of \$1,000,000. No tax is levied on incomes of less than \$900.

Where the tax relates to unearned income, that is, not arising directly from human labor, there is a surcharge on the tax of 20 per cent which, however, may be reduced to 10 per cent by the Executive Department. This surtax does not apply to income arising from real property subject to the real estate tax. A taxpayer not under any obligation to support others must pay a surcharge of 25 per cent over the amount of the tax. However, for each minor dependent there is an exemption of 100 balboas.

The normal taxable year is the same as the calendar year, but a taxpayer maintaining books of account may have a taxable year beginning other than with the month of January if authorized by the Tax Department. A return must be filed for the prior year, and a return must also be filed for the year then beginning in which taxable income is estimated, and the tax must not be less than the tax for the prior year. The tax on estimated income may be paid at once or in three parts on the last day of June, September and December, and adjustments are effected in the final return

for the year. Taxes are withheld by the employer as to persons receiving a monthly salary or wages. Persons receiving dividends or distributions of profits must report them but need not pay a tax thereon as the company distributing them is required to do so.

In addition to the income tax, there are various other taxes of importance. A tax, not exceeding one per cent, is levied against the assessed value of real estate; however, only one-half per cent tax is levied against residences with an assessed value of \$25,000 or less, if the owner lives on the premises.

Labor Legislation

The labor law of Panama is comprehensive, and is found chiefly in Law No. 67 of November 11, 1947, as well as in the precepts of the Constitution. All employment is subject to the law, except where national, provincial and municipal public employees are involved, and in agricultural enterprises with less than six permanent employees and cattle raising enterprises with less than four permanent employees. All clauses in labor contracts which purport to release or diminish the rights of workers are of no effect.

Labor contracts generally must be written, except in certain specified cases, and the existence of such a contract is presumed except in work of a family nature, or which may be deemed to result from personal friendship. Contracts pertaining to labor may be for indefinite periods, for specified periods, or for specified undertakings. A clause in a labor contract whereby a worker obligates himself to render services for more than one year may

be declared null and void, but only upon petition by the worker. This period is extended to five years where special technical training is involved. All contracts are subject to renewal, and implied renewals result when a worker continues to render services without objection on the part of the employer. Two weeks of probation are permitted for workers who are newly employed and where a certain skill or dexterity is required. Special rules govern labor contracts with respect to Panamanian workers who are to be employed outside of the national territory.

Collective labor contracts may be executed by one or more labor unions or groups of non-union workmen with one or more employers. Such contracts must be in writing.

Labor contracts may be suspended for temporary periods in certain cases. Suspensions without liability on the part of the employer may become effective if materials are not available for a particular undertaking when there is no fault on the part of the employer, if funds are lacking and are not available, if overproduction has occurred in a certain enterprise, if it is impossible to continue a business because costs are not being met, if *force majeure* suspends operations, and in other cases also specified by the law.

The law also specifies the various cases in which a labor contract may be terminated, including death of a party, mutual consent, *force majeure*, insolvency or bankruptcy and similar reasons.

The law provides in detail with respect to the rights, privileges and duties of the workers and employers, and also contains provisions

with respect to the formulation and posting by employers of regulations governing work. Special provisions are also contained in the law regarding women and minors, servants, workers in the home, apprentices and seamen.

The law provides that every worker shall be entitled to earn a minimum wage sufficient to cover the normal material, moral and cultural needs of his home. Provisions are in effect with respect to overtime, and the normal overtime pay for extra work in the day period is 25 per cent over the normal rate; this percentage increases with respect to overtime work occurring during the night period.

Vacations and rest periods are also provided for in the law. The general rule is that there must be one day of rest each week, preferably on Sunday. If work must be performed on Sundays or national holidays, the usual wages must be increased by 50 per cent. Workers are also entitled to an annual vacation of thirty days with pay for each eleven months of continuous work, which vacation accrues at the rate of one day for each eleven consecutive days worked.

The law has detailed provisions relating to occupational injury and disease. Insurance against occupational injury or disease is compulsory for a rather comprehensive list of activities, including construction, mining, maritime, public utility, and manufacturing enterprises.

The Colon Free Zone

One of the most important features of Panama for international businessmen and traders supplying the vast Latin American market

is the Colon Free Zone. The Free Zone was set up by a decree law of the Government of Panama in 1948 and the Zone began operation in 1951 with an initial appropriation of \$300,000.

As defined by the U. S. Department of Commerce, a foreign trade zone is "a segregated, fenced-off area, without resident population, in or close to a port of entry, policed by customs officials, where foreign merchandise may be landed without application of customs laws or duties. While in the Zone, foreign goods may be subject to various manipulations and manufacturing processes. If the merchandise is reshipped abroad, it pays no duties or consular fees. However, if the goods are brought into the country (Panama), they are subject to all customs duties and dues, the same as if imported direct".

A free zone is essentially a "breathing point", a haven free from taxation where a businessman may set down a shipment of goods and arrange other disposition in case of a change of plans. It is also a place where bulk cargo may be broken down into smaller lots for reshipment; where goods may be stored as a central supply to service orders more quickly and economically from customers in other countries; and where goods may be refined, culled and processed for more economical reshipment. Furthermore, the Free Zone may also be used for permanent exhibits of products, and for sales promotion activities.

When the Zone was first opened, it was located some distance from the dock facilities at Cristobal and, therefore, was used primarily for high-value merchandise. Recently,

however, the Government has assigned additional land adjacent to the Cristobal piers, where it will be possible to construct warehouses virtually at ship-side. The Free Zone is also very convenient to Tocumen International Airport at Panama City, which is only 90 minutes away by truck over a modern concrete highway. The Government of Panama is also considering the establishment of additional free zone facilities and privileges at Tocumen International Airport, in view of the increasing amount of air freight being received there.

