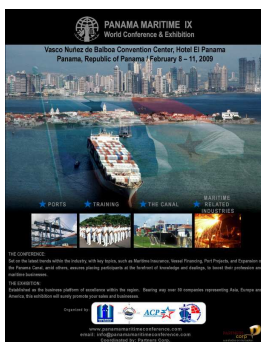




The Panama Newsflash is a publication composed by the Consulate-General of the Kingdom of the Netherlands in Panama and the Embassy of the Kingdom of the Netherlands in San José. The newsflash provides an update in terms of imperative economical developments, the most important tenders and a selection of other relevant business news to do with Panama. This newsflash is shared with a distinctive group of Dutch businesses with special interests in Panama. It is put together on the basis of publicly available information from various sources such as news articles, press releases, and third party information. The Consulate-General of the Kingdom of the Netherlands in Panama and the Embassy of the Kingdom of the Netherlands in San José are not responsible for the accuracy of the published information. If you do not want to receive the Panama newsflash, or wish to add a person to the distribution list or desire to send an observation, please feel free to forward a message to nltrade@racsaco.cr.

Regional Newsflash

In addition to information about economic developments in Panama, regional (Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama) economic information is offered to our clients. In line with an ever more integrated Central America, and the expressed need for regional insight, the Dutch Embassies in the region are joining efforts by publishing the Regional Newsflash together. If you wish to receive the Regional newsflash or desire to send an observation, please feel free to forward a message to nltrade@racsaco.cr. You can also download the Regional Newsflash from our website www.handelswijzer.com.



IX Panama Maritime Congress 8-11 February

Fifteen Dutch companies and Ferendi, NCH, EVD and the Consulate-General of the Kingdom of the Netherlands participated in the bi-annual Panama Maritime IX World Conference & Exhibition. The Dutch stand was one of the largest and the only national one at the fair and caught a lot of interest. Dutch companies also visited the Balboa and Colon ports, Panama Maritime Authority, Panama Canal Authority and a boat trip through Colon port courtesy on behalf of Smit towing company.

The fair is an import event promoting Panama as a maritime & logistic country; it handles over 4,2 million TEU's and 164.8 million gross tonnage annually of which the majority is re-distributed. Panama wants to introduce the very successful Dutch distribution model and thus develop a logistic and distribution hub from Panama to the Americas. The mission was good and plenty of opportunities for Dutch expertise and logistics companies arose.



Dutch Matic presents social housing solutions in Panama

Past January, Matic representative travelled to Panama to attend a meeting organized by the Red Cross, the Red Crescent and Médecins Sans Frontières. During this meeting, also attended by representatives of Peru, Colombia, Panama, Mexico, Jamaica and the Cayman Islands, Matic's Social Housing Solutions were presented and tested; preconceived opinions were beaten and suggestions for improvement were given. A new and improved version of Matic houses will be presented at the world conference organized by the Red Cross in Geneva, May 2009.



Panama Canal won't alter toll schedule

The Panama Canal Authority is sticking to its scheduled May 1 toll increase in the face of plans by some of the world's largest container lines to route their vessels the long way around the Central American isthmus. The final installment of the three-year staged increase in tolls, which will take effect on May 1, will bring the toll to \$72 per TEU, a 14.3 percent increase over the current toll of \$63. The current toll was increased by 16.56 percent on May 1, 2008, from \$54 per TEU. Several ship lines like CMA CGM and Maersk are considering the possibility to avoid the transit through the canal and route some of its services from Asia to the U.S. East Coast around Africa. Maersk is also considering sending some of its vessels from Asia to the East Coast around Cape Horn at the stormy tip of South America.



Lock project tender begins

After 14 months and more than 50 meetings, the Canal Authority said it will now receive bids for the design and construction of the third set of locks. In the review process, some 55 percent of the score will be judged according to the proposal's technical merit, while the remaining 45 percent will focus on the price quote. Only one consortium will win the contract, but the authority has allocated \$15 million to compensate the losing companies for their time spent. Canal authorities said the decision for that contract could be announced as **early as July 15**. Meanwhile, the authority is also opening a public tender for the dredging work planned for the Canal's Atlantic entrance. That project includes the removal of some 15 million cubic meters of material. Dutch dredging companies Boskalis and Van Oord are actively participating in upcoming tender.

