



PATTON, MORENO & ASVAT  
INTERNATIONAL LAWYERS

# PMA BUSINESS LETTER



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## **BUSINESS OPPORTUNITIES IN PANAMA**

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### **PANAMA COMPLIES WITH OECD REQUIREMENTS**

After signing today a fiscal information convention with France, Panama has completed the 12 fiscal agreements required by the Organization for Economic Cooperation and Development (OECD) in order to exclude Panama from the list of tax havens.

With this Convention, Panama meets its objectives of having 12 fiscal agreements as part of the results of the National Defense Strategy of the International and Financial Services of the country, which completes the number of agreements required by the Organization for Economic Cooperation and Development (OECD) to finally exclude Panama from discriminatory taxation lists.

This Convention aims to prevent double taxation and prevent fiscal evasion with respect to taxes on income imposed by each Contracting State, political or administrative subdivision or local authority, whichever system they are levied under.

In a period of 16 months Panama has signed twelve similar instruments, with Italy, the Netherlands (Holland) Spain, Qatar, Luxembourg, Korea, Singapore, Mexico, Barbados, Portugal and the United States of America.

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### **VOPAK TO BUILD STORAGE CAPACITY IN PANAMA**

Tank storage provider Royal Vopak NV said it plans to build and operate 655,000 cubic meters (cbm) of independent storage capacity for oil products in Bahia Las Minas, on the Atlantic Coast of Panama.

The new facilities -that include the enhancement of two existing jetties- are planned to be commissioned in the first half of 2013. Based on positive market demand, Vopak can expand its independent capacity by around 1 million cbm to 1.75 million cbm (11 million barrels) and build a new deep water (post-panamax) jetty to support the site's operations. Vopak has reached an agreement with Chevron Corporation which provides a long-term development framework for Vopak to invest in the construction of independent storage capacity in Bahia Las Minas, adjacent to Chevron's site.

In addition, the scope of the agreement covers Vopak assuming operational control of Chevron's current 470,000 cbm storage facility based on standards that meet both companies' safety and reliability requirements.

**If you are interested in receiving details of business opportunities and commercial ventures in the maritime sector, please contact Mrs. Maria de**

Lourdes Marengo, [mmarengo@pmalawyers.com](mailto:mmarengo@pmalawyers.com) and Mr. Belisario Porras, [bporras@pmalawyers.com](mailto:bporras@pmalawyers.com)

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## **PANAMA STOCK MARKET ON THE RISE**

In just five months more than \$600M worth of shares have been issued. The economic boom being experienced by Panama can be seen in all the country's economic activities, and the stock market is no exception. Between January and May, \$602M worth of securities have been issued, representing an increase of 285% compared to the same period in 2010. In addition, another \$400M worth are in the approval process. Most of the securities registered or pending correspond to Corporate Bonds and Corporate Commercial Securities, short-term instruments that Panamanian companies have brought to the market in order to find funds to finance their operations, including on the waiting list some bonds offered by Global Bank for \$200M, the highest amount so far this year.

**If you are interested in receiving details of commercial ventures and opportunities, please contact Ms. Ivette Martinez, [imartinez@pmalawyers.com](mailto:imartinez@pmalawyers.com)**

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## **FTA BETWEEN PANAMA AND PERU, OFFICIAL NOW**

After six months of negotiations, the free trade agreement between Panama and Peru is ready to be implemented. The agreement, which excluded certain sensitive products for both countries, states that within five years, 99.5% of Panamanian exports to the Andean country will be exempt from taxes. Trade between the two countries could increase by 10% per year. Panamanian products like processed chicken and beef, fruits and seafood, could enter the country immediately after the treaty is signed. Last year transactions between the two countries didn't go above \$50 million, for this reason "we value the agreement as a substantial opportunity to increase this type of trade," said Panama Minister of Trade and Industries Roberto Henriquez.

