Panama Analysis

ATU (Panama) SA

October 2014

1. Update FATCA and FATF

1.1 FATCA

The Foreign Account Tax Compliance Act (FATCA) entered into force on July 1, 2014, although the intergovernmental agreement (IGA) that will make the implementation in Panama possible is still to be signed. As noted in our last Panama analysis, it is clear that a Model 1 IGA will be concluded considering that the same has already been negotiated but the final text remains unknown/unpublished.

The first 'FATCA list' corresponding to Panama has shown a total of 451 companies that have registered. Among these registered companies we see banks, brokerage firms but also some trust companies.

1.2 FATF

In our previous Panama Analysis we discussed the possibility of Panama slipping into the gray list of the Financial Action Task Force (FATF) after having failed the OECD's peer review. This infamous gray list was published during the last days of June 2014 and Panama was included this time. On the other hand the FATF recognized that the country showed a high level of political commitment and willingness to tackle its flaws in order to be removed from the list.

The new government has already announced that they will be working together with the IMF, the FATF, and the private sector in designing a strategy to exit the gray list. It is important to note that there are no immediate consequences deriving from this new situation. However, Panama is being monitored by the FATF regarding the further development of Panama in this field.

2. Treaties & Agreements

2.1 Free Trade Agreements (FTAs)

Panama and Israel seem to be interested in signing a FTA. In fact, the negotiation process has already started as a first round of negotiations took place in Jerusalem during the month of May 2014.

A FTA with Israel fits into the latest developments of Panama strengthening free trade wherever possible and could also represent a great opportunity for Panamanian exports to enter the Middle East.

2.2 Double Tax Treaties (DTTs)

The number of negotiated DTT is currently at 20, with Vietnam being the latest country to have joined the list which currently includes the following countries:

ATU (Panama) SA
PH Torre Panama – Piso 15
Blvd. Costa del Este y Ave. La Rotonda
Costa del Este
Apartado 0832-00429
Panama City – Panama

MEMBER OF ATU GROUP
founded 1929

T +507 271 54 18 • F +507 271 09 28
www.atu-pa.com • info@atu-pa.com

Mexico	Spain
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Belgium	Portugal
Czech Republic	Bahrain
Barbados	Luxembourg
Netherlands	France
U.A.E.	U.K.
Austria	

As noted in our previous report, 14 DTTs have been ratified by both countries and are currently enforced. These are the DTTs with Mexico, Barbados, Spain, Qatar, Luxembourg, Holland, Singapore, France, South Korea, Portugal, Ireland, Czech Republic, U.A.E., and U.K.

Furthermore and as we have mentioned in the past, Panama's National Assembly already ratified the DTTs negotiated with Italy and Israel but it is still waiting for their counterparts to do the same.

2.3 Tax Information Exchange Agreements (TIEAs)

Since our last report, the situation remains the same in this section. The number of TIEAs still holds at nine (9). Panama has signed TIEAs with the U.S., Canada and the Nordic Countries (Denmark, Sweden, Finland, Greenland, Faroe Islands, Iceland, and Norway).

The only TIEA which has not been ratified by both countries and is currently not enforced is the one with Denmark. All the remaining eight (8) are currently being enforced (U.S., Iceland, Canada, Finland, Norway, Sweden, Greenland, and Faroe Islands).

2.4 Colombia – Special Situation

Colombia has been pushing Panama to sign a TIEA for quite some time. Back in May 2014, the former Director of DIAN – the Office of Tax and Customs of Colombia declared that Panama would be included in Colombia's black list of 'tax havens' if a TIEA had not been signed between the two countries by September. No official meetings took place in order to address the subject thereafter but Panama's newly elected President Juan Carlos Varela and Colombian President Juan Manuel Santos, who was re-elected in July 2014 did discuss the matter briefly and unofficially during the inauguration of Mr. Santos.

Despite the circumstances, Panama did not give in to pressure and hence a TIEA with Colombia was not signed and it does not appear as if it will be signed in the near future. For now Panama will rather take its time and make the necessary studies in order to take a well informed decision. The reaction on the Colombian side was clear as they included Panama in their black list as of October 8, 2014. A telephone conversation followed between Mr. Varela and Mr. Santos, where the latter confirmed that both countries look forward to finding a solution to the current situation. A meeting between the respective Ministers of Finance is already being planned to discuss this matter more into detail. Panama has warned Colombia that it might take countermeasures of its own and even report Colombia to the World Trade Organization (WTO) if a solution is not reached.