Panama rejects canal corruption fears (Source: The Financial Times Limited)

The head of the Panama Canal Authority, Alberto Alemán, has rejected fears that corruption and the global financial crisis could mar ambitious plans to expand capacity of the inter-ocean seaway. The project's sheer size and ambition have raised concerns in some circles, given the history of corruption that has been associated with many large state-funded endeavors in Latin America. In a recent interview with the Financial Times, Alberto Alemán, administrator of the ACP, the autonomous government agency that runs the canal, dismissed such concerns. Mr Alemán said that the proposals to be presented this month would consist of two parts: the technical design of the new locks and the costing. He said that cost estimates would be kept in



a sealed envelope to ensure transparency until the designs had been fully evaluated. As an additional measure, the ACP last month hired Deloitte as contracting auditor to scrutinise the technical side of the proposals, as well as to ensure the ACP's evaluation committee stuck to rigorous analysis of the offers.

Canal forecasts modified

A report from the Panama Canal Authority forecasted a slight downward adjustment in the quantity of shipping tonnage originally projected to pass through the waterway this year, but estimated that it would amount to less than a 5 percent difference. The Canal registered 309.6 million tons at the end of last year, a reduction of 1 percent compared to 2007. Some 14,702 vessels transited the 95-year-old shipping route, a decrease of 19 ships over the previous fiscal year. Though less tonnage and fewer vessels was recorded last year, toll revenues totaled \$1.3 billion, an increase of 11.3 percent, a predicted consequence of the graduated raising of the toll fee that went into effect in May and October. That schedule had much to do with the country's cruise season, which has met the Canal administration's expectations so far.

National logistics plan delayed

The country's proposed national logistics strategy, a plan aimed at converting Panama into the international multi-modal logistics hub that the Canal deserves, remains in the pipeline while time continues to run out for the Torrijos administration. The plan, which largely focuses on modernizing the management of the country's maritime sector, was the product of a commission organized by various ministries, including the National Maritime Authority, the Panama Canal Authority, the Ministry of Trade and Industry, and the Maritime Chamber of Panama. Industry sources, however, indicates that the document has been undergoing minor changes, but that it should be approved during the next Maritime Authority board meeting. This new plan offers opportunities for Dutch businesses. Dutch companies can make use of the program Panamatch to encounter Panamanian companies and government officials. Missions are being organised to Panama and Panamanian companies are visiting the Netherlands aiming at meeting Dutch counterparts. For further information contact Ferendi at panamatch@ferendi.com.

Authority cancels 40 contracts

The Public Services Authority has canceled 40 applications for hydroelectric concessions because the companies have failed to develop the projects in the time period prescribed by law. Of the 40 concessions that have been canceled, 24 of them are in the process of being awarded to other interested parties, said the authority's Director of Electricity Rafael De Gracia. Companies have 12 months to apply for an environmental impact assessment. Once the assessment is approved, the authority gives its permission to start the project. If construction does not begin, the government has the right to cancel the concession and award it to someone else, which is what happened with the Bajo de Mina project. The government is seeking to expand the country's hydroelectric power supply to help reduce its dependence on carbon fuels. The cancellation of these contracts offers chances for Dutch companies, especially for River morphologists and Hydrologists.



Building industry stands firm

The total value of new construction, building additions and repairs approved last year amounted to \$1.6 billion, an 18.7 percent increase over the \$1.3 billion of like investments in 2007, according to the Comptroller General. Year-end indicators showed double-digit



growth, due to vibrant activity within the market throughout the first half of the year, with each month registering considerably greater figures than the previous year. The economic crisis's announcement during the last quarter of 2008, however, caused building permit applications to drop off suddenly by 20.1 percent compared to the same period in 2007. Matchmaking facility Panamatch can help Dutch companies to get acquainted with local counterparts; for more information contact Ferendi at panamatch@ferendi.com.



