

**LAW N° 41
of July 20, 2004**

(As amended by Law 69 of November 6, 2009; Law 31 of June 22, 2009, Law 8 of March 15, 2010; Law 3 of February 10, 2015; Law 11 of March 6, 2013; Law 24 of October 28, 2014 and Law 8 of 4 Of April 2016)

**Creating a special regime for the establishment and operation
of a Special Panama-Pacific Economic Area and a
State autonomous entity called the Panama-Pacific Special Economic Area Agency**

THE LEGISLATIVE ASSEMBLY

DECREES:

Title I

Objective, Range of Application and Definitions

Article 1. The purpose of the present Law is to create a special legal, tax, customs, labor, immigration and business regime for the establishment and operation of a Special Economic Area in the district of Arraiján, province of Panama called the Panama-Pacific Special Economic Area, designed to encourage and ensure the free flow and movement of goods, services and funds so as to attract and promote investments and the generation of jobs and to make the Republic of Panama more competitive within the global economy.

It also has the aim of creating an autonomous entity called the Panama-Pacific Special Economic Area Agency charged with implementing the regime described in the preceding paragraph, regulating the activities carried out in the Panama-Pacific Area and setting down the criteria for contracting with one or several developers or operators of renown and experience on an international level who shall be entrusted

with the planning, development and promotion of the Panama-Pacific Area in accordance with the provisions of article 41 of the present Law.

Any natural or corporate persons who establish themselves in the Panama-Pacific Area may carry on any kind of activities of any nature, save for those set forth in articles 49 and 50 of this Law.

¹Article 2. Pursuant to the present Law, the Panama-Pacific Area regime shall be limited to Properties 233284, 233287, 233289, 233292, 233295, 233296, 233297 duly registered at the Public Registry at Digitalized Record Document 595632, whose areas, measurements and boundaries are described in Plans Nos.80814-92872, 80814-92873, 80814-92870, 80814-92869, 80814-93072, 80814-92871 and 80814-92872, respectively. This regime shall apply to its Developer and its Operator and to every natural or corporate person establishing themselves within such area, to its residents and visitors, in accordance with the requirements, conditions, obligations, advantages, incentives and other provisions of the present Law and such rules and regulations as may be provided for its development.

The Panama-Pacific Area regime shall apply to properties resulting from segregation, incorporation and / or modification of any of the properties described in the preceding paragraph, as well as those assets, rights and titles that, by any legal means, become part of the assets of the Panama-Pacific Special Economic Area Agency and / or whose administration, custody, conservation, use and disposal are assigned or acquired by this entity.

Article 3. For the purposes of the present Law and its regulations, the following terms shall have the following meanings:

1. Transportation logistics activity. Any activity whose only aim is to facilitate getting the goods or products to the various clients without there being any sale of same by

¹ Amended by article 1 of Law 31 of June 22 of 2009.

the persons rendering the service, which includes the transportation, storage, handling and manipulation of the goods or products, the handling of information, and logistics and foreign business consultancy.

2. Administrator. The highest ranking executive officer and the legal representative of the Panama-Pacific Special Economic Area Agency.

3. Panama-Pacific Special Economic Area Agency. The public law corporate person created by means of the present Law, also called the Agency or the Panama-Pacific Area Agency.

4. Panama-Pacific Special Economic Area. Geographic area whose limits have been duly specified and described in article 2 of the present Law and which is under the administration of the Panama-Pacific Area Agency, also called the Panama-Pacific Area in the present Law.

5. Assets. Movable and immovable property, including the buildings, lands, improvements, infrastructure and installations of the Panama-Pacific Area, also referred to in the present Law as the Panama-Pacific Area Assets.

6. Panama-Pacific Area Developer Agreement. Agreement entered into by a Developer together with the Agency, in the terms of articles 41 and 42 of the present Law, also identified herein as the Developer Agreement.

7. Panama-Pacific Area Operator Agreement. Agreement entered into by an Operator of the Panama-Pacific Area together with the Agency, in the terms of articles 41 and 42 of the present Law, also referred to herein as the Operator Agreement.

8. Panama-Pacific Area Developer. Natural or corporate person, whether national or foreign, of well-known solvency and experience, who has entered into a Developer Agreement whereby he/it assumes development, investment, management, promotion and administrative obligations for part or all of the Panama-Pacific Area, with the purpose of obtaining the maximum advantage of its resources and its development. The Panama-Pacific Area Developer shall be obliged to prepare a Master Plan for the Use of Lands and a Detailed Zoning Plan for the area specified in the Developer Agreement that shall conform to the Business Plan required in the international process for the selection of the Panama-Pacific Area Developer. The Master Plan for the Use of Lands and the Detailed Zoning Plan shall be approved by the Agency. Pursuant to the provisions of the Developer Agreement entered into with

the Agency, the Developer shall have the right to purchase, lease and/or sublease any Assets required for the development of the area that is the subject of the agreement entered into with the Agency, in any of the forms envisaged in the present Law. The Panama-Pacific Area may be managed, developed, promoted and operated, whether wholly or partially, by several Development Companies engaged for such purposes by the Agency upon calling for offers and conducting an international process for selecting the Developer. For the purpose of the present Law, the Developer or Developers of the Panama-Pacific Area shall be referred to as the Developer.

9. Panama-Pacific Company or Companies. Any natural or corporate person duly registered on the Panama-Pacific Area Register and authorized by the Agency to operate and carry out activities within such Area. Panama-Pacific Area Companies are also referred to in the present Law as the Companies.

10. Financial Group. Situation where the shareholders or administrators of the Developer, the Operator or a Panama-Pacific Area Company are direct or indirect shareholders or directors/officers of another Panama-Pacific Area Company, or the latter is a subsidiary of the Developer, the Operator or a Panama-Pacific Area Company.

11. Board of Directors. Board of Directors of the Panama-Pacific Special Economic Area Agency.

12. Panama-Pacific Area Operator. Natural or corporate person, whether national or foreign, of well known solvency and experience, who has entered into an Operator Agreement whereby he/it assumes operation, supervision, management, promotion, marketing, administration and maintenance obligations for part or all of the Panama-Pacific Area, in accordance with a Master Plan for the Use of Lands and a Detailed Zoning Plan adopted by the Agency, the Operator's Agreement, the present Law and its regulations. The Agency may engage several Operation Companies to take over the management, administration, operation and supervision of part or all of the Panama-Pacific Area. For the purposes of the present Law, the Operator or Operators of the Panama-Pacific Area shall be referred to as the Operator.

13. Business Plan. Document required of the participants in the international process for selecting the Developer, as one of the selection criteria, which shall contain at least the development strategy proposal for part or all of the Panama-Pacific Area;

arrangements regarding the space and provisions for development, assigning the different uses of the land and zoning; the development sequence and schedule; providing for and executing the works; financing of the development project (debt and capital); allocation of the financial resources; role and responsibility of the Developer, according to investments in infrastructure; and the initial estimate of the costs and income associated with the development of the project.

14. Detailed Zoning Plan. Plan that defines and sets the limits of the territorial division of part or all of the Panama-Pacific Area in order to regulate, in an orderly manner, the uses assigned to the land, the urban, business and industrial features of the buildings, and to ensure a balance in densities in order to best take advantage of same.

15. Master Plan for the Use of Lands. Plan that provides guidelines for regulating part or all of the geographical area of the Panama-Pacific Area, within its regional context, which will be the guide for the use of lands, growth and development within the Panama-Pacific Area, and whose main objective is to define and rationally regulate the development and use of the land. This Plan shall contain a program showing the minimum works and investments that need to be carried out in the Panama-Pacific Area, and shall include such additional and future expansion lands within the Panama-Pacific Area as may be required, and shall be adopted or approved by the Agency.

16. Resident. Natural person duly authorized and registered by the Panama-Pacific Area Agency to reside within the Panama-Pacific Area, who shall enjoy the benefits granted to him by article 77 of the present Law.

17. National Fiscal Territory. Territory of the Republic of Panama excluded from the Panama-Pacific Area and the territories or areas subject to special tax systems.

18. Assembling. Manufacture of finished or semi-finished products, through the process of coupling of inputs and semi-finished parts.