From September, 1953 through July, 1957, the Free Zone handled 138,000,000 kilos of merchandise valued at \$245,423,000. In 1957, alone, goods moving through the Free Zone amounted to \$35.5 million, compared with \$23.1 million in 1956. Some \$280,000 has been invested in the construction of seven public warehouses and other facilities. An additional \$657,000 has been invested by private companies in the construction of their own buildings. About 75 companies now use the Free Zone, including such well known European and United States firms as Firestone, Volkswagen, Schering, Yardley, Coca Cola, Esso, General Electric, Parke-Davis, R.C.A. and Goodyear.

The Free Zone permits the import and re-export of all kinds of goods without tax, duty or consular fees. Approximately 80 per cent of the merchandise handled there is sold to markets beyond the Isthmus. The remainder is divided among the Canal Zone, the Republic of Panama and ships in transit.

The common practice of firms using the Free Zone is to ship goods in bulk from the

country of origin and to reprocess them in Colon before re-exporting. "Reprocessing", as it is defined there, includes manufacturing, packing, bottling, labeling, assembling, mounting, refining, purifying, mixing or transforming.

A firm may operate in the Free Zone by any of the following methods:

- **Public Warehousing:** The public warehouses of the Colon Free Zone are operated on the same general basis as the public merchandise warehouses in the United States. The Free Zone Authority issues a warehouse receipt for goods in its custody. Storage charges are made monthly on the balance of merchandise in storage. This service is offered for the benefit of customers who wish to maintain spot stocks close to their markets, but who do not choose to lease or to build their own buildings. It is also useful for setting up a "pilot" operation to test the feasibility of establishing on a larger scale.

- **Building Leased from Free Zone Board:** Entire buildings or parts thereof may be leased for periods of one to twenty years. Warehouse rental ranges from \$0.55 to \$0.75 per square meter monthly, depending upon the total area leased.

- **Customer's Own Building:** A firm may lease land for a 25-year period, with option of renewals, and build its own building, but the building plans must be approved by the Free Zone Technical Department. Warehouse construction may be financed by the Zone at six per cent annually for periods up to 25 years. The basic monthly rate on leased land is \$0.10 per square meter.

Another attraction of the Free Zone to foreign businessmen is that a foreign firm does not have to be organized in Panama to take advantage of Free Zone benefits. The Zone administration receives bulk shipments, breaks them down and dispatches the smaller units to whatever consignee the shipper designates. In addition, there are local custom house brokers, freight forwarders and a management company sponsored by Panama and United States businessmen, prepared to undertake almost any phase of management and operation.

Free Zone Taxes: Determination of the manner of obtaining maximum benefits under the Panamanian tax laws applicable to firms operating in the Colon Free Zone requires careful analysis of Panamanian and United States tax legislation, and the type of operations to be carried on.

In general, there are no taxes on firms operating in the Free Zone, with the exception of Panama Social Security levies on local payrolls, and income taxes on profits arising from the sale of products stored in the Free Zone. However, any firm established in the Free Zone for the sole purpose of distributing the products manufactured by its own main plant outside the Free Zone and which derives no profits from such distributions, is not obliged to pay income tax on such operations.

If profits are made on the sale of merchandise destined abroad from the Free Zone, these profits are taxed, but at a very low rate. The Government of Panama now grants a 90 per cent discount on income taxes applicable to profits earned on re-export shipments from the Colon Free Zone. Under this new tax scale,

which went into effect on January 1, 1958, representative amounts of income from such profits are taxed, as follows:

Representative Amounts of Taxable Income	Total Tax	Net Payable on Income from Exports (90 Per Cent Discount)
\$ 900.00 to \$ 2,400.00	\$ 48.00	\$ 4.80
\$ 8,400.00 to \$ 12,000.00	\$ 498.00	\$ 49.80
\$ 50,000.00 to \$ 60,000.00	\$ 5,412.00	\$ 541.20
\$100,000.00 to \$ 150,000.00	\$ 21,387.00	\$ 2,138.70
\$750,000.00 to \$1,000,000.00	\$252,387.00	\$25,238.70

Under the law, the Government guarantees against increases or impositions of any additional form of tax on activities carried on within the Free Zone during the life of the contract, up to a maximum of 20 years.

Public Utility Service in the Free Zone: Compañía Panameña de Fuerza y Luz supplies electric and telephone service to individual firms located within the Free Zone. Either single or three phase, 60 cycles, A.C. electric service, with utilization voltages similar to those of the United States, are available. Metered water service is supplied by the Free Zone Administration. Sanitary and storm sewerage is provided throughout the Free Zone area.

Free Zone Banking Facilities: The Chase Manhattan Bank, The First National City Bank of New York and the National Bank of Panama offer international banking facilities and reliable advice to Free Zone customers.



*Principal sources in compilation
of material for this booklet are
publications of the following:*

- **U. S. Department of Commerce**
- **The Panamanian Institute for Economic Development**
- **Pan American Union**
- **United Nations**
- **The Chase Manhattan Bank**
- **The First National City Bank of New York**



THE AMERICAN & FOREIGN POWER SYSTEM

Associated companies of the American & Foreign Power System supply utility services (principally electric) to a population of 21,000,000 in an area embracing 1200 communities in the following Latin-American countries:

ARGENTINA BRAZIL CHILE COLOMBIA
COSTA RICA CUBA ECUADOR GUATEMALA
MEXICO PANAMA VENEZUELA