Average spending tourists over USD 2 billion

The Panama Tourism Authority (ATP) announced that the spending average of tourists totaled \$2.2 billion, a 23% increase over the 2007 figures. This represents approximately 12% of the country's Gross Domestic Product, which was \$18.6 billion last year. In 2008, 1.6 million visitors entered the country, some 211,472 more than in 2007.

Of those travelers 1.1 million entered through Tocumen Airport. On average, the number of visitors has grown by 12% per annum between 2004 and 2008. Hotel occupancy rates are also looking good, "Category One" hotels (100 rooms or more) were at 79% occupancy with an 8.9 day average stay. The increase in demand, according to ATP General Administrator Carl Fredrik Nordström, is due to tourism generated from people who travel from Europe. Direct flights by KLM and Iberia (from Amsterdam and Madrid, respectively) and charters from Finland made great contributions to the positive tourism figures reflected in the 2008 report.

2008 imports hit record highs

The country imported goods at record volume and growth last year, totaling more than \$9 billion, or 31.6 percent more than last year, according to data from the Comptroller General. Compared with statistics five years ago, growth in the imports has skyrocketed 178 percent, or \$5 billion greater than in 2004. Although inflated oil prices lingered throughout 2008, at one point exceeded \$140 a barrel, petroleum-based imports reached \$1.7 billion. Construction materials, fuel and raw materials bought in foreign markets proved to be particularly popular, outstripping past highs at \$940 million. The manufacturing sector alone imported upward of \$1 billion in raw and semi-processed materials in 2008, an unprecedented amount for the industry.

European Commission offers trade assistance

The European Commission (EC) yesterday formalized a proposal to help "minimize" the impact on Panama's trade sectors stemming from the failure of the government to apply for the Generalized System of Preferences, which offered tax breaks for exporters. The EC proposal entails reformulating the 18 million Euros that were slated to be spent on a non-refundable cooperation program for social initiatives in Panama this year. In its place, the EC proposes to channel economic aid to sectors affected by the loss of tariff preferences as well as to those sectors that suffered setbacks due to the flooding that occurred toward the end of last year and beginning of 2009. The EC warned that the Panamanian government needs to act quickly to seize the opportunity for assistance while the offer is still on the table. Projects to contain the rivers Sixaola and Changuinola that severely damaged banana production could be one of them. A Dutch expert provided by PUM through the Netherlands Embassy is preparing preliminary studies.

Stimulus plan moves forward

Banco Nacional de Panama announced that it will contribute about \$150 million of its own



liquidity to the government's financial stimulus program, which may eventually reach \$1.1 billion. The support will consist of loans granted to Panamanian and foreign-owned banks alike according to state credit parameters. Superintendent of Banks of Panama Olegario Barrelier explained that ultimately the program is less for the benefit of the banks involved and more about "throwing gasoline on the economy." Additionally, the rationale of the program is to have a reserve that will be available to the economy via banks, a situation which wouldn't affect the demand for credit. As the stimulus program takes shape and gains momentum, Barrelier's concerns and responsibilities as Superintendent of Banks are not few, particularly considering the emphasis on transparency and savvy management in the wake of devastating deception in the global financial sphere. Barrelier not only must ensure that adequate credit availability exists so that the economy's growth rate doesn't fall below the forecasted 5.2 percent, but he must also watch that banking system indicators remain sound and continue monitoring the situation effectively. "The crisis has not impacted us in a substantive way because our banking system has always been very traditional, it has always been handled in a very orthodox manner," Barrelier said.

Free Zone sales freefall

Commercial activity last month in the Colón Free Zone dropped 11.7 percent to \$1.1 billion compared to sales in January 2008, leading industry insiders to fear that the first waves of the global economic storm have reached Panama's shores. Export figures, often proving the most important indicator of free zone's health, decreased 14.5 percent in the same period, reporting some \$92.9 million less than the previous January.