19. Processing. To have products, parts, components, accessories and / or parts, which are received in a liquid or solid state, to be processed by treatment or by processes of transformation, tropicalization, modification, repair, cleaning, quality testing, calibration, homologation , Analysis, purification, painting, application of anticorrosive, bottling, packaging, crushing, recycling and / or any kind of manual or

mechanical, physical or chemical process that is necessary to make viable the obtaining of a certain goods.²

Title II

³Panama-Pacifico Agency

Chapter I

General Provisions

⁴Article 4. An autonomous entity of the State is hereby created, same being named the Panama-Pacifico Agency, hereinafter called the Agency or the Panama-Pacific Area Agency, having juridical personality, its own assets and autonomy in its internal governance and subject to the policies and guidelines of, and inspection by, the Executive Branch. For the purposes of this Law, the Executive Branch shall exercise its functions through the intermediary of the Ministry of the Presidency.

In order to guarantee its autonomy, the Agency will maintain and manage its funds separately and independently from the Central Government; its Board of Directors shall approve the Annual Budget proposed, which shall be subject to the constitutional provisions governing the State's General Budget. The Agency shall choose and appoint its staff, determine their remuneration and shall have authority to dismiss them. It shall act independently in exercising its functions and shall be subject to supervision by the Office of the Comptroller General in accordance with the provisions of the Political Constitution and the law.

The Agency shall adopt any administrative regulations required for its operations.

All authorities, officials and public agencies within the Panama-Pacific Area shall support and cooperate with the Panama-Pacific Agency.

² Sections 18 and 19 of article 3 added by Article 1 of Law 3 of February 10.

³ Name of the Title modified by Article 1 of Law 11 of March 6, 2013.

⁴ Modified by Article 2 of Law 11 of March 6, 2013.

The Agency shall choose its staff following the standards set down by Law 9 of 1994, which sets down the positions and seniority of Civil Service and shall be subject to supervision by the Office of the Comptroller General of the Republic in accordance with the provisions of the Political Constitution and the law.

Article 5. The Agency's main objectives are the following:

- 1. To manage, promote, regulate, plan and carry out policies, agreements, strategies, laws and regulations, plans and programs related, whether in a direct, indirect or connected manner, to the operation and development of the Panama-Pacific Area.**
- 2. To promote the development of the Panama-Pacific Area such that it may obtain the maximum benefit from its resources and facilities, an increase of investment and the generation of jobs, in order to achieve the maximum benefit for the country.**
- 3. To exercise the custody, conservation, operation, administration and disposition of the Panama-Pacific Area's Assets autonomously in coordination with competent State institutions.**
- 4. To regulate all economic activities of the natural or corporate persons who establish themselves within the Panama-Pacific Area, as well as of its workers, visitors and residents.**

Article 6. The Agency shall, in accordance with the institutional and administrative structure set forth in the present Law, exercise the following functions:

- 1. To administer, manage, operate and develop the Panama-Pacific Area.**
- 2. To recommend to the Executive Branch such measures and actions as may be necessary or expedient for the furtherance and development of the Panama-Pacific Area.**
- 3. To ensure strict compliance with this Law and such rules and regulations as may be provided with regard to the Area, and to carry out the pertinent research for such purposes.**
- 4. To keep the Official Company Register of companies established in the Panama-Pacific Area as well as a register of its residents.**
- 5. To regulate the activities of natural or corporate persons that establish themselves within the Panama-Pacific Area, as well as those of its workers, visitors and residents.**

6. To propose to the Executive Branch such regulations as may be necessary in order to perform its respective functions and obligations, in compliance with the policies and objectives of this Law and of such rules and regulations as may be provided for its development.
7. To promote and develop the Panama-Pacific Area in order to achieve the establishment of investment companies and to develop any infrastructures or installations required to attain such aims.
8. To levy administrative or pecuniary penalties on Panama-Pacific Area Companies, the Developer or the Operator, for breach of the obligations set forth in this Law, in the rules and regulations provided for its development and in the Panama-Pacific's Developer and/or Operator Agreement, pursuant to the terms set down therein.
9. To determine and collect the fees, duties, assessments or rates for any services rendered by the Agency.
10. To draw up, adopt or approve the Master Plan for the Use of Lands and a Detailed Zoning Plan, carry them out if required, and approve their amendments in accordance with the regulations in force.
11. To coordinate its activities with the respective public and private institutions in order to make the development of the Panama-Pacific Area uniform.
12. To have custody of, preserve and manage the Assets of the Panama-Pacific Area.
13. To enter into acts, operations and agreements for the rendering of all kinds of services, works, technical assistance, acquisition of equipment and supplies, construction of infrastructure and installations, as well as all that is required for the proper operation of the Agency and the development of the Panama-Pacific Area.
14. To make contracts, by way of lease, sale, concession, trust, assignment, usufruct, temporary use, custody and mortgage and other forms of disposition of assets, ever safeguarding State interests. The Agency shall have the power to enter into agreements regarding the disposition of assets subject to the approvals and the favourable opinions required by the legislation in force on the matter of public contracts.
15. To draw up its By-laws.
16. To resolve any claims and appeals filed by natural and corporate persons established in the Panama-Pacific Area against the Agency, thus making use of all

governmental appeals, without prejudice to the jurisdictional actions that legally apply.

17. To delegate its functions and liabilities upon approval by the Cabinet Council.

18. To carry out any other function assigned to it by the Executive Branch, the present Law and such rules and regulations as may be provided for its development in accordance with its objectives.

Chapter II

Assets, Finance and Oversight

Article 7. The assets of the Agency shall be made up of:

1. Any income received from the disposition of the assets under its custody and administration.
2. Rates, duties and income that it receives as a result of the services that it renders.
3. Inheritances, donations and legacies given to it, which it will receive and add to its inventory.
4. Any allocations that are included in the State's General Budget, subject to the provisions in the first paragraph of article 8 of the present Law.
5. Any other assets, rights and securities added to its assets by virtue of the law or juridical acts of acquisition, whether of onerous title or gratuitous.
6. Any other assets or property authorized by legal provisions, the regulations or the Board of Directors.

The sums of the pecuniary penalties shall at no time form part of the Agency's Assets, and the totality of same shall be added to the Fund for Educational Assistances of the Panama-Pacific Area that is referred to in article 99 of the present Law.

⁵Article 8. The State shall endow the Agency, by means of the General State Budget, with the funds necessary for its operation and investments, in order to comply with the contracted obligations.

⁵ Modified by Article 3 of Law 11 of March 6, 2013.

When the activities of the Agency allow its financing, the State may stop providing it with the funds for its operation; consequently, the Agency shall be solely responsible for its operating, maintenance, investment and reserve expenses.

The Agency shall maintain a triennial financial planning and administration system and shall submit an income and expense budget to the Executive Branch every year to be added to the preparation and approval system of the State's General Budget. In the fiscal years during which the Agency generates a surplus in its operations, same shall be used, in priority, to create a reserve fund to cover the operating and investment costs planned for the next three years, and from the remainder of such surplus, sixty percent (60%) shall be contributed to the Panama Savings Fund ("Fondo de Ahorro de Panama"); twenty percent (20%) to the Ministry of Labor and Labor Development, to be allocated for training of human resources in the province of Colon; and the remaining twenty percent (20%) shall be given to the Fund for Educational Assistance of the Panama-Pacific Area referred to in article 99 of the present Law. The Executive Branch shall regulate how the Ministry of Labor and Labor Development shall make use of the percentage of sums allocated for training of human resources in the Province of Colon.

The Agency shall record all income and expense operations pursuant to the principles of accounting set down by the Office of the Comptroller General of the Republic.

Article 9. The Agency shall fulfil the obligations it incurs and the State shall only be subsidiarilyliable for same.

The Agency shall not be liable for the obligations incurred by the Developers, Operators and/or the Companies that operate in the Panama-Pacific Area.

Article 10. The Agency shall be exempt from the payment of any kind or type of taxes, whether direct or indirect, assessments, rates, tariffs and encumbrances, except for the Tax on the Transfer of Goods and Services (a form of sales tax), municipal rates,

duties and taxes, social security payments, educational insurance and professional risk premiums.

The Agency shall enjoy all the privileges that procedural laws grant the State in judicial acts of which it is a party.

