

Panama

RISK & COMPLIANCE REPORT

DATE: January 2017

Executive Summary - Panama	
Sanctions:	None
FAFT list of AML Deficient Countries	No longer on list
Higher Risk Areas:	US Dept of State Money Laundering assessment Compliance with FATF 40 + 9 Recommendations Not on EU White list equivalent jurisdictions International Narcotics Control Majors List Offshore Finance Centre Compliance of OECD Global Forum's information exchange standard
Medium Risk Areas:	Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average score) Failed States Index (Political)(Average score)
<p>Major Investment Areas:</p> <p>Agriculture - products: bananas, rice, corn, coffee, sugarcane, vegetables; livestock; shrimp</p> <p>Industries: construction, brewing, cement and other construction materials, sugar milling</p> <p>Exports - commodities: gold, bananas, shrimp, sugar, iron and steel waste, pineapples, watermelons</p> <p>Exports - partners: South Korea 15.7%, US 14.9%, Japan 8.3%, Honduras 7.8%, Indonesia 5.9%, Thailand 5.3% (2012)</p> <p>Imports - commodities: fuel products, medicines, vehicles, iron and steel rods, cellular phones</p> <p>Imports - partners: US 23.6%, China 6.4%, Costa Rica 4.6%, Mexico 4.4% (2012)</p>	

Investment Restrictions:

Panama actively encourages foreign investment, and with few exceptions, the Government of Panama (GOP) makes no distinction between domestic and foreign companies for investment purposes.

The GOP imposes some limitations on foreign ownership in the retail and media sectors where, in most cases, ownership must be Panamanian. However, foreign investors can continue to use franchise arrangements to own retail within the confines of Panamanian law

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Section 1 - Background

Explored and settled by the Spanish in the 16th century, Panama broke with Spain in 1821 and joined a union of Colombia, Ecuador, and Venezuela - named the Republic of Gran Colombia. When the latter dissolved in 1830, Panama remained part of Colombia. With US backing, Panama seceded from Colombia in 1903 and promptly signed a treaty with the US allowing for the construction of a canal and US sovereignty over a strip of land on either side of the structure (the Panama Canal Zone). The Panama Canal was built by the US Army Corps of Engineers between 1904 and 1914. In 1977, an agreement was signed for the complete transfer of the Canal from the US to Panama by the end of the century. Certain portions of the Zone and increasing responsibility over the Canal were turned over in the subsequent decades. With US help, dictator Manuel NORIEGA was deposed in 1989. The entire Panama Canal, the area supporting the Canal, and remaining US military bases were transferred to Panama by the end of 1999. In October 2006, Panamanians approved an ambitious plan (estimated to cost \$5.3 billion) to expand the Canal. The project, which began in 2007 and could double the Canal's capacity, is expected to be completed in 2015.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF List of Countries that have been identified as having strategic AML deficiencies

Panama is no longer on the FATF List of Countries that have been identified as having strategic AML deficiencies

Latest FATF Statement - 19 February 2016

The FATF welcomes Panama's significant progress in improving its AML/CFT regime and notes that Panama has established the legal and regulatory framework to meet its commitments in its action plan regarding the strategic deficiencies that the FATF had identified in June 2014. Panama is therefore no longer subject to the FATF's monitoring process under its on-going global AML/CFT compliance process. Panama will work with GAFILAT as it continues to address the full range of AML/CFT issues identified in its mutual evaluation report.

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Panama was undertaken by the Financial Action Task Force (FATF) in 2014. According to that Evaluation, Panama was deemed Compliant for 1 and Largely Compliant for 3 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for all 6 of the Core Recommendations.

Key Findings from latest Mutual Evaluation Report (2014):

1. Panama is vulnerable to money laundering (ML) from a number of sources including drug trafficking and other predicate crimes committed abroad such as fraud, financial and tax crimes. It is a country with an open, dollarized economy and, as a regional and international financial and corporate services center, offers a wide range of offshore financial and corporate services. It is also a transit point for drug trafficking from South American countries with some of the highest levels of production and trafficking of illegal drugs in the world. These factors put the country at high risk of being used for ML. Although the authorities have not conducted a risk assessment, they attribute the largest sources of ML to drug trafficking and other predicate crimes committed abroad. No information or estimates were provided on the extent of domestic and foreign predicate crimes and the amount of related ML in Panama. No terrorism financing (TF) cases have been detected so far.

2. Panama has criminalized ML and TF, but its AML/CFT framework is not fully in line with the FATF Recommendations. Some CFT requirements are included in subsidiary instruments but these, like other provisions contained therein, appear to go beyond the AML Law and, therefore, inconsistent with the legal principles established under the Constitution. This creates uncertainty as to their validity, if challenged. There are inadequate statistics on ML investigations, prosecutions, and convictions to properly assess the effectiveness of implementation of the ML/TF legislation.

3. The AML Law covers most of the core financial sectors but does not fully apply to the insurance sector and does not extend to a number of other financial activities as required under the FATF standard.¹ This Law applies to bureau de change but this high-risk sector is not subject to licensing or registration nor, in practice, is it regulated and supervised.

4. Of the designated non-financial businesses and professions (DNFBPs), only trustees are fully covered under the AML Law, while casinos and real estate brokers (legal persons only) are only subject to currency transaction reporting (CTR) obligations. Other DNFBPs including lawyers, accountants, notaries, corporate services providers (including resident agents who must be lawyers), and dealers in precious metals and stones are not covered. Resident agents providing corporate services are covered under a specific law that provides a limited range of customer identification requirements and are subject to strict secrecy provisions that severely limit or prohibit access to information by supervisors and the financial intelligence unit (FIU).

5. The substantial gaps in coverage of financial activities and DNFBPs in the AML/CFT framework pose significant ML/TF risks to the country and other jurisdictions. At the time of the mission, the authorities had no concrete plans to address these shortcomings.

6. Competent authorities, including law enforcement and the FIU, do not have timely access to information on legal persons and arrangements as required under the FATF standard. In turn, this limits their capacity to cooperate nationally and internationally. A law was passed in July 2013 to provide for the custody of bearer shares and facilitate access to information on the owners of such shares. The law will not come into force for two years (2015), and for bearer shares issued prior to the law coming into effect, a three-year transition period for compliance is provided ending during 2018.

7. The FIU's operational effectiveness is hampered by restrictions on its access to information on legal persons and arrangements and by limited resources. The FIU has identified only a few significant ML cases and has provided limited cooperation to its foreign counterparts. In addition, its operational independence could be enhanced through amended administrative reporting arrangements.

[Read Full Report](#)

Panama was deemed a Jurisdiction of Primary Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Panama's strategic geographic location; dollarized economy; status as a regional financial, trade, and logistics center; and lax regulatory system make it an attractive target for money launderers. Money laundered in Panama is believed to come in large part from the proceeds of drug trafficking due to the country's location along major drug trafficking routes. Tax evasion, financial fraud, and corruption also are believed to be major sources of illicit funds. Numerous factors hinder the fight against money laundering, including the existence of bearer share corporations, a lack of collaboration among government agencies, lack of experience with money laundering investigations and prosecutions, inconsistent enforcement of laws and regulations, and a weak judicial system susceptible to corruption and favoritism. Money is laundered via bulk cash and trade by exploiting vulnerabilities at the airport, using commercial cover and free trade zones (FTZs), and exploiting the lack of regulatory monitoring in many sectors of the economy. The protection of client secrecy is often stronger than authorities' ability to pierce the corporate veil to pursue an investigation.

Panama has 16 FTZs, including the Colon Free Zone (CFZ), the second-largest FTZ in the world.

Do financial institutions engage in currency transactions related to international narcotics trafficking that include significant amounts of US currency; currency derived from illegal sales in the U.S.; or illegal drug sales that otherwise significantly affect the U.S.: YES

Criminalization of money laundering:

"All serious crimes" approach or "list" approach to predicate crimes: List approach

Are legal persons covered: criminally: YES ***civilly:*** NO

Know-your-customer (KYC) rules:

Enhanced due diligence procedures for PEPs: Foreign: YES ***Domestic:*** YES

KYC covered entities: Banks, savings cooperatives, savings and mortgage banks, and money exchanges; investment houses and brokerage firms; insurance and reinsurance companies; fiduciaries; casinos; FTZ companies; finance companies; real estate brokers; and lawyers

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 1,005 in 2014

Number of CTRs received and time frame: 554,879 in 2014

STR covered entities: Banks, cooperatives, money exchanges, money transfer companies, casinos, betting and gaming companies, fiduciaries, insurance and insurance brokerage

companies, the national lottery, investment and brokerage houses, real estate brokers, construction companies, precious metals and mining companies, pawnshops, and FTZs

money laundering criminal Prosecutions/convictions:

Prosecutions: 295 in 2015

Convictions: 251 in 2015

Records exchange mechanism:

With U.S.: MLAT: YES ***Other mechanism:*** YES

With other governments/jurisdictions: YES

Panama is a member of the Financial Action Task Force of Latin America (GAFILAT).