Banks see bad loans increasing nevertheless banking system still remains solid

Panamanian banks are reporting more clients defaulting on loans. According to statistics, past-due loans accounted for 2.4 percent of the total loan portfolio held by Panama's banks in June 2008. In September, that figure rose to 2.7 percent, and in December, it increased again, to 3.4 percent. According to Banking Superintendent Olegario Barrelier, there is "a positive local environment." A positive sign for the system was that the pace of growth in domestic deposits was above that of domestic credit, with rates of 14.9 percent and 14.4 percent respectively. The lack of a central bank in Panama has meant that the individual institutions have had to have a more conservative lending models, said Ernesto Bazán, manager of the risk rating firm Equilibrium. This has led to banks investing in instruments that can be sold quickly if cash is needed. The banks also have a high level of liquidity far surpassing the amount required by government.

Exports fall as farmers look to other crops

The international financial crisis took a heavy toll on exports from Panama according to recently-released data from 2008. Last year, the country exported 1.5 billion tons of exports, mainly fruit, meat, seafood, clothing and petroleum derivatives. This represents a drop of 4.1 percent compared to 2007, according to figures from the General Accounting Office while between 2006 and 2007 the exports grew at a rate of 13.4 percent. However, while the amount of exports dropped, their value actually increased slightly, rising to \$1.144 billion as compared to \$1.126 billion in 2007. The international financial crisis has had a direct impact on consumption in countries where Panama sends its products. In addition, many farmers have abandoned crops meant for export to produce more food for local consumption. In addition the government programs have tended to benefit farmers who grow food for the local market. There is interest in Dutch expertise regarding growing vegetables in greenhouses and



introducing new products such as mini-vegetables that can be sold in the local market and to some 100 cruise ships that come to port in Panama each year.

Farmers upgrade citrus production process

While the citrus fruit industry is currently doing well in Panama, many farmers feel that the traditional production process is outdated and in need of a technological revamping to remain competitive. Isabel Centeno, member of the Association of Citrus Producers of Coclé, vows to become technology-savvy by 2010 in the name of enhancing the yield of her crops. The Ministry of Agricultural Development in Coclé is set to launch a program to distribute high-quality genetically-enhanced seeds to farms throughout the region. These plans are opportunities for Dutch technology and know-how.

Election could mean tax reform

The opposition alliance, now firmly ahead according to the latest opinion polls, is considering a flat tax. Financier for the Alianza Frank De Lima said that the party plan to gradually lower the income tax rate from 30 percent to 15 percent or even 10 percent, and likewise reduce the exemptions enjoyed by sectors that also enjoy tax incentives, such as the country's banking industry. "With the current model, certain sectors pay far less than the 30 percent tax and may even have been effectively paying a rate of 7 percent." According to De Lima, the intention is to eliminate the distortions and loopholes that exist in the system allowing some to get by paying less than 10 percent.

Companies looking to Panama

As other markets dry up, more European companies are setting their sites on increasing their business opportunities in Central America, and Panama in particular. In 2009, Panama has already hosted delegations from Holland and Finland, and is planning to receive a contingent from Belgium in March. That group, headed by the H. M. the Prince of the Kingdom of Belgium, will include representatives from 40 businesses. Construction, and in particular the expansion of the Canal, is the main attraction for Belgian firms. But also sectors such as energy, transportation, banking, medical equipment, green technology, consulting, tourism and drug manufacturing will be represented in the mission.



Report confirms big slip in banana exports

The year-end report on banana exports reflected the predicted lows for an industry hard hit by successive floods in Bocas del Toro and the near bankruptcy of Coosemupar, one of the country's major independent banana producers. For the first time in over eight years, banana exports did not surpass \$100 million.

Panama, Italy sign investment accords (Source: Prensa Latina)

Panama signed an agreement for investment promotion and protection with Italy during the visit by Foreign Minister Samuel Lewis. The Foreign Ministry release says Italian Peer Franco Frattini signed the accord that will provide the companies from both countries the right environment and legal operational framework. Lewis and Frattini addressed key matters, namely on economics, international cooperation and energy development and environmental policies plus wishes to enhance bilateral ties at all levels.