Article 11. The Agency shall be subject only to the policies and guidelines of, and inspection by, the Executive Branch and to oversight by the Comptroller General of the Republic. Without prejudice to the functions that the Political Constitution grants to the Comptroller General of the Republic, the Agency shall have its own auditing system that conforms to the rules of governmental auditing and the internal control standards of the Republic of Panama prescribed by the Comptroller General of the Republic. Moreover, it shall be subject to an external auditing by an independent and qualified company in accordance with the laws in force. The annual income and profit statement shall be published in at least two dailies that have a national circulation.

Article 12. The Agency shall have compulsory jurisdiction for collecting its credits, which shall be exercised by the Administrator, who may delegate same to officers of the institution. Besides the documents specified in the Judicial Code, the internal auditing certifications shall have executory force with regard to obligations of any nature due and outstanding in favor of the Agency.

Article 13. Any contracting that is required by the Agency shall be done pursuant to the specifications of the legal provisions in force that regulate and rule public contracts, without prejudice to the provisions of the second and third paragraphs of article 15 of the present Law.

Article 14. The Agency shall have the power to apply, to the countersigned values of the Assets, incentives such as discounts off the disposition values of Assets, acknowledgement of credit for covering the expense of demolishing assets or for financing new investments whose cost must be assumed by the Agency in the matter of improvements, infrastructure and public works, with the purpose of giving incentives, attracting and promoting investments and the generation of jobs and

making the Republic of Panama more competitive within the global economy and the Panama-Pacific Area more competitive with regard to other similar projects on an international level. The countersigned values of the Assets shall be determined pursuant to the procedures applicable in the Republic of Panama for the assessment of public assets.

The credits acknowledged for covering new investments or for financing the demolition of assets whose cost must be assumed by the Agency shall be applied to the payments that the beneficiaries of such credits must make to the Agency and shall not be subject to any reimbursements or transfers.

The values countersigned for the disposition of the Assets shall be adjusted periodically according to the methodology to be established in the agreements that shall be entered into with the Developer or Operator.

Article 15. The State is the registered owner of the assets found within the Panama-Pacific Area at the time the present Law enters into effect, and of other immovable goods that the Agency construct, as well as of any furniture, securities and rights acquired by the Agency. The Agency shall have power for custody, administration, preservation and disposition, through all kinds of leases, sales, concessions, exchanges, trusts, dations in payment, assignments, usufructs, temporary uses, custodies, mortgages and other forms of dispositions of goods, including purchase options. The Agency may negotiate and come to agreement regarding the payments that it is to receive in consideration of the above-mentioned disposition of goods operations, in cash, on installments or under any other forms of financial arrangements, including acknowledgement of credit for investments, ever safeguarding the best interests of the State.

The Agency may dispose, in sales, of the assets under its custody and administration for residential development, through the process of public offers. With regard to the rest of the assets under the Agency's custody and administration, not including the assets located in the area reserved for the development of airport activities as specified by means of an Administrative Resolution issued by the Civil Aeronautic

Authority, the Agency may dispose of up to twenty five per cent (25%) of same in sales.

The Agency may grant the Assets under its custody and administration in lease or concession by means of agreements whose terms of validity may be extended up to forty years, renewable up to a maximum of another forty years.

Pursuant to the legal procedures in force on the matter, the concessionaire or lessee of such Assets may register any constructions that it builds on such Assets in their favor.

Chapter III

Institutional and Administrative Structure

Article 16. The institutional structure of the Agency shall be made up as follows:

1. Executive Management Bodies:

- a. The Board of Directors.
- b. The Administrator.
- c. The Deputy Administrator.

2. Administrative Services and Execution Directorates:

- a. Labor, Immigration and Social Security Matters Directorate.
- b. Customs Matters and Collection Directorate.
- c. Planning, Development and Environmental Matters Directorate.
- d. Assistance to Investors Directorate.
- e. Other general directorates, assistant directorates or administrative units as may be created by the Board of Directors.

The directorates created in accordance with the provisions of subsection e may be made up of officers who act on behalf and under the authority of other public institutions, who are qualified, have the decisory power, capacity and competence for complying with their functions and who are permanently available for carrying out their functions. For such purposes, the Agency shall make the budgetary transfers to the respective public institutions for payment of the staff assigned, and shall provide

them with the means and the resources necessary for exercising their functions. In such cases, the Agency and the respective institutions shall adopt the memorandums of understanding referred to in article 115 of the present Law. Once adopted, such memorandums of agreements shall be promulgated as executive decrees.

The functioning and internal organization of each of the bodies mentioned in this article shall conform to the provisions of the present Law and of such rules and regulations provided for their development.

The Agency and the respective governmental institutions shall subscribe memorandums of agreements that shall set forth under what technical-operational standards, regulations, provisions and procedures the officers designated by the respective governmental institutions to work at the Panama-Pacific Special Economic Area Agency must act.

With regard to fulfilment of the objectives, aims and work programs of the Agency, as well as the aspects relating to work schedules, attendance and punctuality, training and coaching programs, among others, the officers mentioned in the preceding paragraph shall be subject to the standards, regulations, provisions and administrative procedures set forth by the Agency.

The criteria for appointments, transfers, promotions, suspensions, dismissal, removal, salary scales and incentives of the Agency's public servants shall be duly set down in the Regulations on the Classification of Offices and Positions, Standards for Engagement of Staff and Salary Scale that the Agency adopts, which shall in no case contain standards lesser than those set forth in the Administrative Code and the Law on the Positions and Seniority of Civil Service.

Article 17. The Agency may exercise its own functions and duties, either directly or through existing institutions or institutions as may be organized in accordance with the terms agreed upon in the respective agreements entered into for such purposes, with the aim of permanently guaranteeing an efficient coordination between the different State agencies to users, such that these may not at any time be affected or

impaired during the conduct of the administrative processes that they must submit to, in compliance with the provisions of the present Law or its rules and regulations. However, the functions and duties that are the exclusive competence of other state institutions shall be only exercised by them through the officers that they appoint to render services at the Panama-Pacific Area in accordance with the memorandums of understanding that they enter into with the Agency.

Section 1 Board of Directors

Article 18. The Board of Directors of the Agency shall be made up of seven members, namely:

1. Two directors appointed by the Executive Branch.
2. Two directors representing the Companies of the Panama-Pacific Area, who shall be chosen from a proposal submitted by the Association of Panama-Pacific Area Companies.
3. A director from the Panamanian employers sector, chosen by the Executive Branch from among the candidates proposed by the Chamber of Commerce, Industry and Agriculture of Panama and the National Council of Private Enterprise (or CONEP, its initials in Spanish). For such purposes, each of such associations shall propose a candidate.
4. A director representing the labor sector, chosen by the Executive Branch from among the candidates proposed by the workers unions that have juridical personality and are registered at the Department of Social Organizations of the Ministry of Labor and Labor Development.
5. A director representing the Association of Colon Free Zone Users, chosen by the Executive Branch from among three persons proposed by such Association.

Once the candidates referred to in subsections 2, 3, 4 and 5 have been chosen, their names shall be formally advised to the Executive Branch in order that such appointments may be made within seven working days following such notice.

Except for the directors referred to in subsections 2 and 4, the directors may not be shareholders, directors, attorneys-in-fact, representatives or workers of Companies of the Panama-Pacific Area or of the Development or Operation Companies.

The directors shall be appointed by the Executive Branch, ratified by the Legislative Assembly and shall hold office for four years, without prejudice to the provisions of the transitory paragraph and of the final paragraph of the present article.

One representative of the Comptroller General of the Republic shall have the right to attend the meetings of the Board of Directors, with right to speak only.

Once appointed, the directors may not be removed except by the Executive Branch for the causes envisaged in article 23 of the present Law, by complying with the procedure provided for in article 290 of the Judicial Code. Appeals for reconsideration may be filed against such decisions, and must be submitted within a term of five days following the notice.

Transitory Paragraph. The first directors of the Agency shall hold office until 31st August 2004 and shall be the eleven members of the Board of Directors of the Inter-Oceanic Region Authority who hold office at the time of the promulgation of this Law. The President and Vice President of the Board of Directors of the Inter-Oceanic Region Authority shall hold the offices of President and Vice President of the Board of Directors of the Agency during the first term.