Enforcement and implementation issues and comments:

In June 2014, in response to continued criticism, Panama developed an action plan to address its AML deficiencies, and the Government of Panama offered a high-level commitment to implement the necessary actions. In 2015, the government approved and passed legislation to criminalize money laundering, address countering the financing of terrorism (CFT), and cover designated non-financial businesses and professions (DNFBPs). A key factor contributing to Panama's vulnerability to money laundering was that not all financial and non-financial sectors were subjected to regulations and supervision, which has now been addressed in legislation. Government agencies responsible for AML issues are under-resourced and often lack the personnel and training to investigate and prosecute complex money laundering schemes.

In 2015, Panama strengthened its legal framework, amended its criminal code, and passed a new AML/CFT law and other legislation enhancing the framework for international cooperation. Panama is beginning to develop an adequate legal framework for freezing terrorist assets and effective measures for customer due diligence to improve transparency. Panama passed a series of laws, which brought its legal regime more in line with international standards. Law 10 and Law 34 amend the criminal code by adding predicate offenses that typify terrorist financing and money laundering. Law 11 addresses provision of international legal cooperation and assistance in criminal matters. Law 23 of 2015 includes many new reporting entities, in particular a broad array of DNFBPs as well as money service businesses. For the banking sector, the law sets out key customer due diligence requirements. The government also amended or adopted new regulations pertaining to the identification of suspicious activity by banks and other entities. Additionally, Panama's financial intelligence unit, the UAF, has significantly improved its analytical capacity under the leadership of its new director. Panama has started to implement the various AML/CFT laws; however, implementation efforts are in early stages.

Panama's Law 18, 2015, which came into effect in December 2015, provides for the custody of bearer shares. The law will severely restrict the use of bearer shares; companies still using these types of shares must appoint a custodian and maintain strict controls over their use. Bearer shares issued before the law was approved must be replaced with nominative shares or handed over to a custodian by December 2015. Until the law is fully implemented,

financial institutions face a risk associated with clients who maintain bearer share companies. Additionally, only banks have enhanced due diligence procedures for foreign and domestic politically exposed persons (PEPs).

The judicial branch's capacity to successfully prosecute and convict money launderers remains weak and judicial branch employees remain susceptible to corruption. Panamanian officials have given assurances they will complete the transition to a U.S.-style accusatory judicial system in all provinces, which began in September 2010, by 2016. All known money laundering convictions are tied to bulk cash cases with an obvious connection to a predicate crime. Panama does not adequately track criminal prosecutions and convictions specifically related to money laundering. The numbers of prosecutions and convictions shown in this report represent partial figures from the drug and anti-corruption prosecutors for 2015, because not all provinces reported figures.

The Panama Customs Authority's collaboration with U.S. agencies increased passenger scrutiny and notable seizures of undeclared cash at Tocumen International Airport. However, regional airports are undergoing renovation and gaining prominence and could be new channels of access for money launderers. Although Panamanian Customs can identify potential trade-based money laundering with information from the Trade Transparency Unit, a regional trade data-sharing entity, it can only levy fees for customs tax evasion.

The CFZ remains vulnerable to illicit financial activities and abuse by criminal groups, due primarily to weak customs enforcement and limited oversight of trade and financial transactions. Bulk cash remains easy to introduce into the country by declaring it is for use in the CFZ, but no official verification process exists to confirm its end use for lawful business in the free zone. The lack of integration of the CFZ's electronic cargo tracking system with Panamanian Customs hinders timely analysis. The CFZ administrator, appointed in July 2014 by the president, has reinstated the CFZ's Office of Money Laundering Prevention and is aiming to expand its control over CFZ businesses and transactions. Under Law 18, 2015, the CFZ comes under the supervision of the Intendencia, the body within the Ministry of Finance that supervises DNFBPs.

On October 22, 2013, the Government of Panama signed a case-sharing agreement with the United States, creating a bilateral committee to manage \$36 million of forfeited assets for use by the Panamanian government to strengthen AML practices. However, there is limited cooperation and communication among the various government agencies to propose and approve projects to use the funds, and the Government has not finalized a process to disburse the funds. The U.S. and Panamanian governments jointly administer these shared funds to address AML issues.

Panama must continue to strengthen the prosecutor's office and the judicial system, increase transparency in financial and trade networks, and enforce the legal framework approved to freeze terrorist assets. The government should criminalize tipping off to ensure the integrity of STR reporting. Panama should also work diligently to fully implement its new laws and regulations and ensure all relevant agencies and departments have adequate resources to effectively fulfill their responsibilities. The government's action plan is providing a roadmap for Panama to achieve these goals.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Panama does not conform with regard to the following government legislation: -

Criminalised Tipping Off - By law, disclosure of the reporting of suspicious or unusual activity to an individual who is the subject of such a report, or to a third party, is a criminal offense.

EU White list of Equivalent Jurisdictions

Panama is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Panama is considered to be an Offshore Financial Centre

Key Findings from other US State Department Reports:

Narcotics - 2016

Panama remains a major transshipment crossroads for illicit drug trafficking due to its location and logistics infrastructure. The United States estimated that approximately 90 percent of the cocaine trafficked to the United States during the first six months of 2015 first transited through the Mexico/Central America corridor. Panama does not produce significant amounts of drugs destined for the U.S. market, although limited cannabis cultivation occurs in remote regions for local consumption. Transnational drug trafficking organizations, including Mexican and Colombian groups, move illegal contraband through Panama's remote Darién region and along its coastline and littoral zones. Drug traffickers exploit Panama's transportation infrastructure, including the second largest free trade zone in the world, four major container seaports, airports, and the Pan-American Highway. The Panamanian government is concerned that drug consumption may be growing within the country, and is committed to working with international partners to confront drug use and trafficking both domestically and regionally. The United States enjoys strong partnerships with all Panamanian security services.

Corruption

Corruption remains a concern throughout the security services, customs, and justice sector. Drug trafficking organizations have penetrated the security services, and Panamanian authorities detained several security-service members involved in trafficking in 2015. The Government of Panama recognizes this issue, and the PNP and SENAN are favorable to U.S. requests to polygraph security service members. The government actively investigates and prosecutes officials for corruption. Most corruption charges are non-trafficking related, instead focusing on allegations of personal enrichment through government funds or contracts, including a Supreme Court justice who pled guilty to non-narcotics-related charges in February. However, Panama did not adjudicate any significant cases of corruption within the security services in 2015, in part due to poor investigative capacity, a lengthy investigative process, and a weak judicial system.

As a matter of government policy, Panama does not encourage or facilitate illegal activity associated with drug trafficking or have senior government officials engaged in such activity.

Trafficking in Persons

Panama is classified a Tier 2 (watch list) country - A country whose governments does not fully comply with the Trafficking Victims Protection Act's minimum standards, but are making significant efforts to bring themselves into compliance with those standards.

Panama is a source, transit, and destination country for men, women, and children subjected to sex trafficking and forced labor. Most Panamanian trafficking victims are exploited in sex trafficking in the country. The majority of foreign trafficking victims found in

Panama are adult women from Colombia, neighboring Central American countries, and the Dominican Republic. Most of these women migrate voluntarily to Panama for employment, but are subsequently exploited in sex trafficking, or to a lesser extent, in domestic servitude. In recent years, authorities have identified several East European women working in nightclubs as potential sex trafficking victims. Panamanian girls and young women, mostly from indigenous communities, are subjected to domestic servitude in the country. Men and women from China are subjected to debt bondage in Panama, including in supermarkets, laundries, and other small businesses operated by Chinese citizens. Authorities reported cases of traffickers subjecting men from Colombia and from Middle Eastern countries to forced labor in restaurants; in some cases, restaurant owners call immigration officials to deport victims after they have been exploited for several months. An international organization also identified cases of debt bondage of Indian men in door-to-door peddling. Men from Colombia and from other Central American countries, particularly Nicaragua, are also vulnerable to labor trafficking in Panama in construction, mining, and other sectors. Media reports indicated that some trafficking victims transited Panama *en route* to other countries, including Colombian women exploited in sex trafficking in the Caribbean.

