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The development of a Special Economic Area

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The Government of Panama recently selected London & Regional (Panama) SA to develop a 1,400 hectare property, known as the Panama Pacifico Special Economic Area, which is strategically located at approximately 15 minutes from downtown Panama City, just off the Panamerican Highway and adjacent to the Panama Canal and the Pacific Ocean. One of the main partners of London & Regional (Panama) SA is London & Regional Properties, which is one of the world's largest privately-held property companies. Over the coming years, London & Regional (Panama) SA will develop this area into a large new community with a variety of uses, including corporate headquarters, call centres, offices, logistics facilities, new homes, a championship golf course, hotels, retail outlets, schools, health care and other facilities.

Law 41 of July 20 2004 created a special legal, tax, customs, labour, immigration and business regime for the establishment and operation of the Panama Pacifico Special Economic Area, as well as an autonomous entity called the Agency for the Panama Pacifico Special Economic Area, charged with implementing the regime and regulating the activities carried out in the Panama Pacific Special Economic Area.

Tax benefits

Law 41 established a special tax regime to attract certain target activities to the Panama Pacifico Special Economic Area which, once registered with the agency as an onsite company, will be free from payment of any direct and indirect national taxes, contributions, fees, rights and liens. These target industries are the following:

- multimodal and logistics services;

- transfer of services to the aviation industry;
- maintenance, repair and overhauling of aircraft;
- high-tech product manufacturing;
- call centres;
- office administration;
- back-office operations;
- offshore services;
- stock transfer between onsite companies; and
- transfer of goods and services between:
 - onsite companies;
 - to the agency;
 - to London & Regional (Panama) SA;
 - to other oil-free zones;
 - to the Panamanian ports; and
 - to ships and their passengers.

The operations of companies located in the Panama Pacifico Special Economic Area, which are not involved in the abovementioned industries, will also be tax exempt, with the exception of the following taxes:

- Income tax on the net taxable income earned from the activities, businesses or operations carried out within the Panama Pacific area;
- Tax on dividends withheld from earnings or dividends paid to their shareholders or partners and the complementary tax;
- Tax on remittances or transfers sent abroad, withheld from the payment of commissions, royalties, payments for technical assistance services, or for any other account; and
- Tax on imports and tax on the transfer of movable property and the rendering of services, specifically for companies that render services inherent to the exercise of professions regulated in a special manner by the legislation in force.

Labour benefits

Although, as a general rule, the provisions of the Panamanian Labour Code are applicable to the labour relationships within the Panama Pacifico Special Economic Area, Law 41 established some labour benefits available to

companies registered with the agency and operating onsite. They are as follows:

- An overtime surcharge cap at 25%;
- Payment for mixed and night-time shifts based on actual work hours;
- Possibility of establishing rotating shifts with employees;
- Possibility of establishing a weekly rest day on a day other than Sunday;
- Possibility of negotiating vacation arrangements with employees; and
- New just cause for termination of employees based on fluctuations in the international market that affect operations of the company.

Immigration benefits

Law 41 also established certain immigration benefits for companies registered with the agency and operating onsite, as follows:

- Allowance for work permits and work visas for employees of companies operating onsite;
- Allowance for five-year resident visas for investors that have invested \$250,000 in the capital of companies registered and operating onsite;
- Family visas for persons granted a visa under either of the preceding items; and
- Tax-free import of personal goods to persons granted visas pursuant to Law 41, up to \$100,000.

Since the creation of the Panama Pacifico Special Economic Area, several multinational companies have established operations there, including such industry leaders as Dell Computers. After the selection of London & Regional (Panama) SA as the master developer for the Panama Pacifico Special Economic Area, infrastructure development and the construction of first-class logistics and office buildings has begun in earnest, with the delivery of finished buildings estimated towards the third quarter of 2009, and residential development soon to follow.