3. The Canal and its Expansion

Named one of the Seven Wonders of the Modern World, the Panama Canal currently receives around 14'000 vessels per year and generates an approximate net revenue for the state of USD 960 million.

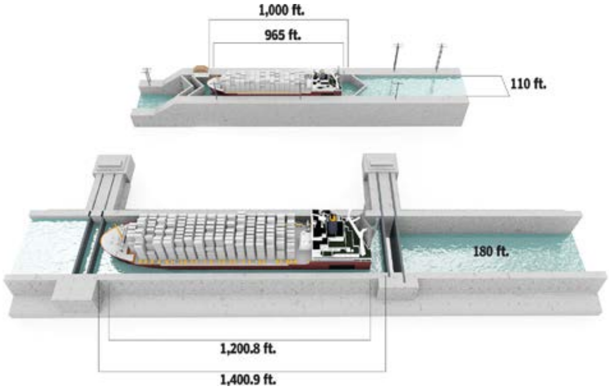
August 15, 2014, marked the 100th anniversary of the official opening of the Panama Canal. Many things have changed for Panama and for the Canal during these one hundred years. Annual traffic throughout the Canal grew considerably to the point where the present waiting period is at 20 to 30 hours on average. As time passed by, the number of vessels that reach the maximum size criteria to transit through the Canal (Panamax) would rise and bigger vessels (Post-Panamax) would sail the oceans. In business terms, supply was falling short.

That was when former president Martin Torrijos would formally present a project to double the capacity of the Canal on April 24, 2006. A National referendum was then held on October 22, 2006, where a 77% majority voted in favor of the Panama Canal Expansion project.

Picture of the new locks arriving in Panama

On September 3, 2007, the project officially began. Despite having experienced some setbacks and falling behind schedule several times, the project keeps on advancing and expectations remain unchanged. According to the last progress report published as of June 30, 2014, the overall progress of the work completed is at 76% with the design and construction of the new set of locks (the most important part of the expansion program) being at 72%. If the development of the project remains constant, the new set of locks will begin operating during the first months of 2016.

With the expansion complete, the cargo capacity per ship that is permitted will rise substantially from 4'500 TEU to 12'000 TEU and over 18'000 vessels per year will be expected to transit through the Panama Canal. The estimated net revenue for the state is projected to be around USD 1'400 million for the year 2017 (one year after the expansion) growing up to USD 3'100 million for the year 2025.



Comparison "Panamax" and size of ships afterwards

4. Tip of the day: Will Panama open the doors of labor to Mexico?

Panama and Mexico have been negotiating on granting a subcategory of permanent resident to Mexicans that get hired by a Mexican company with venue in Panama or by a Panamanian company as well. This will eliminate the requisite and all of the inconveniences of having to obtain the work permit (visa). In return Mexico would provide easier immigration procedures for Panamanian businessmen and tourists as well.

Currently more than a dozen Mexican corporations operate in Panama, including giants in the industry as Cemex (building materials) and Grupo Bimbo (food processing). This measure will pose an opportunity for more Mexican companies to take advantage of the economic boom that Panama has experienced during the last years.

5. Economy

The numbers for the first quarter of 2014 have already been released by Panama's National Comptroller Office. The country maintains a stable and positive economy recording a GDP growth of 5.8% during the aforementioned period. The main drivers throughout this first quarter were the trade, construction, financial, and real estate sectors.

Forecasts show that at the end of the year Panama will enjoy a GDP growth of 6.7%. Even though said percentage decreased when compared to that of 2013 (8.4%), it is presumed that Panama will have the highest growth rate in the Latin American and Caribbean region for 2014 ahead of other booming economies in the area such as Colombia (5%) or Peru (4.8%).

As reported in various publications, certain parts of Latin America and in particular the biggest economy Brazil are currently experiencing a bit of a slowdown. Panama is continuing to position itself not only geographically as a bridge between the northern and the southern part of the Americas but also continuous to the same between the far west (Asia) and east (Europe). Therefore, the dependence on this slowdown is comparably minor and Panama's growth is the result of a country that is continually looking for new opportunities and which is backed up by a solid and very diversified economy.

The IMF is expecting a continuing growth rate of around 6% also for the years to come and after the big canal project will be finalized.

Should you require any further information, please contact:

ATU (Panama) SA

T +507 271 54 18 F +507 271 09 28

www.atu-pa.com info@atu-pa.com