Once this term of the first directors has ended, the term of the following directors shall be as follows: two years for the directors freely appointed by the Executive Branch; three years for the directors that represent the Companies of the Panama-Pacific Area; four years for the director from the Panamanian employers sector; two years for the director that represents the labor sector; and one year for the director that represents the Association of Colon Free Zone Users. As the gradual terms described above expire, and thereafter, the new directors shall hold their offices for four years.

Article 19. The following is required in order to be a director:

1. Be a person of renowned integrity, be a resident of the Republic of Panama.
2. Not have ever been sentenced by a competent authority of the Republic of Panama, or of any other country, for any deceitful crime, against public administration, nor for any deceitful crime against the ownership of assets.
3. Not have any kinship with the other directors or with the Administrator, the Deputy Administrator, the President of the Republic, the Vice Presidents of the Republic or the Ministers of State, within the fourth degree of consanguinity or second degree by marriage, nor be a spouse of any of them.
4. Be a Panamanian citizen. However, one of the directors that represent the Companies of the Panama-Pacific Area may be a foreigner, provided that he complies with the respective immigration provisions.
5. Hold a university degree, except in the case of the representative of the labor sector.

Article 20. The directors, because of their status as such, shall receive no salaries or travel expenses, but may receive special remunerations for their attendance at meetings of the Board of Directors.

Article 21. Absolute absences of the directors shall be filled within a maximum term of sixty days by appointment by the Executive Branch covering the remainder of the respective terms in accordance with the provisions in the present Law.

Article 22. Without prejudice to the other limitations set forth in the Law or in the regulations, the Administrator, the Deputy Administrator, the officers of the Agency, the directors that do not represent the Companies of the Panama-Pacific Area or the Development or Operation Company may not enter into, on their own or through an intermediary person, any agreement or business administration whatsoever with the Agency or with institutions or companies linked to the Agency.

Article 23. The following shall be causes for removal of a director:

1. Obvious incapacity in complying with his obligations.
2. Physical or mental incapacity making it impossible for him to comply with his functions in a permanent manner.

3. Having been sentenced by a competent authority of the Republic of Panama or of any other country for committing a deceitful crime against public administration or for a deceitful crime against the ownership of assets.
4. Non-compliance with the requirement set forth for the selection of the director, or if it is proven that he did not fulfil any of these requirements at the time of his appointment.
5. Lack of honesty in the exercise of his functions.
6. Repeated absence at meetings at the Board of Directors.

The Executive Branch and/or the Board of Directors shall have the right to request the removal of any director for any of the above-mentioned causes upon a decision adopted by the vote of five of the members of the Board of Directors. In the case of subsection 5 of the present article, the Comptroller General of the Republic shall likewise have right to request such removal.

Without prejudice to the above, the directors designated by the Executive Branch may be freely removed by the latter.

Article 24. The Board of Directors shall elect from among its members, one President and one Vice President, who shall hold office for a period of two years, without prejudice to the transitory provisions set forth in article 18 of this Law.

The President may be re-elected if the Board of Directors should so decide, but in no case may he hold office for more than six years.

In the event of the resignation of the President, the Board of Directors shall make the respective appointment within a term no greater than sixty calendar days.

The Board of Directors shall ordinarily meet once a month, without need for prior notice. The dates of these meetings shall be fixed by means of a Resolution of the Board of Directors.

The Board of Directors shall meet extraordinarily every time that it is called by the President, the Administrator or by a written request from at least four of its members.

Convocation to such meetings shall be done in writing, at least twenty four hours before the meetings, and shall be recorded in minutes.

In all its meetings, the Board of Directors shall meet with the presence of the majority of its members. Decisions shall be made by an absolute majority of the members, and in the event of a tie, the casting vote of the President of the Board of Directors shall be definitive, in accordance with the provisions of the Board's By-laws.

The Administrator and Deputy Administrator of the Agency shall attend all the meetings of the Board of Directors, with the right to speak, but without the right to vote.

Whenever subjects relating to subsection 14 of article 26 are dealt with at the meetings of the Board of Directors, the directors who represent the companies involved in the claims or the acts issued by the Agency shall abstain from participating and voting at the meeting concerning same. If there is a lack of voluntary abstention, the President or Vice President of the Board of Directors shall ask the directors who represent the Companies of the Panama-Pacific Area involved in such claims or acts of the Agency to absent themselves from at the meeting. In such a case, the Board of Directors shall meet with the presence of the majority of its members and decisions shall be made by an absolute majority of such members.

Article 25. The President of the Board of Directors shall exercise the following functions:

1. To preside the meetings of the Board of Directors. In his absences, whether temporary or occasional, the Vice President shall automatically exercise his functions or, lacking the Vice President, whoever is chosen by the Board of Directors.
2. To inform the Administrator in writing of any decisions adopted by the Board of Directors so that he may carry them out.
3. To exercise such other functions as may be specified by this Law and such rules and regulations as may be provided for its development.

Article 26. The Board of Directors shall have the following functions:

1. To formulate policies, plans and schedules in order to comply with its aims.
2. To approve and regulate the triennial financial plan and the proposed annual budget as well as the proposed plans and programs of the Agency that are drawn up by the Administrator.
3. To set down the general directives for the proper operation of the Agency.
4. To review and oversee any matters relating to the administration of the Agency.
5. To adopt any administrative, scientific and technological policies that promote and ensure the operational efficiency of the Agency and the competitiveness of the Panama-Pacific Area.
6. To adopt all measures as it may deem expedient for the organization and operation of the Agency in the Panama-Pacific Area.
7. To approve the regulations proposed by the Administrator for the different forms of disposition of assets authorized in the present Law or its regulations.
8. To approve the regulations proposed by the Administrator that refer to procedures or situations envisaged in this Law that must be the subject of regulations by the Executive Branch.

20

9. To authorize entering into acts, operations, agreements and contracts for the rendering of all kinds of services, works, technical assistance, acquisition of equipment, supply, construction of infrastructure and installations, as well as all that is required for the proper operation of the Agency and the development of the Panama-Pacific Area, in an amount exceeding seven hundred and fifty thousand balboas (B/.750,000.00) in accordance with the provisions of article 13 of this Law.
10. To authorize contracts relating to all kinds of leases, sales, concessions, exchanges, trusts, dations in payment, assignments, usufructs, temporary uses, custodies and mortgages, and other forms of dispositions of assets, ever safeguarding the interests of the State, in an amount exceeding seven hundred and fifty thousand balboas (B/.750,000.00) in accordance with the provisions of article 13 of this Law.
11. To consider, modify and approve the project proposed by the Administrator in respect of the amount of the rates, fees and taxes that the Agency shall charge for

the services it renders, as well as its regulations, all of which shall be published in the Official Gazette.

12. To supervise compliance, on the part of the Administrator, with the decisions and directives of the Board of Directors.

13. To set down its own By-laws, which shall include rules on notices of meetings, taking decisions, the quorum, secretarial matters and reports, among other matters.

14. To resolve, as a last resort, any legal claims and appeals against acts issued in first instance by the Administrator, thus making use of all administrative appeals.

15. To designate the external auditors referred to in article 11 of the present Law.

16. To consider, modify and approve the proposed Regulations on the Classification of Offices and Positions, Standards for Engagement of Staff for the Agency and Salary Scale proposed by the Administrator.

17. To approve or reject the plans for the use of the lands and zoning of the Panama-Pacific Area, as well as the adjustments of the existing plans proposed by the Developer or by the Planning, Development and Environmental Matters Directorate, in accordance with the regulations adopted pursuant to the provisions of subsection 9 of article 38 and of article 106 of the present Law.

18. To review and approve the audited financial statements.

19. To approve the Agency's By-laws as well as the administrative regulations required for its operation.

20. To render quarterly reports and an annual consolidated report to the Executive Branch and to the Legislative Assembly on the activities of the Agency and the budgetary execution, and to send a copy thereof to the Comptroller General of the Republic.

21. To exercise all such other functions and duties as may be indicated in this Law and its regulations, as well as in other laws, the regulations of the Agency, and any others authorized by the Executive Branch or the Board of Directors.

Section 2

Administrator and Deputy Administrator

Article 27. The Executive Branch shall designate an Administrator and a Deputy Administrator that shall be ratified by the Legislative Assembly. The Administrator is the highest ranking Executive Officer and the legal representative of the Agency, and is responsible for its administration and the execution of the policies and decisions of the Board of Directors.