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## **MEXICO'S KIO NETWORKS COMES TO PANAMA**

Mexico's technology firm KIO NETWORKS has invested around \$30M to build its first Technology Campus and Computer Centers in Panama. KIO Networks will strengthen strategy and expand its outsourcing services into new locations, as well as making a commitment to increase competitiveness and

efficiency for its customers.

In a symbolic act marking the start of construction, KIO Networks laid the foundation stone in Panama where the first campus technology in Latin America will be. The new complex of KIO data centers will be located in the new Panama Pacific economic area.

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## **CONSORTIUM US-CHINESE TO DESIGN NEW BRIDGE OVER THE PANAMA CANAL**

The Panama Canal Authority (ACP) announced that the consortium formed by US' engineering consultancy firm Louis Berger Group and the Chinese infrastructure giant, China Communication Construction Company (CCCC), was awarded a contract to design a third bridge over the Panama Canal.

The consortium had presented the lowest budget worth 4.6M and won the bid over five other competing companies.

The ACP has specified that the new bridge must be braced with ties, built at 75 meters above sea level with a full length of five kilometers including access roads to the bridge.

Currently, the Bridge of the Americas and the Centennial Bridge -- both on the Pacific side -- provide the only routes for vehicles to cross the Canal. This new bridge, the first-ever on the Atlantic side of the waterway, will double trans-canal traffic capacity once completed in 2014.

**If you are interested in receiving details of commercial ventures and opportunities in the infrastructure and construction sectors, please contact Ms. Ivette Martinez, [imartinez@pmalawyers.com](mailto:imartinez@pmalawyers.com) and maritime sector, please contact Mrs. Maria de Lourdes Marengo, [mmarengo@pmalawyers.com](mailto:mmarengo@pmalawyers.com) and Mr. Belisario Porras, [bporras@pmalawyers.com](mailto:bporras@pmalawyers.com)**

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## **GROWTH OF COLON FREE ZONE ACTIVITY**

The first quarter 2011 has been the best of the past four years for the Colon Free Zone activity when the world's second largest western free zone had a total of \$6.2M in movements of goods.

From January to March the importation and re-exportation of goods grew by 39% in volume and 13.9% in value, according to Panama's comptroller-general.

The marketing of raw materials for medicines and drugs as a finished product heavily influenced the rise, representing nearly 70% of the movement. Medicines are imported from Puerto Rico and Central America, and re-exported to many nations.

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### **DIGICEL TO INVEST \$100M IN PANAMA**

Digical, which has operated in Panama since 2008, said it will invest \$100M in expanding its voice and data network.

The company currently has 25% of the telecommunications market in Panama and has set a short term goal to position itself in second place among companies operating in the market.

The announcement was made by the new CEO of Digicel Panama, Mario Mendez, who denied that Digicel Panama has been purchased as suggested by rumors that circulated after Claro's acquisition of 100% of Digicel's operations in Honduras and El Salvador.

**If you are interested in receiving details of commercial ventures and additional information in the telecommunications sector, please contact Ms. Ivette Martinez, [imartinez@pmalawyers.com](mailto:imartinez@pmalawyers.com)**

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### **MPA AND PANAMA CANAL RENEW TIES**

The Maryland Port Administration announced it has renewed its memorandum of understanding with the Panama Canal Authority for another five years.

The MPA said in a statement that "the goal of the MOU is to generate new business opportunities between Asia and the Port of Baltimore through the Panama Canal, as well as facilitate information sharing and exchange best practices between the two organizations." The agreement was signed by MPA Administrator James J. White and ACP Administrator Alberto Aleman Zubieta. "We are very happy to renew this agreement with the Panama Canal Authority as we get closer to one of the key datelines in the history of container shipping," said White.

"Once the Panama Canal project is completed, the largest containerships in the world will be able to transit through and bring that business to East Coast ports that have the capabilities to handle those huge ships. After our 50-foot berth is finished, Baltimore will be one of those ports," the PMA Administrator said.

