

MESOAMERICA

Volume 26, Number 8, August 2007



PANAMA

Free Trade Agreement with Costa Rica

After nine years of negotiations, Panama and Costa Rica signed a Free Trade Agreement (FTA) on 7 Aug, which creates new opportunities for the producers of both countries.

The Ministers of Commerce of Panama and Costa Rica signed the FTA in the presence of their respective presidents, Martín Torrijos of Panama and Óscar Arias of Costa Rica.

Thanks to the impulse of foreign investment, the commercial activity generated by the Panama Canal and the real estate boom, the Panamanian market, which for decades has been a natural market for Costa Rica, now is booming in the eyes of Costa Rican companies.

Since '04, Panama's GDP has increased between 7% and 8% in real terms yearly, stimulated by growth in sectors such as construction, transportation, commerce and the development of hotels and restaurants. Currently, approximately 300 buildings are under construction in Panama City, each with at least 30 floors.

The Panamanian government expects the country's infrastructure to receive \$13.5 million in investment in the next decade.

The FTA is ready to be sent to the congresses of both countries for ratification. In the case of Costa Rica, it will be after 7 Oct, the date of the referendum vote regarding DR-CAFTA, between the Dominican Republic, Central America and the US (Panama is not part of this agreement).

Costa Rican industrial products have a lot of potential in the Panamanian market, where the demand will rise in the next few years as a result of the development of large infrastructure projects in Panama, such as the modernization of the Panama Canal and building new ports and oil refineries (Vol. 26, Nos. 1, 6).

One of the advantages of the FTA with Costa Rica is that Panamanians invested \$30.9 million to import plastic from Costa Rica in '06 and pay about 15% in tariffs. In addition, farm products from Costa Rica had to pay a 15% tariff, but the FTA will remove both of these tariffs.

New Investments Keep Coming

During the first six months of '07, Panama received major investments from all areas of the world. For example, in addition to the opening of two new international banks, Dell Computer Corporation is enlarging its Call Center installations and a Canadian mining company is investing in gold exploration.

The two new banking corporations that will begin operating in Panama at the end of '07 are Natixis and UBS AG. Natixis was founded at the end of '06 in France and will operate with an international license, which allows for more foreign investment in Panama. UBS AG, the result of a merger between the Union of Swiss Banks (UBS) and the Society of Swiss Banks (SBC) in '98, has entered Panama to establish an "office of representation" for foreign transfers.

A total of 77 banks (40 with a general license and the rest with an international license) function in the International Banking Center of Panama, with more than \$46 billion in reserves registered in the first quarter of '07.

The US-based Dell Computer Corporation plans to further develop its international Call Center operations at the old Howard Air Force Base in the former Panama Canal Zone, according to Martín Alvarez, general manager of Dell Panamá. Dell began its operations at Howard in May '03 with 500 bilingual (English/Spanish) employees.

"Dell is making an \$800,000 investment in our installations at Howard," in order to improve the infrastructure, remodel the cafeterias and other common areas, emphasized Alvarez.

The Dell Call Center at Howard, now with 2,000 employees, provides basic support services for customers in the US-Canada, Latin America and the Caribbean. Dell is the second-largest computer manufacture in the world, according to Alvarez. "The economic growth of Panama requires a maturing process in the culture of service, and I think that Dell has contributed something in this development," stated Alvarez.

The Canadian-owned Bellhaven Copper & Gold, Inc. alleges that it is the "leading mineral exploration and development company" in Panama after having put in motion five projects in the country. Julio Benedetti, Bellhaven's president and CEO, stated that the firm is investing \$29 million in copper and gold exploration projects in Panama. These highly prospective copper and gold concessions, totaling over 500 km², are located in some of the most mineral-rich regions of the country.

Recently Bellhaven Copper & Gold associated with Golden Cross Resources Ltd, an Australian company, for the joint exploration of the Los Hatillos Concession in the southern part of Veraguas department. Benedetti said that this project, which will require an initial investment of \$4 million, is still in the exploratory stage, after which the managers will evaluate the possibility of beginning the drilling stage in the search of gold. "Regularly these programs take between one to four years," he stated.

The Los Hatillos Concession of 4,901 hectares covers two zones in the central portion of the Veraguas Gold Belt and includes the Calobre Concession (2,502 hectares), which covers extensions east of the Los Hatillos vein system. The concessions straddle the area between the Santa Rosa and Remance gold deposits.

The other projects of Bellhaven are located in Azuero, and in the Cerro Chorchá porphyry copper project (also gold and silver deposits have been found) and Rio Liri Concession in the western highlands region, home to the Ngobe Bugle Indigenous people who oppose the mining exploitation.

A Bellhaven news release on 17 April claimed that “the government is mining friendly, and Bellhaven’s management team is well connected within Panama’s government and private mining sectors.”

Panama Ratifies Free Trade Agreement with US

The Panamanian Congress ratified a free trade agreement (FTA) with the US on 11 July, only two weeks after the terms of the agreement were signed by the governments of both countries in Washington, DC, on 28 June at the headquarters of the Organization of American States (Vol. 26, No.7). The US-Panama FTA needs the approval of the US Congress before it will go into effect.

Although the Panamanian legislature approved the agreement by a majority vote, with only three votes against and one abstention, the FTA has generated controversy within the country.

After the FTA was approved, Elías Castillo, president of the National Assembly, declared that Panama would have to increase its levels of productivity in order to compete with the large US market.

US trade representatives, for their part, said that the FTA will give them an advantage to compete for contracts in the modernization of the Panama Canal valued at \$5.2 billion.

With the FTA, 10% of Panama’s industrial and fishing exports will enter the US tax-free, with a market of more than 300 million inhabitants.

The FTA negotiations between the US and Panama began on 18 Nov ’03 in Washington, DC, and have continued through three Panamanian administrations along with all the productive sectors that have participated in more than 500 consultations and informational meetings. The process took 10 rounds of negotiations, which reached culminated on 19 Dec ’06.

Spanish Prime Minister and Business Leaders Visit Panama

The Spanish Prime Minister, José Luis Rodríguez Zapatero, was received on 17 July at Las Garzas Presidential Palace in Panama City by President Martín Torrijos, before meeting with an important delegation of Spanish businessmen interested in the Panama Canal expansion project.

After their meeting in Panama City, presidents Rodríguez and Torrijos went to the Miraflores Canal locks where Rodríguez visited the operations control tower and got to know first-hand about the Canal expansion project. Afterward, both heads of state addressed a press conference at an official reception, held at the Las Garzas Presidential Palace.

The main objective of Rodríguez’ 8-hour visit to Panama was to support the efforts of Spanish investors to participate in the infrastructure development projects being carried out by the Torrijos government.

The Spanish Prime Minister was accompanied by a delegation of Spanish businessmen, which included the presidents of major construction companies—FCC, Acciona, ACS, Ferrovial, Adesa,

Isolux, OHL and Sacyr-Vallehermoso—who hope to win contracts for the Canal expansion project for which the European Union has already pledged \$650 million.

The Spanish businessmen discussed the disadvantages of investing in many of the mega-projects foreseen in Panama, including the widening of the Panama Canal, without a “principle of agreement” between both governments, in order to avoid the problem of double taxation in both countries.

—*Christina Patchett*