The Administrator may not appoint his spouse or any persons having kinship with him within the fourth degree of consanguinity or second degree by marriage, as employees or advisors of the Agency. A like prohibition applies to the spouses and relatives of the Deputy Administrator and the Directors of the Agency.

Article 28. The following is required in order to be the Administrator or Deputy Administrator of the Agency:

1. Be a Panamanian citizen of renowned integrity.
2. Be at least 35 years of age.
3. Not have been sentenced by a competent authority for a deceitful crime against public administration or for deceitful crime in respect of ownership of assets.
4. Not be a shareholder, director, attorney-in-fact, representative or worker of a Company established in the Panama-Pacific Area, or of a Development or Operation Company.
5. Not have any kinship with the members of the Board of Directors, the President of the Republic, the Vice Presidents of the Republic or the Ministers of State, within the fourth degree of consanguinity or second degree by marriage, nor be the spouse of any of them.
6. Hold a university degree in Public Administration, Business Administration, Law, Engineering, Economic Sciences or other similar or equivalent university degree.
7. Have over five years of experience in positions related to the administration of companies and/or public service and/or in the exercise of liberal professions.

Article 29. The Administrator and the Deputy Administrator shall be appointed by the Executive Branch for a term of five years.

The monthly fees of the Administrator and the Deputy Administrator shall be determined by the Executive Branch and may not exceed those earned by the Ministers and Vice Ministers of State, respectively.

Transitory paragraph. The first Administrator of the Agency shall be the Administrator General of the Inter-Oceanic Region Authority and shall exercise his functions up to 31st August 2004. The first Deputy Administrator shall be designated as from 1st September 2004.

Article 30. The following are the functions of the Administrator:

1. To propose the approval of the By-laws of the Agency to the Board of Directors, as well as approval of the administrative regulations required for its operation.
2. To determine the organization and, in general, attend to the daily management of the Agency's businesses and activities, in accordance with the law, the regulations and the standards and instructions of the Board of Directors.
3. To approve and issue the registers of Companies and residents that wish to establish themselves in the Panama-Pacific Area, pursuant to the provisions of the present Law and such rules and regulations as may be provided for its development, as well as order the revocation, suspension or cancellation of registers for the establishment and operation of Companies and residents in the Panama-Pacific Area.
4. To submit a proposed annual budget to the Board of Directors every year, the triennial financial plan and the proposed plans and programs of the Agency.
5. To submit an annual report on the administration and the activities of the Panama-Pacific Area to the Board of Directors as well as such reports as the Board of Directors may request.
6. To submit the proposed Regulations on the Classification of Offices and Positions, Standards for the Engagement of Staff for the Agency and Salary Scale to the Board of Directors.
7. To appoint and install such advisory, consultancy, execution and coordination bodies as the Agency may deem expedient, upon prior authorization from the Board of Directors and in accordance with the By-laws of the Agency.

8. To appoint, transfer, promote, suspend, dismiss and remove officers of the Agency in accordance with the provisions of the law, the By-laws of the Agency and the regulations on the Classification of Offices and Positions, Standards for the Engagement of Staff for the Agency and Salary Scale.
9. To ensure that the recommendations made by the administrative, execution and general directorates are the result of a process of coordination among themselves.
10. To oversee due compliance with all the agreements entered into with the Agency.
11. To submit, for approval by the Board of Directors, the proposal on the amount of the rates, fees and taxes that the Agency will charge for the services that it renders, as well as its regulations.
12. To inform the Board of Directors on the contracts pursuant to its powers.
13. To authorize, pursuant to article 13 of this Law, entering into acts, operations, agreements and contracts for the rendering of all kind of services, works, technical assistance, acquisition of equipment, supply, construction of infrastructure and installations, as well as all that is required for the proper operation of the Agency and the development of the Panama-Pacific Area, in an amount up to seven hundred and fifty thousand balboas (B/.750,000.00).
14. To authorize, in accordance with article 13 of this Law, contracts relating to all kinds of leases, sales, concessions, exchanges, trusts, dations in payment, assignments, usufructs, temporary uses, custodies, mortgages, and other forms of dispositions of assets, ever safeguarding the interests of the State, in an amount up to seven hundred and fifty thousand balboas (B/.750,000.00).
15. To propose to the Board of Directors, the approval of the regulations required for the different forms of dispositions of assets authorized in the present Law or its regulations, and such regulations as may be necessary for setting down the requirements for participation by natural and corporate persons in the different forms of public contracts.
16. To propose to the Board of Directors, the approval of the regulations referring to procedures or situations envisaged in this Law that need to be the subject of regulations set down by the Executive Branch.
17. To collect and supervise the rates, fees, taxes and other moneys to be paid by taxpayers and users of the Agency.

18. To coordinate the services of the Agency with those of the other public institutions that are directly or indirectly linked to the Panama-Pacific Area.
19. To be the coordinator and liaison between the Agency and the Executive Branch.
20. To partially delegate his functions to the Deputy Administrator or among the directors of the general directorates, the assistant directorates or administrative units of the Agency, including in the event of his temporary absence.
21. To ensure the efficient execution of the budget.
22. To represent the Agency in any judicial or administrative action or procedure.
23. To exercise compulsory jurisdiction in the collection of the Agency's credits.
24. To attend the meetings of the Board of Directors with the right to speak.
25. To submit annually to the Board of Directors, financial statements audited by independent certified public accountants within three months following the closing of the respective fiscal year.
26. To enter into memorandums of understanding with public institutions that have functions shared with the Agency.
27. To exercise all such other functions and duties as may be set out in this Law and its regulations, as well as in any other laws, the regulations of the Agency and any as may be authorized by the Executive Branch or the Board of Directors.

Article 31. In the event of the temporary absence of the Administrator, the Deputy Administrator shall assume the position of the Administration during the term of such absence. In the event of absolute vacancy of the position of Administrator due to resignation, death or removal from office, the Deputy Administrator shall temporarily fill such vacancy until a new Administrator is designated and takes office by right.

Article 32. The Board of Directors may request the removal of the Administrator or the Deputy Administrator upon a decision adopted by the vote of five of its members and for the causes envisaged in the present article, pursuant to a decision of the Executive Branch issued in accordance with the procedure envisaged in article 290 of the Judicial Code. In the case of subsection 4 of the present article, the Comptroller General of the Republic shall likewise have the right to request such removal.

Causes for removal of the Administrator or the Deputy Administrator are:

1. Obvious incapacity in complying with his duties.
2. Physical or mental incapacity that makes it impossible for him to fulfil his functions in a permanent manner.
3. He does not comply with the requirements set down his selection, or it is proven that he did not fulfil one or some of these requirements at the time of his appointment.
4. Lack of honesty in the exercise of its functions.
5. Repeated absence at meetings of the Board of Directors.

The removal of the Administrator or the Deputy Administrator shall apply without prejudice to any penal action that is in order.

Section 3

Labor, Immigration and Social Security Matters Directorate

Article 33. The representatives of the Ministry of Labor and Labor Development, of the National Directorate of Immigration and Naturalization of the Ministry of Government and Justice, and of the Social Security Fund who are present at the Labor, Immigration and Social Security Matters Directorate shall exercise the following functions, as may be applicable:

1. To follow the pertinent procedure for the approval of permits, licenses, registers, visas and other approvals required by the Ministry of Labor and Labor Development, the National Directorate of Immigration and Naturalization of the Ministry of Government and Justice, the Social Security Fund and other state institutions or agencies, for any companies as may establish themselves or that are established in the Panama-Pacific Area, as well as the workers that work for them.
2. To attend to, process and issue authorizations and registration of all the matters referring to the labor relations of workers that work in the companies established in the Panama-Pacific Area, including expeditiousness and speedy authorization of the respective labor permits, the coordination of work inspections, labor disputes resolution proceedings and other matters under the jurisdictional authority of the Ministry of Labor and Labor Development.

3. To process and issue the authorizations and registration relating to matters that fall under the jurisdictional authority of the National Directorate of Immigration and Naturalization of the Ministry of Government and Justice.
4. To process and issue authorizations and registration on the matter of enrollment of workers in the social security system, the acceptance of fee payments and other administrative matters that fall under the jurisdictional authority of the Social Security Fund.
5. To maintain a register of residents of the Panama-Pacific Area.
6. To receive and file all the reports, statements and notices sent by the Companies of the Panama-Pacific Area, the Developer and the Operator referring to matters of work, immigration and social security.
7. To exercise all such other functions and duties as may be set down by the Law, the regulations of the Agency, and any others as may be authorized by the Executive Branch or the Board of Directors.