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## **PANAMA IN THE INTERNATIONAL NEWS**

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### **ON TIME AND ON BUDGET**

**FAIRPLAY WEEKLY MAGAZINE  
JUNE 30, 2011**

**The shipping industry is watching the Panama Canal expansion project as the completion date in October 2014 gets closer. Michele Labrut reports on progress**

Grupo Unidos por el Canal (GUPC), the developer of the expanded Panama Canal, has a new man in charge of the world's largest capital construction project. Antonio Zaffaroni, who has been at the helm of GUPC since the bid was won, was replaced on 22 May by Bernardo González, a Spanish engineer who previously oversaw construction of the locks on the Atlantic side of the canal.

Zaffaroni has done "first-class work", Panama Canal Authority (ACP) administrator Alberto Alemán told Fairplay. "He has done the first and most important stage of the project, including the construction of the south cofferdam on the Pacific lock site."

Currently, the Panama Canal expansion project is 24% complete. Its major component, the design and construction of the third set of locks, is 12% complete.

González, the new GUPC director, expressed optimism about the timetable. "I am convinced we will conclude on time and on budget. We are committed to delivering a quality project," he told Fairplay.

The Panama Canal expansion project is now entering a crucial period. GUPC is progressing well with dry excavations and has reached the all-important stage of placing structural concrete.

The special concrete must meet ACP requirements, verified through a series of tests that will prove its durability (to 100 years), low permeability to salt water and compressive strength. About 4.8M m<sup>3</sup> of concrete will be necessary to build both locks complexes.

By the end of this month, GUPC will have presented the ACP with a concrete mix design for testing, as well as a working plan for the next four to five months. Although the design of the concrete took longer than expected, officials remain adamant that the overall project will be completed by the specified date of 21 October 2014.

"The works are going well and once GUPC begins to place concrete, the production is a repetitive effort," said Alemán. GUPC has already started the process of installing forms and reinforced steel in the future locks in preparation for the start of the structural concrete placement.

"My objective is to pour concrete in July in the upper chamber area in both the Atlantic and Pacific lock sites and eventually move on to the middle chamber," explained González.

The crushing plant installed on the Pacific side had to be modified because the quality of basalt extracted during the excavations produced 30% sand, twice the 15% expected from the geological tests performed. This plant produces the different aggregates required for mixing the concrete at the enormous batching plant, which can deliver up to 540 m<sup>3</sup>/hour, said González.

GUPC has awarded the fabrication of the gates – designed by Netherlands-based IV Groep under the direction of Montgomery Watson Harza – to Italian shipyard and bridge builder Cimolai.

Construction will take two years for the 16 gates, to be fabricated using 49,000 tonnes of steel, with dimensions of up to 57.6m x 10m x 33m and weighing up to 3,700 tonnes each. The gate design varies between the Pacific and Atlantic locks. The gates to be used in the Atlantic locks will weigh 2,700 tonnes each, while those

on the Pacific side will weigh 1,000 tonnes more because of more robust seismic requirements and higher tides.

The entire expansion programme is on course, asserted ACP EVP of engineering and programme management Jorge Quijano.

The first three of four dry excavations contracts have been completed. The final and largest dry excavation contract, PAC 4, was awarded to the Mexican, Spanish and Costa Rican joint venture ICA- FCC-MECO. PAC 4 is second-largest and most complex project after the new locks – representing a key portion of the expansion’s new access channel linking the new Pacific locks with Gaillard Cut, the narrowest stretch of the Panama Canal.

This contract calls for the installation of a 1.8km-long backfilled cellular cofferdam water barrier, which, along with the 2.3km Borinquen dam, will create the farthest part of the access channel’s eastern bank and separate Miraflores Lake from the new channel.

PAC 4 had been “slow in starting, thus falling slightly behind the base programme, but has made tremendous progress in the last four months, achieving record excavation production and completing the cofferdam. With this outstanding momentum, they should be fully caught up and back on schedule by August,” reported Quijano.