In response to the commercial and industrial development undertaken by the master

developer, and lured by the advantages offered to companies registered to do business in the Panama Pacifico Special Economic Area, as well as the proximity to Panama City, large area ports and the Panama Canal, a number of multinational and local companies have decided to establish operations in the area, with many more sure to follow in the short term.

Financial and corporate

Recommended firms	
Tier 1	Alemán Cordero Galindo & Lee Arias Fábrega & Fábrega
Tier 2	Icaza González-Ruiz & Alemán Morgan & Morgan
Tier 3	Alfaro Ferrer & Ramírez Galindo Arias & López Patton Moreno & Asvat
Tier 4	Arosemena Noriega & Contreras Fabrega Molino & Mulino Sucre Arias & Reyes Tapia Linares & Alfaro

As infrastructure developments grind to a halt in neighbouring countries, the dredging and widening of the Panama canal rushes on, slowed only by the occasional archaeological discovery. Much of Panama's success during the global recession is banking on the expansion project, which will allow post-Panamax cargo ships to pass through the now inadequate gates.

Garnering financial support from five multilateral development institutions was crucial to the canal expansion advancing without problems. In December 2008, the consortium of lenders representing Asia, Europe, Latin America and the US agreed to pay \$2.3 billion of the \$5.25 billion projected cost of the project, with the remainder covered by canal-generated cash flow. Although the global recession has caused a decrease in traffic through the Panama Canal, lawyers feel this will not have an impact on the project's 2014 target completion date.

With last July's awarding of the prized concession to build the third set of locks, the last peg falls into place for the stretch to the canal project's completion. A consortium of developers led by Spain's Sacyr Vallehermoso beat out several other contenders with a \$3.1 billion bid on the lock and channel job, the low-

est proposed to the ACP (Panama Canal Authority). Of course, the actual construction work is yet to be completed, but lawyers are already seeing a great deal of interest from companies hoping to provide materials and services to the winning consortium.

The canal's promised returns have also kept the cranes moving on the approximately 150 tall buildings under construction in Panama City to house the hundreds of businesses expected to open offices or relocate altogether in the coming years. Special economic zones like the 1,400 hectare Panama Pacifico development inside the former Howard US Air Force Base offer tax, labour and immigration benefits for foreign businesses who establish regional headquarters there. Caterpillar and 3M are several of the most recent multinational corporations to establish hubs in Panama Pacifico.

While the tourism and residential development industries have taken a hit with the downturn, lawyers are still expecting positive economic growth in 2009. Anticipation of the nation reclaiming its status as an international crossroads for commerce also keeps investor capital flowing into Panama.

Alemán Cordero Galindo & Lee

As one of the smaller firms in the top tiers, Alemán Cordero Galindo & Lee maintains a streamlined organisation that attorneys describe as dynamic and adept. "I think they deserve the ranking," one peer notes. Competitors agree that the firm, referred to as Alcolgal, is focused on corporate and commercial clients, which include Shell Oil, Cable & Wireless and Chiquita.

Alcolgal's two-and-a-half year work with Grupos Unidos por el Canal culminated in the consortium of developers winning the coveted concession to build the Panama Canal's new locks. The representation was led by Carlos Cordero, characterised by rivals and clients as a well-reputed commercial attorney. "Respectable and honourable are two good words to describe him," one client says.

In 2008 and 2009, Alcolgal took part in many of the prominent transactions in Panama's capital markets. Arturo Gerbaud led the team that advised local power distributor Elektra Noreste in a \$40 million corporate bond offer in October 2008, as well as Spanish bank BBVA's \$100 million placement of commercial paper on the Panama stock exchange early last year.

On the financing side, Alcolgal enjoys a good deal of transactional business with both foreign and local banks, representing some of the strongest financial institutions in central America. In 2008, the firm represented Citibank in its \$100 million loan to Grupo

Monge for the regional retailer's growth throughout central America. Citibank co-ordinated the first \$65 million five-year tranche along with several banks including Scotiabank, BNP Paribas and Banco General of Panama.