The Government of Panama does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. Panamanian authorities investigated seven potential trafficking cases, convicted three sex trafficking offenders, and continued public awareness efforts. Despite these efforts, the government did not demonstrate overall increasing anti-trafficking efforts compared to the previous reporting period; therefore, Panama is placed on Tier 2 Watch List. The government-operated trafficking victim assistance unit and fund, both required by Panama's 2011 anti-trafficking law, were not functional, raising concerns about a lack of political will to adequately assist victims. Victim identification and protection efforts remained weak, in part due to some government officials' limited understanding of human trafficking. Authorities did not report identifying or assisting any Panamanian children in commercial sexual exploitation.

Terrorist Financing 2014:

Overview: In recent years, the most direct terrorism threats to Panama have been posed by elements of the 57th and 34th Fronts of the Revolutionary Armed Forces of Colombia (FARC), which have long operated illegally in the Darién region of Panama. The 30th Front is also known to actively transport illicit narcotics. Panama's successes in combatting these groups in the region, as well as progress in the peace talks between the Government of Colombia and the FARC, have greatly reduced the threat posed by the FARC within Panamanian territory. Panama maintains close cooperation with its neighbors, particularly Colombia, in an effort to secure its borders.

Panama's Darién region remains a significant and growing pathway for human smuggling, which includes elements of counterterrorism significance. Representatives of the U.S. Department of Homeland Security and the Federal Bureau of Investigation work with Panamanian authorities to identify smuggled aliens, with a particular focus on those who raise terrorism concerns.

The Panama Canal Authority has been vigilant in its efforts to maintain a secure Canal and enjoys international support in this mission; however, the Panama Canal Authority remains at risk for the illicit transit and transshipment of strategically-controlled, dual-use goods and technologies, and military goods. More than 60 percent of Panama's container traffic is either bound for, or departing from, U.S. ports, and more than five percent of all global container traffic passes through the Panama Canal, making Panama a key country of geopolitical significance along a critical transit and trade route.

On February 5, the Ministry of Foreign Relations issued a statement expressing Panama's "rejection of the violent acts and the grave violations to human rights perpetrated by the IS [Islamic State] group" and announced its intention to "join the efforts of the international community to combat terrorism in all its forms and manifestations." In so doing, Panama became the first Latin American country to join the Global Coalition to Counter ISIL. Panama has been involved in the Coalition's Counter-Finance Working Group.

2015 Terrorist Incidents: During protests held on July 7, assailants threw a homemade bomb which caused second-degree burns on two individuals. The 10 individuals implicated in this attack, seven of whom are minors, have been charged with terrorism and other associated crimes and remained detained by Panamanian authorities at the end of 2015.

Legislation, Law Enforcement, and Border Security: Acts of terrorism are criminalized within Title IX, Chapter 1 of the Panamanian criminal code. Individuals who attempt to disturb the public peace, cause panic, terror, or fear in the population, or a subset thereof, through the use of radioactive materials, weapons, fire, explosives, biological or toxic substances, or any other means of massive destruction or element with that potential, are subject to prison sentences ranging from 20 to 30 years. Panamanian law also sanctions any individual who knowingly finances, grants, hides, or transfers money, goods, or other financial resources for use in the commission of the above referenced crimes to a period of confinement ranging from 25 to 30 years in prison. Those who use the internet to recruit terrorists or to provide bomb-making instructions are subject to confinement of five to 10 years.

In order to improve the Government of Panama's capacity and capabilities with regards to counterterrorism, the Department of Justice's Office of Overseas Prosecutorial Development, Assistance, and Training (OPDAT), the Department of Defense's Security Programs including the Combating Terrorism Fellowship Program (CTFP), and the Department of State's Antiterrorism Assistance (ATA) Program and Export Control and Border Security (EXBS) Programs, work in concert with Panamanian authorities. These efforts are supplemented by capacity building initiatives led by the Federal Bureau of Investigation, U.S. Customs and Border Protection, Department of Defense, and Homeland Security Investigations which also enhance Panama's law enforcement capacity to respond to terrorism. However, Panamanian security services continue to compete for resources, diminishing the incentive for collaboration, lessening the likelihood that enforcement agencies will focus on maintaining skills and equipment. While recent joint operations between the services have been successful, the government remains in the development phase of fostering interagency cooperation. Strategic budgeting, including for operations and maintenance, as well as long-term training program development continue to be significant areas of need.

The Panamanian government has continued its efforts to exert sovereignty in the underserved Darién region through the use of its security forces, principally the National

Border Service (SENAFRONT). SENAFRONT's successes over the previous years have degraded the capabilities of the FARC to such an extent that it no longer maintains a permanent presence in Panamanian territory. However, narco-trafficking organizations and Colombian-origin criminal gangs (known as the BACRIM) continued to cause instability within the province. The Government of Panama maintains counterterrorism units within SENAFRONT, the National Air-Naval Service (SENAN), the Panamanian National Police (PNP), and the Institutional Protection Service (SPI; which is responsible for the protection of Panamanian and foreign dignitaries, as well as critical infrastructure, such as the Panama Canal). However, interagency coordination, cooperation, and information sharing remained limited.

In 2013, Panamanian forces searched and detained the North Korean-flagged merchant vessel *Chong Chon Gang* for transiting the Canal with illicit cargo. The search of the vessel found arms and related materiel which violated UN Security Council Resolutions prohibiting transfer of such items to North Korea. In February 2014, North Korea paid a \$693,333 fine to the Panama Canal Authority and the ship left Panama with most of the crewmembers. Panamanian authorities charged the Captain, First Officer, and Political Officer of the vessel with possession and trafficking of arms and explosives. These individuals were acquitted in June of 2014 and left the country, despite an appeal filed in July 2014. In May 2015, a Panamanian court of appeals significantly revised the June 2014 trial court decision, finding both the Captain and the First Officer guilty of the crimes of possession and trafficking of arms and explosives and sentenced them to 12 years confinement, *in absentia*. The court upheld the acquittal of the Political Officer finding that there was insufficient evidence to demonstrate that he formed part of the "principal chain of command" of the vessel. This ruling has created an avenue for the definitive forfeiture of the military articles.

A key focus of counterterrorism efforts in Panama has been securing the borders as well as the airports and seaports throughout the country. U.S. Customs and Border Protection (CBP) continued to cooperate with Panamanian authorities at Tocumen International Airport and has been successful in utilizing the linkage between Panama's Advance Passenger Information (API) System and CBP targeting systems. Panama collects nearly 100 percent of API data and actively seeks more complete Passenger Name Record (PNR) data. CBP continues to work with Panamanian authorities to improve their capacity to capture and transmit all API and PNR data. Mobile security teams, including those operating under the CBP Joint Security Program, partner with host country law enforcement officers operating in Tocumen International Airport to identify air passengers linked to terrorism, narcotics, weapons, and currency smuggling, as well as to identify and intercept fugitives, persons associated with organized crime, and other travelers of interest.

Countering the Financing of Terrorism: Panama is a member of the Financial Action Task Force of Latin America (GAFILAT), and its financial intelligence unit, Unidad de Analisis Financiero, is a member of the Egmont Group. In 2015, Panama strengthened its legal framework, amended its criminal code, and passed a new anti-money laundering/countering the financing of terrorism law in 2015 that brings designated non-financial businesses and professions and entities in the Colon Free Zone into the supervisory framework in order to more effectively counter potential terrorism financing vulnerabilities in these sectors.

In 2015, Panama passed Law 10 and Law 34, which amended the criminal code by adding predicate offenses that typify terrorism financing and money laundering. Panama passed Law 23 which allows the government to freeze, seize, and confiscate the instruments and proceeds of criminal enterprises, including terrorism financing. The implementing regulations allow for the assets to be frozen for persons or entities listed under UN sanctions regimes. Panama also passed Law 149, which reformed Article 116 of the Criminal Procedure Code which rescinded previous modifications to Article 116 and eliminated the statute of limitations in cases of terrorism.

Panama has yet to identify and freeze assets belonging to terrorists or sanctioned individuals and organizations; it has not prosecuted any terrorism financing cases.