By the end of May, excavations on the Atlantic side had reached 8.2M m<sup>3</sup> of the total of 15.6M m<sup>3</sup>, while on the Pacific side, excavations had reached 7.5M m<sup>3</sup> of the 22M m<sup>3</sup> total.

The dredging and widening of Gatun Lake and Gaillard Cut – being handled by Dredging International, Jan de Nul and the ACP dredging division – “has reached 51% of the project, with 11.6M m<sup>3</sup> having been dredged”, continued Quijano.

Progress will be enhanced by a newcomer to the ACP fleet, the powerful IHC Beaver Dredgers-built, 12,000kW Quibián I, which arrived in Panama in March and began work in the Gaillard Cut in mid-May.

The ACP has also announced it will build another bridge over the Panama Canal to accommodate vehicle traffic on the Atlantic side, joining the east and west banks of the canal. Infrastructure giant China Communication Construction Co, in partnership with engineering consultancy Louis Berger Group, won the \$4.6M contract to design the new bridge.

The ACP has specified that the bridge must be built 75m above sea level with a full length of 5km, including access roads. The new four-lane bridge will amply increase trans-canal traffic capacity once completed in early 2015 – and from a shipping perspective, will allow cargo trucks to cross the waterway on the Atlantic side for the first time.

**24%: Portion of project completed**

## **FITCH LIFTS PANAMA’S RATINGS ON STRONGER DEBT POSITION**

**WALL STREET JOURNAL  
JUNE 2, 2011**

DOW JONES NEWSWIRES --Fitch Ratings lifted Panama's investment-grade debt rating another notch, saying the country's massive investment in its canal expansion project underpins a strong economy that will allow the government to continue reducing the national debt.

The country's ongoing expansion of the Panama Canal is part of a highly favorable investment cycle that will help support the overall economy, Fitch said. The massive project remains on track and within budget, an accomplishment that could give the country added fiscal resources as soon as 2015.

Meanwhile, strong economic growth and two tax reforms over the past year have already boosted Panama's fiscal performance and allowed it to reduce debt. Fitch expects the government to meet its deficit target of 2% of gross domestic product this year.

Fitch now rates Panama at BBB, two steps into investment-grade territory. Its outlook is stable.

The ratings agency also pointed to Panama's stable banking system and overall political consensus around the main thrust of the country's macroeconomic policies. Last June, Moody's Investors Service became the last of the three major U.S. ratings agencies to lift Panama into investment grade territory as it cited a significant improvement in the country's fiscal and debt positions.

## **TRUMP TO OPEN PANAMA CITY HOTEL JULY 6, OTHERS TO FOLLOW**

**USA TODAY  
JUNE 3, 2011**

The Trump Hotel Collection will open its sixth hotel in Panama City on July 6, possibly giving the growing hotel chain a jump on its bigger rivals in this growing business destination.

Introductory rates start at \$279 a night for all bookings made through July 31; the deal includes complimentary breakfast and a 20% bar discount. After that, expect rates to start at \$349.

Once the 369-room hotel's been operating a while and, like any new hotel, works out any kinks it might have, Trump Hotel Collection chief Jim Petrus said he expects the hotel rates to average, \$400 a night. If true, it would make it one of Panama City's priciest hotels.

With its unmistakable, sail-like shape that's easy to spot on the skyline, the tower also highlights a city that's becoming an increasingly popular destination especially with Americans. Petrus is counting on Americans to fill roughly 50% of the hotel's rooms.

Panama City already has an InterContinental, Le Meridien and other full-service chain hotels such as Sheraton, Radisson and Marriott, but several others are on their way or have already opened. Among them:

Hard Rock International: The company just announced its first hotel in Latin America - the 1,499-room Hard Rock Hotel Panama Megapolis, expected to open in

December. The 66-story hotel a few miles from the Panama Canal will offer panoramic views of the city and Panama Bay, with its yachts and sailboats. Holiday Inn: Already Central America's biggest hotel company, InterContinental Hotels Group today announced that a newly built Holiday Inn Express. Slated to open in July 2012, the hotel will have 198 rooms.

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