Leading lawyers

Jaime Alemán
Carlos Cordero
Arturo Gerbaud

Arias Fábrega & Fábrega

Recognised by peers as a leader in banking and capital markets, the firm Arias Fábrega & Fábrega – known as Arifa – was named the 2009 Central American Law Firm of the Year by the *International Financial Law Review*. Clients praise Ricardo Arango as a talented lawyer and skilled team leader. "He has surrounded himself with very good people and delegates well," one client says. The firm's exclusive inclusion last July into the Lex Mundi network recognises Arifa's leading presence in Panama's legal markets and will undoubtedly lead to important referrals.

In Panama's active capital markets Arifa has built a longstanding familiarity across the 20-year history of Panama's stock exchange, and a reputation that translates into big clients and landmark deals. In 2008, the firm advised Citibank and Deutsche Bank as agents for the Republic of Panama's bond exchange that accepted \$549 million in offers on its notes dated 2029. Similarly, Arifa advised Morgan Stanley and UBS Securities as underwriters for Panama's offering of \$323 million for its 2015 bonds.

On behalf of Panama's largest bank, Banco General, Arifa recently co-ordinated a \$250 million perpetual subordinated bond issuance – the first of its kind under newly-enacted banking capital adequacy rules.

From its work with Panama's first public utility concession to its role on the \$5.2 billion Canal Expansion Project, Arifa has been a key presence in infrastructure development and project finance, particularly in regard to cross-border transactions. Last year the firm counselled BNP Paribas as lead arranger on a \$250 million revolving credit facility to Pacific Rubiales. The oil company will use the proceeds to fund, among other things, a 146-mile pipeline in Colombia.

Leading lawyers

Ricardo Arango
Fernando Cardoza
Eduardo de Alba
Rogelio de la Guardia

Morgan & Morgan

Morgan & Morgan is the oldest and largest law firm in Panama, and its network of locations spans the globe with offices in England, the US and China, to name a few. While rivals contend that the firm's body of work is far from the largest in Panama, none deny Morgan's leadership in maritime law and admit the presence of its lawyers in commercial matters.

Competitors predict the ascension of Rómulo Roux as Panama's minister of canal affairs will impact Morgan's corporate practice. "He was their main strategist," one attorney says.

Competitors mention the partners' interesting approach to commercial matters, noting its creation of a group of service companies for clients that includes licensed banks in Panama and the Bahamas.

One peer attorney says of partner Inocencio Galindo: "He has been able to land the firm some interesting transactions." An example of just such a transaction in 2008 saw Morgan & Morgan advise five development finance institutions, including International Finance Corporation (IFC), Inter-American Development Bank (IDB) and Andean Development Corporation (CAF), in a \$2.3 billion loan to finance the Canal Expansion Project.

Recently, Galindo and several associates advised Credit Suisse in connection with a \$40 million loan to several subsidiaries of Avianca Airlines. The representation included developing and enforcing a local security package for the deal.

Leading lawyers

Francisco Arias
Inocencio Galindo

Other ranked firms

Admitting its strength in maritime law, competitors hold that **Patton Moreno & Asvat** is a small player in Panama's financial market, but mention Francisco Martinelli as a well-accomplished financial lawyer. Additionally, rivals note Ebrahim Asvat's activities with Panamanian newspaper *La Estrella* will cut into his work with the firm.

Still, Asvat led the team that advised a global port operator in negotiating a contract with the government to develop a new container terminal on Panama's Pacific coast. The deal closed in 2008 for \$70 million.

Leading lawyers: Ebrahim Asvat and Francisco Martinelli

Flying under the radar of most established financial practices in Panama, the local office of **Aguilar Castillo Love** represents perhaps the first of many regional firms making a pres-

ence in the nation. The firm is profiting from Panama's commercial development boom and the influx of international business looking to set up operations within the country.

Recently, an Aguilar team led by Yadira Moreno represented Hewlett Packard in its agreement with the government that will establish a global services centre for the company in Panama, which will cost approximately \$72 million and introduce 10,000 new jobs in the IT sector.