Article 34. Subject to the procedures of delegation that are adopted by the respective state agency for such purposes, the Minister, Administrator or Director of the respective institution shall designate the staff that will act on behalf and under the authority of his office at the Labor, Immigration and Social Security Matters Directorate of the Agency. The officers designated shall have the qualification, capacity and experience required pursuant to the regulations that are set down for this purpose, and shall have the authority, decisory power and competence required to comply with their functions and offices, and shall remain at the Directorate permanently available for processing the procedures that are carried out through the Labor, Immigration and Social Security Matters Directorate. For such purposes, the Agency shall make the budgetary transfers to the respective public institutions for payment of the staff assigned and shall provide the means and resources necessary for the exercise of their functions.

The Agency and the respective institutions shall adopt any necessary memorandums of agreement for specifying the functions that these officers shall carry out on behalf of the respective public institution, in order to guarantee that the officers that each

agency designates have the capacity, authority and decisory power required to carry out the work entrusted in accordance with the provisions of this Law and of such regulations as may be provided for its development, and so that the procedures of delegation adopted for each state agency, pursuant to the provisions in the preceding paragraph, as well as the procedures for the selection, appointment and removal of such officers ensure that such offices are filled in due time, in accordance with the provisions of article 115.

Once adopted, these memorandums of understanding shall be promulgated as an executive decree.

Article 35. The work performed at the Labor, Immigration and Social Security Matters Directorate by the representatives of the institutions present in such Directorate, pursuant to the provisions of article 33 of this Law, of the regulations and executive decrees as may be issued for its development, shall be subject to the legal provisions in effect that govern such matters.

Any decisions adopted by each of the officers designated to act on behalf of the Minister, the Administrator or Director of the respective institution at the Labor, Immigration and Social Security Matters Directorate may be appealed before the respective public institution and in accordance with such procedure as may be set forth by the legislation in force on each matter, provided that such legislation so allows it. Any appeal filed to this end shall be submitted to the Labor, Immigration and Social Security Matters Directorate of the Agency, to be subsequently sent to the respective public institution.

Section 4

Customs and Collection Matters Directorate

Article 36. The officers of the Directorate General of Customs and the Directorate General of Revenue of the Ministry of Economy and Finance that are present at the Customs and Collection Matters Directorate shall exercise the following functions, as may be applicable:

1. To exercise customs controls in the Panama-Pacific Area.
2. To facilitate customs procedures within the Panama-Pacific Area.
3. To prevent contraband activities, undue use and other unlawful traffic activities.
4. To watch and inspect any merchandise that enters and exits the Panama-Pacific Area.
5. To inspect merchandise and inventories, as well as carry out audits of the registers of the companies established in the Panama-Pacific Area.
6. To collect information relating to the imports and exports of the Panama-Pacific Area, keep records of such information and, for statistical and tax purposes, prepare and submit reports on same.
7. To determine and collect, for the account of the National Treasury, the Import Taxes and Taxes on the Transfer of Movable Property and the Rendering of Services, from the Developer, the Operator, the Companies of the Panama-Pacific Area, the residents and visitors of such Area, in cases where it is so provided for in this Law.
8. To develop, maintain, improve and continually assess the effectiveness of customs controls.

29

9. To promote the free and efficient flow of goods and merchandise within the Panama-Pacific Area in accordance with the provisions of this Law and of such regulations as may be provided for its development.
10. To investigate and take cognizance of all matters relating to contraband, tax fraud and infringement of the provisions on customs matters and tax matters applicable to the Panama-Pacific Area, pursuant to the applicable regulations in force.
11. To exercise all customs functions in the Panama-Pacific Area in accordance with the present Law and such rules and regulations as may be provided for its development.
12. To receive payment of all the levies, taxes and rates that are incurred in the Panama-Pacific Area by the Developer, the Operator and the Companies of the Panama-Pacific Area.
13. To receive all the reports, statements and documents that the Developer, the Operator and the Companies of the Panama-Pacific Area need to submit to the Ministry of Economy and Finance, pursuant to the provisions of the present Law.

14. To exercise all of such other functions and duties as may be set forth in this Law and its regulations, as well as in other laws, the regulations of the Agency and in any others as may be authorized by the Executive Branch or the Board of Directors.

Article 37. In accordance with its internal procedures, the Directorate General of Customs and the Directorate General of Revenue of the Ministry of Economy and Finance shall appoint the staff that will act in the Panama-Pacific Area on behalf and under the authority of its offices. The officers designated shall have the qualification, capacity and experience required pursuant to the regulations that are set down for this purpose, and shall have the authority, decisory power and competence required to comply with their functions and offices, and shall remain at the Directorate permanently available for processing the procedures that are carried out there. For such purposes, the Agency shall make the budgetary transfers to the respective public institutions for payment of the staff assigned and shall provide the means and resources necessary for the exercise of their functions.

The Agency and the respective institutions shall adopt any memorandums of agreement necessary for specifying the functions that these officer shall carry out on behalf of the respective public institutions, in order to guarantee that the officers that each agency designates have the capacity, authority and decisory power required to carry out the work entrusted in accordance with the provisions of this Law and in such regulations as may be provided for its development.

The work performed at the Customs and Collection Matters Directorate by the representatives of the institutions present in such Directorate shall, pursuant to the provisions of article 36 of this Law, the regulations and such executive decrees as may be provided for its development, be subject to the legal provisions in effect that govern such matters.

Any decisions adopted by each of the officers designated to act on behalf of the Directorate General of Customs and the Directorate General of Revenue of the Ministry of Economy and Finance may be appealed before the above-mentioned directorates, as may be applicable and in accordance with the procedure as may be

set forth by the legislation in force on each matter, provided that such legislation so allows it. Any appeals filed to this end shall be submitted to the Customs and Collection Matters Directorate of the Agency, to be subsequently sent to the respective Directorate of the Ministry of Economy and Finance.

Section 5

Planning, Development and Environmental Matters Directorate

Article 38. The following are the functions of the Planning, Development and Environmental Matters Directorate exercised through the officers designated by the respective institutions, as may be applicable:

- 1. To investigate the ownership titles of immovable property and their improvements.**
- 2. To carry out all formalities relating to the registration of titles in which real rights are constituted, modified or extinguished.**
- 3. To carry out the registration of the acts and contracts subject to registration that are issued by the Agency, through which rights of any nature are constituted in favor of particulars in respect of the assets under the custody and/or administration of the Agency, and the encumbrances, restrictions, conditions or limitations on the exercise of such rights.**
- 4. To draw up cadastral maps, with measurements referring to a universal geodesic control system.**
- 5. To keep an inventory of all immovable property, with a description of their location, measurements, boundaries and special circumstances, separately for the land and separately for the constructions or other improvements built on same.**
- 6. To give notice of the cadastral values in accordance with the procedures of the present Law.**
- 7. To order, preserve and update the maps, registers, charts of values and other cadastral information.**
- 8. To review and approve the plans for urban lands and the separation of properties as to their location, measurements and boundaries.**

9. To review the proposals on new uses of lands or on zoning or modification of those already existing, and to submit same to the Board of Directors for their approval or rejection.
10. To approve applications for construction works and the repair of roads.
11. To receive applications for municipal construction and occupation permits, and to coordinate and collaborate with the respective authorities in the obtainment or issuance of same.
12. To fulfill and enforce all the planning requirements set forth in the concession, administrative agreements of the Developer or Operator, creating procedures and criteria in order to regulate specific planned and unplanned development proposals.
13. To approve all plans for the construction of installations, buildings, improvements, enlargements and expansion, urban developments, offices, factories, warehouses and any infrastructure constructed within the Panama-Pacific Area, and to issue the respective permits.
14. To review the proposals of the Developer or Operator in respect of regulations on design, esthetic, density and height of any building structure and improvement; zoning; traffic and parking; use of dangerous and inflammable material; noise and disturbance of peace; disposition of waste waters; requirements in respect of maintenance, guarding and care; compulsory insurance; security; public billboards and signs, provided that same are not contrary to the rules of public order; and to propose their approval, amendment or rejection to the Board of Directors.
15. To inspect and examine any construction of installations, buildings, improvements, enlargements, remodeling and expansions, urban developments, offices, factories, warehouses, as well as any infrastructure constructed within the Panama-Pacific Area, in order to determine if same complies with the regulations issued by the Agency on the matter, the Master Plan for the Use of Lands and the Detailed Zoning Plan, the provisions of this Law and its rules and regulations.
16. To attend to all matters on the subject of natural resources and of the environment of the Panama-Pacific Area, in order to ensure compliance and application of the laws, the environmental regulations and provisions applicable to the Panama-Pacific Area.