Panama says consumer prices down 0.3 pct in Jan (Source: Reuters)



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Panama's consumer prices fell 0.30 percent in January from a month earlier, bringing the 12-month inflation rate to 4.9 percent, the government said. Lower electricity costs helped push down the consumer price index in January, according to data released by the Comptroller General's office. Panama, which uses the dollar as its currency, traditionally enjoys lower inflation than the United States. But last year, high global food and fuel prices combined with strong domestic demand have driven inflation rates to their highest levels since the early 1980s.

www.panamacompra.gob.pa

Since 2006 all governmental organizations, except the ACP, are forced by law to announce their tenders through the site www.panamacompra.gob.pa. This new system is more efficient and transparent and will raise confidence amongst people and companies doing business. From the 1st of January until the 31st of May almost 28 thousand public contracts roughly totalling USD 200 million were awarded. The ACP alone awarded contracts worth USD 286.5 million.

Matchmakingfacility Panamatch

As part of the EVD 2g@there program, the consultancy firm Ferendi will organize several Collective Promotional Activities (CPAs), in cooperation with the Netherlands Council for Trade Promotion (NCH). This project is called *Panamatch* and will, for a period of two years, consist of a number of outgoing and incoming sectoral trade missions, collective fair exhibits and matchmaking activities. *Panamatch* focuses mainly on entrepreneurs and organisations active in the fields of transport, logistics, infrastructure and hydraulics.

Panama has started with one of the most prestigious and visible mainport projects in the world: the expansion of the Panama Canal. The expansion is necessary since the Canal can no longer cope with the capacity of the modern freighters. For Panama this waterway is one of the largest and most stable sources of income. In order to strengthen the position as a main international hub for transport and distribution the government is investing considerably.

In Latin America, Panama does not only play an important role in maritime transport, it constitutes the centre of international banking, trade and services as well. Naturally, the country's favourable geographic is key to success. Think about it: just after Hong Kong, Panama is the second largest free-trade zone in the world. And, on top of that, the Panamanian government actively advocates foreign investment in all areas.

Panama is an emerging market: the Panamanian economy grew by 11,2% in 2007 en for 2008 growth was 8,2 percent. Hence, it is a country with numerous business opportunities for foreign entrepreneurs.

For more information and the possibility to register your company to obtain more information, surf to www.ferendi.com. For any questions you can also call us on +31(0)20.471 12 28 or send an email to panamatch@ferendi.com.



EVD Panama country webpage

The EVD has a Panama country webpage where you can find up to date information, such as: business news, economical developments, tenders, country information (incl. fact sheet and laws), interesting sectors, activities, important documents and the business country guide from the Embassy of the Kingdom of the Netherlands. For more information please visit the website: www.evd.nl/landen. More information can be obtained from Marjolijn Steinebach, country manager Panama, through email panama@info.evd.nl or by phone (0031) 070-7788698.



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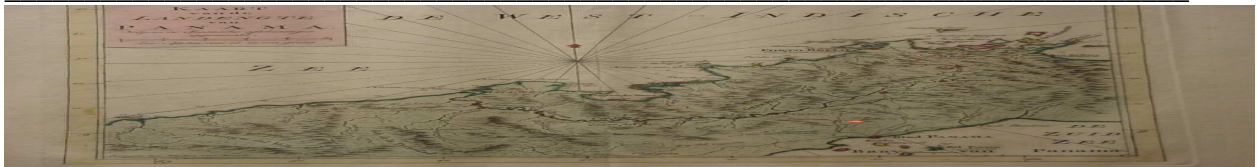
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Ambassade van het
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Embassy of the Kingdom of the Netherlands as information source

On the internet site from the Embassy of the Kingdom of the Netherlands in San José (covering the countries Panama, Costa Rica, Honduras and El Salvador) you can find general information on the specific countries but also commercial information. Our 'handelswijzers' (business trade guides) entail broad and up-to-date information on how to do business in each of the four countries. It is a useful tool/guide for Dutch exporters and investors. Visit: www.holanda.cr or www.handelswijzer.com. For more information you can contact our commercial department at the Embassy of the Kingdom of the Netherlands in San José by email nltrade@racsa.co.cr or by phone (00506) 2296 1490 (Carel Richter or Hans Buhrs). You can also contact our Consulate-General of the Kingdom of the Netherlands in Panama, Phone: (00507) 263 6494 or (00507) 264 7257 (Dieter Ploeger). Email: consuladonl@cwpanama.net



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