Countering Violent Extremism: The United States and Panama continued to work together to create opportunities for residents of the Darién region to deter local recruitment by the FARC, transnational criminal organizations, and narco-trafficking organizations. The Panama Office of Defense Cooperation maintains a robust program designed to develop and refine Panama's civil affairs and information operations capacity as part of the overall strategy to enhance governability and state control in an underdeveloped and underserved region. These teams work with Panamanian officials to distribute medical supplies to local communities and provide key information about threats facing the populace. Central America Regional Security Initiative (CARSI) programs also provide some local youth with vocational and technical training to better prepare them for the labor market and to provide viable alternatives to criminality and terrorism.

International and Regional Cooperation: Panama was the first Latin American nation to join the Global Coalition to Counter ISIL. Panama is also an active participant in the United Nations and regional security initiatives such as the OAS-CICTE. Panama and Colombia maintain a bilateral commission that continues to meet on a yearly basis to address topics of mutual concern, including illicit migration, narco-trafficking, transnational criminal organizations, and elements of the FARC operating in the region surrounding their shared border.

International Sanctions

Panama is not currently subject to any International Sanctions

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	38
World Governance Indicator – Control of Corruption	47

US State Department

President-elect Varela campaigned on a pledge to eliminate corruption in the government, increase transparency, and prosecute corrupt officials. President Martinelli campaigned on a similar promise in 2009 but his administration was consistently plagued with allegations of corruption by politicians and the business community.

In the most recent edition (2013) of the Transparency International Corruption Perceptions Index, Panama ranked 102 out of 177 countries measured. The Panamanian judicial system continues to pose a problem for investors due to poorly trained personnel, case backlogs, and a lack of independence from political influence. Supreme Court judges are typically nominated to their 10-year terms on the basis of political considerations.

Under Panamanian law, only the National Assembly may initiate corruption investigations against Supreme Court judges and only the Supreme Court may initiate investigations against members of the National Assembly, thereby encouraging, in effect, a “non-aggression pact” between these two branches of government.

The fight against corruption is also hampered by the GOP’s refusal to dismantle Panama’s dictatorship-era libel and contempt laws, which can be used to punish whistleblowers, while those accused of acts of corruption are seldom prosecuted and almost never jailed.

Anti-corruption mechanisms exist, such as asset forfeiture, whistleblower and witness protection, and conflict-of-interest rules. However, the general perception is that anti-corruption laws are not applied rigorously, and that government enforcement bodies and the courts are not effective in pursuing and prosecuting those accused of corruption, particularly in high profile cases. Panama’s government lacks strong systemic checks and balances that incentivize accountability. The lack of a strong professionalized career civil service in Panama’s public sector also hinders systemic change.

Panama ratified the United Nations’ Anti-Corruption Convention in 2005 and the Organization of American States’ Inter-American Convention Against Corruption in 1998. However, there is a perception that Panama could more effectively implement the conventions.

Complaints by American investors about allegedly corrupt judicial and governmental decisions prejudicial to their interests remain common and problematic. However, despite

allegations of corruption, other than cases involving drug trafficking, GOP officials, judges, and legislators are seldom investigated, much less convicted on corruption charges.

Section 3 - Economy

Panama's dollar-based economy rests primarily on a well-developed services sector that accounts for more than three-quarters of GDP. Services include operating the Panama Canal, logistics, banking, the Colon Free Zone, insurance, container ports, flagship registry, and tourism. Economic growth will be bolstered by the Panama Canal expansion project that began in 2007 and is estimated to be completed by 2015 at a cost of \$5.3 billion - about 10-15% of current GDP. The expansion project will more than double the Canal's capacity, enabling it to accommodate ships that are too large to traverse the existing canal. The United States and China are the top users of the Canal. Panama is also constructing a metro system in Panama City, valued at \$1.2 billion and scheduled to be completed by 2014. Panama's booming transportation and logistics services sectors, along with aggressive infrastructure development projects, have led the economy to continued high growth in 2012. Foreign investment, at around 10% of GDP in both 2011 and 2012, has continued to be a source of growth. Strong economic performance has not translated into broadly shared prosperity, as Panama has the second worst income distribution in Latin America. About one-fourth of the population lives in poverty; however, from 2006 to 2012 poverty was reduced by 10 percentage points, while unemployment dropped from 12% to 4.5% of the labor force in 2013. The US-Panama Trade Promotion Agreement was approved by Congress and signed into law in October 2011, and entered into force in October 2012. Panama also achieved removal from the Organization of Economic Development's gray-list of tax havens by signing various double taxation treaties with other nations.

Agriculture - products:

bananas, rice, corn, coffee, sugarcane, vegetables; livestock; shrimp

Industries:

construction, brewing, cement and other construction materials, sugar milling

Exports - commodities:

gold, bananas, shrimp, sugar, iron and steel waste, pineapples, watermelons

Exports - partners:

South Korea 15.7%, US 14.9%, Japan 8.3%, Honduras 7.8%, Indonesia 5.9%, Thailand 5.3% (2012)

Imports - commodities:

fuel products, medicines, vehicles, iron and steel rods, cellular phones

Imports - partners:

US 23.6%, China 6.4%, Costa Rica 4.6%, Mexico 4.4% (2012)

Banking

The U.S. Dollar is Panama's currency and there is no central bank. The National Bank of Panama has certain functions of a central bank, such as serving as the clearinghouse for the banking system.

Panama opened its banking sector to foreign competition in 1971 under legislation which placed high priority on banker-depositor confidentiality. In late 2010, there were 93 banks registered in Panama with total assets of \$70.9 billion. The banking legislation establishes three classes of operations. General license banks operate full service banks in Panama and compete for domestic deposits and loans. International License or "Offshore" banks, can only accept deposits from persons or organizations located overseas. Representative Offices can only perform representational activities. There are also two state-owned deposit-taking institutions. Foreign and Panamanian banks compete on equal terms. Banks are organized into the Panamanian Banking Association (Panamanian and Foreign Banks) and are licensed and regulated by the Banking Supervisory Authority (Superintendencia de Bancos). Panama's banking system does not have a deposit insurance scheme.

Stock Exchange

[Bolsa de Valores de Panamá, S. A.](#), (the Panama Stock exchange) is a corporation organized under the Laws of the Republic of Panama. Its shareholder base is made up of the main local banks, including Banco Nacional de Panamá (National Bank of Panama) as well as commercial, insurance and industrial corporations and concerns, businessmen, professionals and stockbrokers.

Since its creation in 1990, the Panama Stock Exchange has been an important part of the development of Panama's role as a regional financial centre. Most transactions centre on government bonds. The exchange is the only dollar-based securities market in the region. The main corporate candidates for listing are the many companies of Central America and the northern countries of South America that have strong balance sheets but are too small to issue shares in New York.

Electronic trading began to replace the open outcry system in 2003, and the Stock Exchange now operates an electronic trading system with remote trading terminals for all Stock Exchange seatholders. In certain special circumstances where the electronic system fails, the BVP has adopted open outcry trading norms for used on the Stock Exchange floor with a physical presence of the participants.

Executive Summary

Panama boasts the Western Hemisphere's fastest growing economy, with low unemployment, and a stable, democratically elected government. As the home of the Panama Canal and the world's second largest free trade zone, and with an economy nearly 90% based on services, including sophisticated logistics and finance operations, Panama is heavily dependent on foreign investment and has worked to make the investment process attractive and simple for investors. Over the past several years, new trade agreements with the United States, the European Union, Mexico, and Colombia have further increased Panama's openness to foreign investment and have provided new protections and privileges for foreign investors.

Despite these efforts, however, Panama is plagued by a poor educational system, high labor costs, a lack of skilled workers, and consistent reports of corruption, fraud, and a lack of judicial transparency. Foreign investors in Panama have also complained about a lack of transparency in the government procurement process. Because many investors have struggled to have cases addressed expeditiously by Panama's court system, most lawyers recommend binding arbitration clauses in contracts.

Panama elected a new government in May 2014. The new President, Juan Carlos Varela, from the centrist Panameñista party will take office on July 1, 2014. His administration is not expected to make significant changes to the investment climate. Despite the challenges, Panama remains one of the safest and most investment friendly countries in Central America and continues to attract high levels of foreign direct investment both from around the region and around the world.