17. To exercise all such other functions and duties as set forth in this Law and its regulations as well as in other laws, the regulations of the Agency and any others as may be authorized by the Executive Branch or the Board of Directors.

Article 39. Subject to such procedures of delegation as may be adopted by the respective state agency for such purposes, the Minister, Administrator or Director of every respective institution shall designate the staff that will act at the Planning, Development and Environmental Matters Directorate of the Agency on behalf and under the authority of his office. The officers designated shall have the qualification, capacity and experience required pursuant to the regulations that are set down for this purpose, and shall have the authority, decisory power and competence required to comply with their functions and offices, and shall remain at the Directorate permanently available for processing the procedures that are carried out through the Planning, Development and Environmental Matters Directorate. For such purposes, the Agency shall make the budgetary transfers to the respective public institutions for payment of the staff assigned and shall provide the means and resources necessary for the exercise of their functions.

The Agency and the respective institutions shall adopt any necessary memorandums of agreement for specifying the duties that these officers shall carry out on behalf of the respective public institutions, in order to guarantee that the officers that each agency designates have the capacity, authority and decisory power required to carry out the work entrusted in accordance with the provisions of this Law and of such regulations as may be provided for its development, and so that the procedures of delegation adopted by each state agency, pursuant to the provisions in the preceding paragraph, as well as the procedures for the selection, appointment and removal of such officers, ensure that such offices are filled in due time, in accordance with the provisions of article 115.

The work performed at the Planning, Development and Environmental Matters Directorate by the representatives of the institutions present in such Directorate, pursuant to the provisions of article 38 of this Law, such regulations and executive

decrees as may be issued for its development shall be subject to the legal provisions in effect that govern such matters.

The decisions adopted by each of the officers designated to act on behalf of the Minister, the Administrator or Director of the respective institution at the Planning, Development and Environmental Matters Directorate may be appealed before the respective public institution and in accordance with such procedure as may be set forth by the legislation in force on each matter, provided that such legislation so allows it. Any appeals filed to this end shall be submitted to the Planning, Development and Environmental Matters Directorate of the Agency, to be subsequently sent to the respective public institution.

Section 6

Assistance to Investors Directorate

Article 40. The following are the functions of the Assistance to Investors Directorate:

1. To receive and process applications for the registration of companies to be established in the Panama-Pacific Area.
2. To recommend to the Administrator, the approval, revocation, suspension or cancellation of registrations for the establishment and operation of companies and residents in the Panama-Pacific Area.
3. To advise investors in order that they may comply with the requirements demanded for granting of the registration of companies.
4. To evaluate applications for registration in order to determine if they comply with the legal requirements.
5. To keep an updated register of investments in the Panama-Pacific Area and to draw up statistics on the activities carried out in the Panama-Pacific Area.
6. To coordinate the necessary procedures at Central Government institutions, autonomous and semi-autonomous institutions and municipalities.
7. To send the Administration periodic registers of investments and statistical reports on the activities carried out in the Panama-Pacific Area.
8. To draw up new and improved procedures for the registration of companies.

9. To cooperate in the procedures carried out by investors in order to obtain the permits and licenses referred to in the fourth paragraph of article 49 of the present Law.

10. To exercise all such other functions and duties as may be set forth by this Law and its rules and regulations, as well as other legal dispositions, the regulations of the Agency, and such others as may be authorized by the Executive Branch or the Board of Directors.

Title III

Panama-Pacific Area, its Developer and Operator

Chapter I

Concept and Features of the Developer and the Operator

Article 41. The Agency shall be the institution charged with administering the Panama-Pacific Area. In this regard, the Agency may enter into contracts with Developers and/or Operators in respect of the development, promotion and/or operation of part or all of the Panama-Pacific Area described in article 2 of the present Law, upon prior notice and carrying out an international process for the selection of the Developer or Operator.

The Agency shall determine the strategies and plans for the administration, development, promotion and operation of the Panama-Pacific Area, as well as the areas that shall be subject to such strategies and plans. For such purposes, the Agency shall take into consideration the financial and demand conditions of international markets, as well as other factors and criteria that may have an influence on the optimum operation and development of the Panama-Pacific Area, in order to determine, moreover, if the administration, the development, the promotion and operation of part or all of the Panama-Pacific Area shall be carried out by the Agency itself and/or by several Development or Operation companies engaged by means of an international process for the selection of a Developer and/or Operator. In the latter case, the Agency shall ensure the participation of companies that have the experience and technical, financial and administrative capacity required to ensure the optimum development of the Panama-Pacific Area.

The areas or zones of the Panama-Pacific Area not granted to Developers shall be managed, developed, promoted and operated by the Agency, in which case the preparation and adoption of the Master Plan for the Use of the Lands and the Detailed Zoning Plan shall be entrusted to the Agency. In this case, for due compliance with its responsibilities, the Agency may contract with several Operation companies, following a call for and carrying out an international process for the selection of Operators to assume the management, administration, operation and supervision of part or all of the Panama-Pacific Area. The Operators shall define and adopt the organization and administrative systems, guaranteeing maximum efficiency in its operation, in order to dispose of optimum conditions for achieving a high level of competitiveness for the Panama-Pacific Area; and they shall assume the obligation of organizing and managing the promotion and marketing so as to attract clients and investors, in order to achieve the development of the area in accordance with the Master Plan for the Use of Lands and the Detailed Zoning Plan prepared and adopted by the Agency.

The Developers engaged by the Agency shall assume the obligation to invest and develop part or all of the Panama-Pacific Area in accordance with the Master Plan for the Use of Lands and the Detailed Zoning Plan that they shall prepare and submit for approval by the Agency. In addition, the Developers shall assume responsibility for the management, administration and operation of part or all of Panama-Pacific Area, defining and adopting their organization and administrative systems, organizing and managing the promotion and marketing of the Panama-Pacific Area so as to best take advantage of its resources and the development of this area; and they shall be granted the right to purchase, sell, lease or sub-lease the assets required for the development of the Panama-Pacific Area in any of the forms envisaged in the present Law.

Companies interested in participating in an international process for selecting a Developer or in an international process for selecting an Operator shall be first pre-qualified in accordance with the minimum pre-qualification criteria set down by the Agency. For determining such criteria, the Agency shall designate a commission made up equally of national and international individuals who give proof of technical,

financial and administrative capacity, competence, qualification and experience in each of the activities that relate to the subject of the agreement. The commission shall adopt selection criteria that ensure the participation of national and international companies that have the technical, financial and administrative experience and capacity required to ensure the optimum development of the Panama-Pacific Area. The commission shall likewise cooperate in preparing the specifications requirements of the international process for the selection of the Developer or the international process for the selection of an Operator, and shall as well analyse the proposals submitted in accordance with the provisions of article 42 of Law 56 of 1995 on public contracts.

Chapter II

Developer and Operator Agreements for the Panama-Pacific Area

Article 42. The Developer or Operator Agreement for the Panama-Pacific Area shall contain the following:

- 1. Designation of the parties (Agency and Developer or Operator).**
- 2. Precise definition of the area or section of the Panama-Pacific Area given to the Developer or Operator.**
- 3. Definition of the Developer's rights to lease, sub-lease, purchase and sell the Assets within the areas under its development, administration and operation, in any of the forms envisaged in the present Law, including purchase options.**
- 4. Definition of the Operator's rights to purchase or lease for itself assets under the custody of the Agency, including purchase options.**
- 5. Obligations of the Developer as to the management, administration, operation, supervision, adoption of the Master Plan for the Use of Lands and the Detailed Zoning Plan, private security, maintenance, marketing, promotion, investment and development.**
- 6. The schedule for compliance with the investment and development obligations by the Developer.**
- 7. The obligations in respect of management, administration, operation, supervision, private security, promotion and marketing in the case of the Operator Agreement.**

8. The Master Plan for the Use of Lands and the Detailed Zoning Plan applicable to the areas and zones under its administration, operation and development.