1. Openness to, and restrictions upon, Foreign Investment

Panama actively encourages foreign investment, and with few exceptions, the Government of Panama (GOP) makes no distinction between domestic and foreign companies for investment purposes. Panama continues to enjoy the strongest economic growth in Latin America. It benefits from stable and consistent economic policies and a government that consistently supports trade and open markets. In 2014, the economy is expected to continue to be one of the fastest growing in the world, with predicted growth of 7.3% following expansion of 7.4% in 2013 and 10.6% in 2012. In 2012, Moody's raised Panama's sovereign debt rating to Baa2 and improved their outlook for Panama from "stable" to "positive". Panama's sovereign debt is also rated as investment grade by Fitch (BBB rating) and by Standard and Poor's (BBB rating). Since the October 2012 entry into force of the U.S.-Panama Trade Promotion Agreement (TPA), opportunities have increased for U.S. companies operating in Panama, and exports from the United States to Panama have increased 17%.

While international indices generally rate Panama as one of the best countries in Latin America for business and investment, poor rule of law, lack of judicial independence, a shortage of skilled workers, high levels of corruption, and poorly staffed government institutions all add risk and complication to business dealings. The U.S. Government continues to assist U.S. investors who have experienced fraud and corruption related to property titles,

especially in beachfront areas. However, no new reports of title fraud have been received in the last 12 months. The US has also received complaints from some large investors and potential exporters about inconsistent treatment of concessions and the lack of transparency in government procurement processes.

In 1998, the GOP enacted the Investment Stability Law, which guarantees that foreign investors who invest at least two million dollars in Panama will receive equal treatment under the law to their domestic competition. Under Law 41 (2007), Panama encourages multinational companies to open regional headquarters in Panama by offering various tax incentives; as of December, 2013, 104 international companies have been established under this law.

The United States – Panama Trade Promotion Agreement (TPA) entered into force on October 31, 2012 and has significantly liberalized trade in goods and services, including financial services. The TPA also includes sections on customs administration and trade facilitation, sanitary and phyto-sanitary measures, technical barriers to trade, government procurement, investment, telecommunications, electronic commerce, intellectual property rights, and labor and environmental protection.

Panama is one of the few Latin American economies that are predominantly services-based. Services represent over 80 percent of Panama's Gross Domestic Product. The TPA has improved U.S. firms' access to Panama's services sector and gives U.S. investors better access to the sector than Panama provides to other WTO Members under the General Agreement on Trade in Services. All services sectors are covered under the TPA, except where Panama has made specific exceptions. Under the agreement, Panama has provided improved access in sectors like express delivery, and granted new access in certain areas that had previously been reserved for Panamanian nationals. In addition, Panama agreed to become a full participant in the WTO Information Technology Agreement.

The office of Panama's Vice Minister of International Trade within the Ministry of Commerce and Industry is the principal entity responsible for promoting and facilitating foreign investment and exports. Through its Proinvex service (<http://proinvex.mici.gob.pa>) the government provides investors with information, expedites specific projects, leads investment-seeking missions abroad, and supports foreign investment missions to Panama. In some cases, other government offices may work with investors to ensure that regulations and requirements for land use, employment, special investment incentives, business licensing, and other requirements are met. While there is no formal investment screening by the GOP, the government does monitor large foreign investments.

Panama's privatization framework law does not distinguish between foreign and domestic investor participation in prospective privatizations. The law calls for pre-screening of potential investors or bidders in certain cases to establish technical viability, but nationality and Panamanian participation are not criteria. The Government of Panama undertook a series of privatizations the mid-1990s including most of the electricity generation and telecommunications sectors.

The Panama Canal Authority expects to complete the \$5.25 billion expansion project of the Panama Canal in December of 2015. The project entails building a larger third set of locks, excavating new access channels, deepening Lake Gatun, improving navigational channels,

and dredging the canal entrances. The project has been delayed by disputes with the main contractor and construction workers union.

In addition to the expansion project, the Panama Canal Authority procures over \$200 million in goods and services annually for its daily operations and maintenance. Foreign companies can bid on such contracts under the same terms and conditions as Panamanian companies.

The government of President Ricardo Martinelli, which will end in July 2014, invested nearly \$15 billion in infrastructure improvements. Investments included new airports, Central America's first metro system which opened in April 2014, and significant upgrades to roads and highways. President-elect Varela has pledged to continue aggressive investment in infrastructure including additional metro lines and significant upgrades to the country's water and sanitation systems. In addition, Panama's growing economy will require significant investment in electricity generation and transmission capacity over the next decade.

Government Procurement

Despite improvements to the procurement system in recent years, U.S. companies complain that political interests and connections continue to influence procurement decisions. Panama committed to become a party to the WTO Government Procurement Agreement (GPA) at the time it joined the WTO, but, to date, it remains an observer. Under the TPA, U.S. companies are able to bid on GOP procurements under terms no less favorable than the most favorable treatment that Panama offers its own goods and services suppliers. However, some Panamanian government entities that are state-owned enterprises procure significant amounts are not covered by the TPA. The Tocumen Airport, which is overseeing billions of dollars of airport expansion projects throughout Panama, is one such example.

Panamanian Law 22 of 2006, as amended by Law 48 of 2011, among others, regulates government procurement and related issues. Law 22 was intended to streamline and modernize Panama's contracting system and requires publication of all proposed government purchases. Law 22 also established PanamaCompra, an Internet-based procurement system (<http://www.panamacompra.gob.pa>) through which the Government of Panama evaluates proposals, monitors the procurement process, and holds consultations for public bids, including technical specifications and tender documents. Panama has an administrative court to handle all public contracting disputes. The rulings of this administrative court are subject to review by Panama's Supreme Court.

The TPA also requires Panama to ensure, under its domestic law, that bribery in matters affecting trade and investment, including in government procurement, is treated as a criminal offense or is subject to non-criminal penalties where criminal responsibility is not applicable.

Despite these steps, many observers believe that political interests continue to influence procurement decisions. Panamanian business leaders have requested that sole-source contracting be used only on an exceptional basis, and U.S. firms have expressed concern about how the Government of Panama establishes and evaluates the criteria used to select a procurement winner. In other instances, U.S. companies have pointed to machinations that appear to favor one company, in particular in procurement actions. Examples include extraordinary requirements for prior experience, exclusion of competing technologies

through the use of specifications that appear to be lifted directly from a particular company's marketing materials, government resolutions that limit even private procurements of a certain technology, unreasonably short timeframes on complex tenders, lengthy delays in ratification of a contract award, and simply cancelling the procurement and then reissuing it with little justification. U.S. companies have also alleged that Panamanian government officials may ask outright for payments to guarantee an award, or more indirectly may insist that they partner with a favored local firm.

From January to December 2013, 153,842 contracts, valued at over \$3.8 billion, were awarded by the government of Panama; sole source tendering accounted for \$169 million of these contracts through approximately 2,149 sole-source contracts.

Importing entities are required to hold a license to operate in Panama in order to import manufactured goods into the country. The license may be obtained through Panama's online business registration service "[Panama Emprende](#)." Importing entities holding such a license are not required to have a separate import license for individual shipments, except for imports of certain controlled products such as weapons, medicine, pharmaceutical products, and certain chemicals. Another website: <http://panama.eregulations.org/> gives users access to administrative procedures for companies and businesses, such as tax payments and social security enrollment.

2. Conversion and Transfer Policies

Panama does not have an independent monetary policy as it uses the U.S. dollar for its currency and does not have a Central Bank. Inflation has historically been relatively low and stable, falling to an estimated 4.1% in 2013 from 5.7% in 2012.

Panama has no legal restrictions on the transfer abroad of funds associated with or capital employed in an investment. There are no restrictions on capital outflows or convertibility conversion.

3. Expropriation and Compensation

There are no current international arbitration cases alleging direct expropriation of property by the Panamanian government, although several companies are considering pursuing arbitration. Panamanian law recognizes the concept of eminent domain; however, U.S. companies have voiced concern about being reimbursed at fair market value in a case where the government's revocation of a concession adversely impacts access or use of the investors' property.

4. Investment/Commercial Dispute Settlement

Resolving commercial and investment disputes in Panama can be a lengthy and complex process. Despite protections built into the BIT and TPA, investors have repeatedly struggled to resolve investment issues in courts. Panama's court and judicial system is based on a civil code, and not the Anglo-American system of case law and judicial precedent. In September 2011, Panama started the process of converting to the accusatory system with the goal of simplifying and expediting criminal judicial cases. Fundamental procedural rights in civil cases are broadly similar to those available in U.S. civil courts, although some notice and discovery rights, particularly in administrative matters, may be less extensive than in the U.S.

Judicial pleadings are not always a matter of public record, nor are the processes always transparent.

There are frequent claims of bias and favoritism in the court system and complaints about the lack of adequate titling, inconsistent regulations, and a lack of trained officials outside of the capital. The World Economic Forum ranks the independence of Panama's judicial system 118 of the 144 countries evaluated. The court system's lack of independence has been demonstrated in recent cases where politically connected businesses benefited from questionable court decisions or convinced the courts to let sensitive cases linger on the docket for years without taking action. Many Panamanian legal firms suggest writing binding arbitration clauses into all commercial contracts.

Panama's commercial law is comprehensive and well-established. Its bankruptcy law is antiquated and is undergoing review and revision, but this process is unlikely to be completed before the next administration takes power in July 2014.

The GOP accepts binding international arbitration of disputes with foreign investors. Panama became a member of the International Center for the Settlement of Investment Disputes (ICSID) in 1996. The United States and Panama signed an amendment to the Bilateral Investment Treaty (BIT) to incorporate Panama's membership into ICSID on June 1, 2000. This amendment took effect in May 2001. Panama also became a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA) in 1997. In 2012, MIGA issued a guarantee to cover a \$250 million loan from Citibank for a portion of the construction of Line 1 of the metro system.

5. Performance Requirements and Incentives

There are no legal performance requirements such as minimum export percentages, significant local requirements of local equity interest, or mandatory technology transfer. There are no established general requirements that foreign investors invest in local companies, purchase goods or services from local vendors or invest in R&D or other facilities, although rules to implement an ethanol mix by fuel distributors limit eligibility for a tax credit to domestically sourced ethanol. There are special tax and other incentives for manufacturers, back office operations and call centers to locate in free zones which are located in most areas of the country. Official support for investment and business activity is especially strong for the Colon Free Zone (CFZ), the banking sector, the tourism sector, and the free zones. Companies in the CFZ pay basic user fees and a 5% dividend tax (or 2% of net profits if there are no dividends). Banks and individuals in Panama pay no tax on interest or other income earned outside Panama. No taxes are withheld on savings or fixed time deposits in Panama. Individual depositors do not pay taxes on time deposits. Free zones offer tax-free status, special immigration privileges, and license and customs exemptions to manufacturers who locate there. Investment incentives offered by the GOP are available equally to Panamanian and foreign investors. The incentives do not discriminate or distinguish between Panamanians and foreign investors.

6. Right to Private Ownership and Establishment

The GOP imposes some limitations on foreign ownership in the retail and media sectors where, in most cases, ownership must be Panamanian. However, foreign investors can

continue to use franchise arrangements to own retail within the confines of Panamanian law (under the TPA, direct U.S. ownership of consumer retail is allowed in limited circumstances).

In addition to limitations on ownership, the exercise of approximately 55 professions is reserved for Panamanian nationals. Specifically, medical practitioners, lawyers, accountants, and customs brokers must be Panamanian citizens. The GOP also requires foreigners in some sectors to obtain explicit permission to work. However, there are no reports of such restrictions hindering U.S. firms operating in Panama.

With the exceptions of retail trade, the media and several professions, foreign and domestic entities have the right to establish, own, and dispose of business interests in virtually all forms of remunerative activity. Foreigners need not be legally resident or physically present in Panama to establish corporations or to obtain local operating licenses for a foreign corporation. Business visas (and even citizenship) are readily obtainable for significant investors.

7. Protection of Property Rights

The U.S. Government has received numerous property dispute complaints from U.S. investors and individual property holders. The complaints include broken contracts, demands for extra payments, title fraud, corruption, and occasional threats of violence. In some cases, these disputes resulted in the loss of the property. Many of these complaints appear to stem from the lack of titled land in Panama, along with inadequate government administration of the property system and a weak judiciary. The majority of land in Panama, and almost all land outside of Panama City, is not titled; a system of rights of possession exists, but there are multiple instances where such rights have been successfully challenged. The World Bank's Doing Business 2014 report notes that Panama has risen to 74 out of 189 countries on the Registering Property indicator, though it still ranks 127 on Enforcing Contracts.

The judicial system's capacity to resolve contractual and property disputes is weak and open to corruption, as illustrated by the most recent World Economic Forum's Global Competitiveness Report, which rates Panama's judicial independence as 118 out of 148 countries. Americans should exercise greater due diligence in purchasing Panamanian real estate than they would in purchasing real estate in the United States. Engaging a reputable attorney and licensed real estate broker is strongly recommended, as is including the option for arbitration in any contract.

Panama enacted Law 80 (2009) to address the lack of titled land in certain parts of the country; however, it does not cure deficiencies in government administration or the judicial system. In 2010, the National Assembly approved the creation of the National Authority of Land Management (ANATI) to administer land titling; however, decisions taken by ANATI have reinforced investors' concerns regarding government administration, corruption, and the ability of the judicial system to resolve these issues.

Panama has an adequate and effective domestic legal framework to protect and enforce intellectual property rights. The government of Panama is making efforts to strengthen the enforcement of intellectual property rights (IPR). Since 1997, two district courts and one superior tribunal have been exclusively adjudicating antitrust, patent, trademark, and copyright cases. Since January 2003, a specific prosecutor with national authority over IPR

cases has consolidated and simplified the prosecution of those cases. Law 1 of 2004 added crimes against intellectual property as a predicate offense for money laundering, and Law 14 establishes a 5 year to 12 year prison term, plus possible fines. Law 10 of 2011 moved the Copyright Office from the Ministry of Education to the Ministry of Commerce and Industry. A Committee for Intellectual Property (CIPI), comprising representatives from five government agencies (Colon Free Zone, Offices of Intellectual Property Registry and Copyright under the Ministry of Commerce and Industry, Customs, and the Attorney General), under the leadership of the Ministry of Commerce and Industry, is responsible for development of intellectual property policy in Panama.

In order to implement the requirements of the TPA, Panama passed Law 62 of 2012 (industrial property) and Law 64 of 2012 (copyrights). These laws introduced important updates to Panama's IPR enforcement legislation. These updates offer improved standards for the protection and enforcement of a broad range of IPR, including protections for patents, trademarks, undisclosed test and other data submitted to obtain marketing approval for pharmaceuticals and agricultural chemicals, and digital copyrighted products such as software, music, text, and videos, as well as further deterrence of piracy and counterfeiting.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: Colombia Primola PrimolaCE@state.gov

Local lawyers list: <http://panama.usembassy.gov/emergencycontact/list-of-attorneys.html>

8. Transparency of the Regulatory System

In the banking and finance sector, investors generally give good marks to the Panamanian entities that regulate them, notably the Superintendent of Banks. However, U.S. businesses have expressed concern about the responsiveness and transparency of some regulating agencies and the authorities' failure to consult with businesses before enacting policies or implementing new legislation.

In 1999, Panama passed a securities law that established a three-member National Securities Commission to regulate brokers, fund managers, and matters related to the securities industry. In 2012, the Commission structure was modified to follow the successful Banking Commission model and now consists of a superintendent and a board of directors. The Securities Commission is generally considered to be a competent and effective regulator.

Panama is a member of the U.N. Conference on Trade and Development's international network of transparent investment procedures: <http://panama.eregulations.org/>. Foreign and national investors can find detailed information on administrative procedures applicable to investment and income generating operations including the number of steps, name and contact details of the entities and persons in charge of procedures, required documents and conditions, costs, processing time, and legal bases justifying the procedures.

9. Efficient Capital Markets and Portfolio Investment

Panama's 1998 Banking Law with amendments from the 2008 [Banking Law](#) regulates the country's financial sector. The law, which concentrates regulatory authority in the hands of a

powerful and well-financed Banking Superintendent (<http://www.superbancos.gob.pa>), transformed the previously inadequate regime into one that approaches international standards.

Traditional bank lending from the well-developed banking sector is relatively efficient and is the most common source of financing for both domestic and foreign investors, offering the private sector a variety of credit instruments. The free flow of capital is actively supported by the GOP and is viewed as essential to Panama's large banking sector.

Panamanian and foreign investors are treated equally by government policy and law with respect to access to credit. Panamanian interest rates closely follow international rates (i.e., the London Interbank Offered Rate - LIBOR), plus a country-risk premium.

Some private companies, including multinational corporations, have issued bonds in the local securities market. Companies rarely issue stock on the local market and, when they do, often issue shares without voting rights. Investor demand is generally limited because of the small pool of qualified investors. Interest from time deposits and certain bonds are tax-exempt. There is a 10% withholding tax on dividends, although capital gains from the sale of equities listed on the Panamanian exchange is tax exempt. While wealthy Panamanians may hold overlapping interests in various businesses, there is not an established practice of having cross-shareholding or stable shareholder arrangements, designed to restrict foreign investment through mergers and acquisitions.

There are no restrictions on, nor practical measures to prevent hostile foreign investor takeovers, nor are there regulatory provisions authorizing limitations on foreign participation or control or other practices to restrict foreign participation. There are no government or private sector rules to prevent foreign participation in industry standards setting consortia.

Financing for consumers is also relatively open, as mortgages, credit cards and personal loans, even to those earning modest incomes, are widely available on terms similar to those in the U.S.

The Panamanian Stock Exchange (<http://www.panabolsa.com>) conducted \$3.6 billion in transactions in 2013.

10. Competition from State-Owned Enterprises

Not Applicable.

11. Corporate Social Responsibility

Corporate Social Responsibility (CSR) is increasing in importance as Panama's international business profile rises. Local business organizations have started to encourage and recognize companies for their CSR initiatives and the government has taken steps to formally institutionalize CSR practices.

Panama maintains strict domestic laws relating to labor and employment rights and environmental protection. While enforcement of these laws is not always stringent, major construction projects are required to complete environmental assessments, guarantee worker protections and comply with government standards for environmental stewardship. In May 2012, Panama adopted ISO 26000 to guide businesses in the development of CSR

platforms. In addition, business groups including the Association of Panamanian Business Executives (APEDE) and the American Chamber of Commerce (AMCHAM) are active in encouraging and rewarding good CSR practices. Since 2009, the AMCHAM has given an annual award to recognize member companies for their positive impact on the local community and environment.

12. Political Violence

Though Panama is a peaceful and stable democracy, large-scale protests can turn violent and disrupt commercial activity in affected areas. Mining and energy projects have been particularly sensitive, especially those that involve development in the designated indigenous areas (comarcas).

In May 2014, Panama held national elections that international observers agreed were free and fair. The two losing candidates conceded on election night and congratulated the winner. The current President has ordered his government to assist the incoming administration to ensure a peaceful transition. Panama's Constitution provides for the right of peaceful assembly, and the government generally respects this right. No authorization is needed for outdoor assembly, although prior notification for administrative purposes is required. Unions, student groups, employee associations, elected officials, and unaffiliated groups frequently attempt to impede traffic and commerce in order to force the government or business to agree to demands.

Protests in Panama do occasionally become disruptive and violent. In June 2010, the GOP passed Law 30, which revised several aspects of the Labor Code and eight other laws. Labor leaders, environmentalists, the media, and business groups opposed the law. In early July 2010, the Sitrabana union in the province of Bocas del Toro began a strike opposing the law. The strike and related protests turned violent as police intervened. Following a broad-based dialogue with labor, businesses and civil society groups in the wake of the violence, the government revised the law.

In early February 2011, the GOP passed Law 8, which amended the mining code to allow foreign government-owned companies or sovereign wealth fund equity investments to hold equity shares in mining concessions. Indigenous, environmental, media, and student groups sought the revocation of the law through a concerted political campaign, which included daily protests and blocking of major roads and highways. Through a mediated agreement, the government repealed the law in March 2011 and also agreed to restrict mining and hydro plants in the Ngäbe-Buglé comarca in a future bill.

In January 2012, protests erupted in Western Panama concerning hydroelectric and mining concessions around the Ngäbe-Buglé comarca. Protestors shut down the Inter-American highway for six days and were eventually dispersed by the police. Two deaths were reported from the incident.

In October 2012, protests erupted in Colon over Law 71 to sell land in the Colon Free Trade Zone. The protests lasted for several days, resulting in four deaths and many injuries. Protests also spread briefly to Panama City, where some businesses were looted and burned. The Government agreed to repeal the law and hold a dialogue on the issues.

In 2013 and 2014, scattered protests continued especially in the Ngäbe-Buglé comarca, where protesters continue to object to planned hydroelectric development. The largest construction workers union, SUNTRACS, has also convened several strikes, stopping construction activity, and at times impacting traffic and commerce around the country.

13. Corruption

President-elect Varela campaigned on a pledge to eliminate corruption in the government, increase transparency, and prosecute corrupt officials. President Martinelli campaigned on a similar promise in 2009 but his administration was consistently plagued with allegations of corruption by politicians and the business community.

In the most recent edition (2013) of the Transparency International Corruption Perceptions Index, Panama ranked 102 out of 177 countries measured. The Panamanian judicial system continues to pose a problem for investors due to poorly trained personnel, case backlogs, and a lack of independence from political influence. Supreme Court judges are typically nominated to their 10-year terms on the basis of political considerations.

Under Panamanian law, only the National Assembly may initiate corruption investigations against Supreme Court judges and only the Supreme Court may initiate investigations against members of the National Assembly, thereby encouraging, in effect, a “non-aggression pact” between these two branches of government.

The fight against corruption is also hampered by the GOP’s refusal to dismantle Panama’s dictatorship-era libel and contempt laws, which can be used to punish whistleblowers, while those accused of acts of corruption are seldom prosecuted and almost never jailed.

Anti-corruption mechanisms exist, such as asset forfeiture, whistleblower and witness protection, and conflict-of-interest rules. However, the general perception is that anti-corruption laws are not applied rigorously, and that government enforcement bodies and the courts are not effective in pursuing and prosecuting those accused of corruption, particularly in high profile cases. Panama’s government lacks strong systemic checks and balances that incentivize accountability. The lack of a strong professionalized career civil service in Panama’s public sector also hinders systemic change.

Panama ratified the United Nations’ Anti-Corruption Convention in 2005 and the Organization of American States’ Inter-American Convention Against Corruption in 1998. However, there is a perception that Panama could more effectively implement the conventions.

Complaints by American investors about allegedly corrupt judicial and governmental decisions prejudicial to their interests remain common and problematic. However, despite allegations of corruption, other than cases involving drug trafficking, GOP officials, judges, and legislators are seldom investigated, much less convicted on corruption charges.

14. Bilateral Investment Agreements

The United States – Panama Bilateral Investment Treaty (BIT) entered into force in 1991 and was amended in 2001. The BIT ensures that, with some exceptions, U.S. investors receive fair, equitable, and nondiscriminatory treatment, and that both Parties abide by international law

standards, such as for expropriation and compensation and free transfers. With the October 31, 2012 implementation of the TPA, the investor protection provisions in the TPA have supplanted those in the BIT. However, until October 30, 2022, investors may choose to invoke dispute settlement under the BIT for disputes that arose prior to entry into force of the TPA, or for disputes relating to investment agreements that were completed before the TPA entered into force.

Panama also has bilateral investment agreements with the United Kingdom, France, Switzerland, Germany, Taiwan, Canada, Argentina, Spain, Chile, Uruguay, the Czech Republic, Netherlands, Cuba, Mexico, the Dominican Republic, Korea, Ukraine, Sweden, Qatar, Finland, and Italy. Commerce Ministry officials note that there have been some exploratory talks toward investment agreements with Belgium and Luxembourg, but they acknowledge that these discussions have a lower priority than ongoing free trade negotiations.

15. OPIC and Other Investment Insurance Programs

The United States and Panama signed a comprehensive Overseas Private Investment Corporation (OPIC) agreement in April 2000. OPIC offers both financing and insurance coverage against expropriation, war, revolution, insurrection, and inconvertibility for eligible U.S. investors in Panama. OPIC can insure up to \$200 million per project for U.S. investors, contractors, exporters, and financial institutions. Financing is available for overseas investments that are wholly owned by U.S. companies or that are joint ventures in which the U.S. firm is a participant. Panama has been a member of the Multilateral Investment Guarantee Agency (MIGA) since 1996.

16. Labor

Labor issues are a frequent concern for foreign investors in Panama. Specifically, companies have struggled with the shortage of available workers, especially highly trained and skilled workers, and the cost and complexity of laying off or firing an employee.

Panama's non-agriculture labor force is approximately 1.5 million persons with 4.2% unemployment as of November 2013. Approximately 41% of workers are employed in the informal sector, with a lower rate of informal employment in Panama capital area (37%) compared to the indigenous areas (80%). While the GOP has periodically revised its labor code, including a modest revision in 1995, it remains highly restrictive. Several sectors, including the Panama Canal Authority, the Colon Free Zone, and export processing zones/call centers are covered by their own labor regimes. Employers outside of these areas, such as the tourism sector, have called for greater flexibility, easier termination of workers, and the elimination of many constraints on productivity-based pay. Employers frequently cite the lack of skilled labor and English language speakers as a constraint to growth. The GOP has issued waivers to the regulations on an ad hoc basis in order to address employers' needs, but there is no consistent standard for obtaining such a waiver.

Despite spending of approximately 12.6% of the central government budget and 2.5% of GDP on education, approximately half of students fail their university entrance exam. The 2013 World Economic Forum Global Competitiveness Report ranked Panama 68 out of 144 countries for quality of education and pointed to an inadequately educated workforce as

the most problematic factor for doing business. This poor showing underscored the 2010 OECD Program for International Student Achievement (PISA) analysis, which ranked Panama second worst among participating Latin American countries.

According to the World Bank's Doing Business 2013 Report, Panama ranked 55 out of 189 on "The Ease of Doing Business", but in 2010 (the last year for which such rankings were done) 177 out of 183 in "Employing Workers" based on difficulties in hiring and firing workers. Panamanian labor law, in requiring the Labor Ministry's permission to dismiss employees for "economic reasons," may act as a legal barrier for a firm wishing to reduce its workforce or repatriate its capital. If a firm is insolvent, the law also gives workers priority over all other non-secured creditors. The monthly minimum wage varies based on the region of Panama and the industry; the range is between \$250 and \$465 for a forty-hour work week.

Panama experienced some labor disputes during 2013. Employees in companies of more than 40 workers have the right to unionize. Many of the labor disputes in Panama have involved issues of pay or working conditions. In the public sector, teachers and public health workers held brief strikes. Members of the construction workers union also held a series of strikes to demand better pay and working conditions.

17. Foreign-Trade Zones/Free Ports

Law 18 of 1948 established the Colon Free Zone (CFZ), which is now the second largest free trade zone in the world, after Hong Kong. Most merchandise (clothing, footwear, electronics, pharmaceuticals, medicines, perfumes, cosmetics, liquor, cigarettes, textiles, bedding, linens and fine jewelry) is transshipped from the Far East (particularly China, Hong Kong, and Taiwan) through the CFZ to other parts of the Western Hemisphere (particularly Venezuela and Colombia). Through 2011, the CFZ imported/exported \$29.1 billion and \$30 billion in 2012. Over 3,000 companies operate within its 450 hectares.

Law 41 of 2004 provides for the development of "Panama Pacific Special Economic Area" in the former Howard Air Base to encourage investment in the area, particularly in the logistics sector. The process for the establishment of a company in the area takes approximately 4 to 6 months. Dell, WR Grace, 3M, SAMTEC, VF sourcing Latin America, Grainger, Singapore Technologies Aerospace, and Caterpillar are among the 177 multinational companies which are located there. London & Regional, the overall developer, invested \$705 million in the development. Law 32 of 2011 provides updated regulations for the development of free trade zones (not including the Colon Free Zone) in an effort to broaden the Panamanian economic development while promoting investment in former U.S. military bases transferred to Panama. The law also includes specific labor and immigration provisions that are more favorable than the current Panamanian labor code. The government also provides numerous tax incentives to companies that operate in free trade zones. Companies, whether Panamanian or foreign, operating in these zones may import inputs duty-free if products assembled in the zones are to be exported. There are currently 14 free zones with 92 companies registered. They face difficulties due to Panama's higher-than-regional-average wages, limited existing industrial base, and weak infrastructure, particularly outside the Panama-Colon Corridor. Law 25 of 2006 also provides for the development of call centers; seventy-eight companies are currently licensed to operate call centers.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Panama's foreign direct investment from January-December 2013 was \$4.0 billion, or \$900 million more than in 2012. Total FDI for 2012 is projected to be over 10% of GDP, matching or exceeding the levels of 2006-2008. Rising FDI has been driven by large investments in the mining and energy sectors along with continuing investments in the Colon Free Zone, logistics, financial, maritime, construction and transportation fields. A Canadian company, First Quantum, is developing a \$6.0 billion open pit copper mine which has contributed to the recent upswing in FDI.

TABLE 1: The following chart summarizes several well-regarded indices and rankings

INDEX	Year	RANK	SOURCE
Transparency International Corruption Index	2013	102/177	Transparency International http://cpi.transparency.org/cpi2013/results/
Doing Business	2014	55/189	The World Bank
The Global Competitiveness Index	2014	40/148	World Economic Forum
Global Innovation Index	2013	86/142	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
Heritage Foundation's Economic Freedom index	2014	71/177	http://www.heritage.org/index/ranking

U.S. FDI in host country/economy

YEAR	AMOUNT
2004	1,019
2005	962
2006	2,498
2007	1,907
2008	2,402

2009	1,772
2010	2,362
2011	2,755
2012	3,132
2013	4,031

TABLE 3: Sources and Destination of FDI (end of 2012) (<http://cds.imf.org/>)

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	26,762	100%			
United States	4,679	17%			
United Kingdom	3,334	12%			
Colombia	2,702	10%			
South Africa	2,326	9%			
Spain	2,292	9%			
"0" reflects amounts rounded to +/- USD 500,000.					

TABLE 4: Sources of Portfolio Investment (end of 2012) (<http://cpis.imf.org/>)

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
World	8,630	100%	World	351	100%	World	8,279	100%
United States	4,496	52%	United States	221	63%	United States	4,275	52%
Colombia	709	8%	Canada	44	12%	Colombia	699	8%

Brazil	560	6%	Ireland	35	10%	Brazil	557	7%
Mexico	287	3%	Luxembourg	13	4%	Mexico	287	3%
Peru	252	3%	Colombia	10	3%	Peru	252	3%

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

Civil law system; judicial review of legislative acts in the Supreme Court of Justice

























International organization participation:

BCIE, CAN (observer), CD, CELAC, CSN (observer), FAO, G-77, IADB, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IFAD, IFC, IFRC, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), LAES, LAIA, MIGA, NAM, OAS, OPANAL, OPCW, PCA, SICA, UN, UNASUR (observer), UNCTAD, UNESCO, UNIDO, Union Latina, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Section 6 - Tax

Treaty and non-treaty withholding tax rates

Panama has exchange of information relationships with 24 jurisdictions through 15 DTCs and 9 TIEAs.

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5	
Barbados	DTC	21 Jun 2010	18 Feb 2011	No	Yes	
Canada	TIEA	17 Mar 2013	6 Dec 2013	Unreviewed	Yes	
Czech Republic	DTC	4 Jul 2012	not yet in force	Unreviewed	Yes	
Denmark	TIEA	16 Nov 2012	not yet in force	Unreviewed	Yes	
Faroe Islands	TIEA	12 Nov 2012	not yet in force	Unreviewed	Yes	
Finland	TIEA	12 Nov 2012	not yet in force	Yes	Yes	
France	DTC	30 Jun 2011	1 Feb 2012	Yes	Yes	
Greenland	TIEA	12 Nov 2012	not yet in force	Unreviewed	Yes	
Iceland	TIEA	12 Nov 2012	not yet in force	Yes	Yes	
Ireland	DTC	28 Nov 2011	19 Dec 2012	Unreviewed	Yes	
Israel	DTC	8 Nov 2012	not yet in force	Yes	Yes	
Italy	DTC	30 Dec 2010	not yet in force	Yes	Yes	
Korea, Republic of	DTC	20 Oct 2010	1 Apr 2012	Yes	Yes	
Luxembourg	DTC	7 Oct 2010	1 Nov 2011	Unreviewed	Yes	
Mexico	DTC	24 Mar 2010	30 Dec 2010	Unreviewed	Yes	
Netherlands	DTC	6 Oct 2010	1 Dec 2011	Yes	Yes	
Norway	TIEA	12 Nov 2012	not yet in force	Unreviewed	Yes	
Portugal	DTC	27 Aug 2010	10 Jun 2012	Yes	Yes	
Qatar	DTC	23 Sep 2010	6 May 2011	No	Yes	
Singapore	DTC	18 Oct 2010	19 Dec 2011	Yes	Yes	
Spain	DTC	7 Oct 2010	25 Jul 2011	Yes	Yes	
Sweden	TIEA	12 Nov 2012	not yet in force	Yes	Yes	
United Arab Emirates	DTC	13 Oct 2012	not yet in force	Unreviewed	Yes	
United States	TIEA	30 Nov 2010	18 Apr 2011	Yes	Yes	

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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