9. The bonds and insurance required.

10. Causes for termination of the contract in addition to those set out in the rules on public contracts.

11. Clauses that, pursuant to the legislation in force, administrative contracts must include.

12. Any clauses, terms and conditions that the Agency deems expedient, ever safeguarding the interests of the State.

⁶Article 42-A: In the purchase-sales contracts entered into by the Agency, in which it establishes a full contract cancellation clause, in case of breach of obligations on the part of the Developers, Operators or Companies of the Panama Pacifico Area, the recognition of the fulfillment of the cancellation condition will be done by the Board of Directors of the Agency, by means of a motivated resolution.

If the cancellation/termination of the contract would have effects on the records of the Public Registry, the executory Resolution of the Board of Directors of the Agency will be filed, in order to present it to the Public Registry for rectification of the corresponding records. In this way, if a real estate purchase- sale contract is cancelled, just by filling the deed containing the resolution of the Board of Directors of the Agency, the property can be once again registered under the name of the Agency.

The Agency may agree in each purchase-sale contract, according to its nature, the return of all or part of the purchase to Developers, Operators or Companies of the Panama Pacifico Area, in the case of a full contract cancellation resolution, in the event of non-compliance of obligations by the Developers, Operators or Companies of the Panama-Pacifico Area.

⁶ Article added by Article 3 of law 31 of June 22, 2009.

Chapter III

Rights and Obligations of the Developer of the Panama-Pacific Area

Article 43. The Developer of the Panama-Pacific Area shall have the following rights subject to the terms and conditions of the Developer Agreement, of this Law and of such rules and regulations as may be provided for its development:

- 1.** To develop, manage and operate the zone of the Panama-Pacific Area specified in the Developer Agreement as a special Economic Area, including all assets as may be necessary for its operation.
- 2.** To provide all or some of the services necessary to develop, manage, maintain and operate the zone of the Panama-Pacific Area specified in the Developer Agreement.
- 3.** To coordinate with the Agency in respect of drawing up proper and necessary regulations for the development, administration, maintenance and operation of the areas under its control, including those relating to traffic and parking; noise and disturbance of peace; elimination of water and trash, aesthetic standards; maintenance, security, guarding and care requirements; compulsory bonds and insurance; public billboards and signs, provided that same are not contrary to the regulations on public order.
- 4.** To enter into contracts with third parties in order to carry out development, operation and rendering of services activities.
- 5.** To make investments freely and to generate income from the investments made.
- 6.** To purchase, sell, lease or sub-lease the Assets within the areas under its development, administration and operation, subject to the provisions of article 15 of this Law, as well as incorporate additional areas for their expansion pursuant to what is allowed in the Development Agreement and within the geographic limits set forth in article 2 of the present Law. The areas acquired by the Developer and the activities developed in them shall receive the same benefits granted by this Law as well as those granted by such rules and regulations as may be provided for its development.
- 7.** To collect and receive rent and fees for services rendered to the Companies and residents established within the areas under its development, administration and operation.

8. To operate and carry out activities as a Company of the Panama-Pacific Area.
9. To receive the same benefits that this Law and the rules and regulations as may be provided for its development grant to a Company of the Panama-Pacific Area.
10. To exercise any other rights provided for in the present Law and in such rules and regulations as may be provided for its development, as well as in the Developer Agreement of the Panama-Pacific Area.

Article 44. The Developer of the Panama-Pacific Area shall have the following obligations subject to the terms and conditions of the Developer Agreement of the Panama-Pacific Area, of this Law and of such rules and regulations as may be provided for its development:

1. To manage, develop and operate the zone of the Panama-Pacific Area specified in the Developer Agreement of the Panama-Pacific Area.
2. To faithfully comply with development, investment, promotion and marketing commitments.
3. To propose a Master Plan for the Use of Lands and a Detailed Zoning Plan for the area specified in the Development Agreement of the Panama-Pacific Area under its development, administration and operation, and to execute them once they have been approved by the Agency.
4. To faithfully comply with its obligations in respect of the purchase, sale, lease and sub-lease of the areas under its development, administration and operation, as well as with investment in the infrastructure required for the development of same.
5. To submit reports to the Agency on the investments, administration, operation and development of the zone of the Panama-Pacific Area under its control, the number of companies established per area, the total number of employees, the total area under closed construction and the total closed area occupied.
6. To take out and maintain in good standing all insurance and bonds required pursuant to the Development Agreement of the Panama-Pacific Area.
7. To comply with the obligations set forth in article 52 of the present Law.
8. To submit reports to the Agency on the administration and operation of the zone of the Panama-Pacific Area and its control, the number of companies established per

area, the total number of employees, the total closed area constructed and the total closed area occupied.

9. To comply with any other obligations provided for in the present Law and in such rules and regulations as may be provided for its development, as well as in the Developer Agreement of the Panama-Pacific Area.

Chapter IV

Rights and Obligations of the Operator of the Panama-Pacific Area

Article 45. The Operator of the Panama-Pacific Area shall have the following rights subject to the terms and conditions of the Operator Agreement of the Panama-Pacific Area, of this Law and of such rules and regulations as may be provided for its development:

- 1. To administer, manage, operate and supervise the zone of the Panama-Pacific Area specified in the Operator Agreement.**
- 2. To provide all the services required in order to manage, maintain and operate the areas specified in the Operator Agreement.**
- 3. To propose to the Board of Directors of the Agency, for its approval, any regulations proper and necessary for the administration and operation of the areas specified in the Operator Agreement.**
- 4. To coordinate with the Agency in respect of the determination of the regulations proper and necessary for the development, administration, maintenance and operation of the areas under its control, as specified in the Operator Agreement of the Panama-Pacific Area, including those relating to traffic and parking; the use of hazardous and inflammable material; noise and disturbance of peace; elimination of water and trash, esthetical standards; maintenance, security, guarding and care requirements; compulsory bonds and insurance; public billboards and signs, provided that same are not contrary to the regulations on public order.**
- 5. To enter into agreements with third parties to carry out administration, operation and services activities.**
- 6. To collect and receive rent and fees for services rendered to the Companies and residents established within the Panama-Pacific Area.**

7. To purchase or lease assets under the custody of the Agency.
8. To operate and carry out activities as a Company of the Panama-Pacific Area.
9. To receive the same benefits that this Law and such rules and regulations as may be provided for its development grant to a Company of the Panama-Pacific Area.
10. To exercise any other rights provided for in the Operator Agreement of the Panama-Pacific Area, in this Law and in such regulations as may be provided for its development.

Article 46. The Operator of the Panama-Pacific Area shall have the following obligations subject to the terms and conditions of the Operator Agreement of the Panama-Pacific Area, of this Law and of such rules and regulations as may be provided for its development:

1. To manage, direct, operate and supervise the zone of the Panama-Pacific Area given for operation pursuant to the terms and conditions of the Operator Agreement of the Panama-Pacific Area.
2. To faithfully comply with promotion and marketing commitments.
3. To submit reports to the Agency on the administration and operation of the zone of the Panama-Pacific Area under its control, the number of Companies established per area, the total number of employees, the total area under closed construction and the total closed area occupied.
4. To take out and maintain in good standing all necessary insurance and bonds pursuant to the Operation Agreement of the Panama-Pacific Area.
5. To comply with the obligations set forth in article 52 of the present Law.
6. To comply with any other obligations provided for in the present Law and in such rules and regulations as may be provided for its development, as well as in the Operator Agreement of the Panama-Pacific Area.

Title IV

Registration, Companies of the Panama-Pacific Area and Residents

Chapter I

Registration in Order to Operate in the Panama-Pacific Area

Article 47. The Agency shall have the power to register or record any natural or corporate persons interested in establishing themselves and in carrying out activities in the Panama-Pacific Area; to revoke, suspend or cancel their registration or enrolment; and to grant the permits, licenses and registrations required by the natural and the corporate persons that establish themselves in the Panama-Pacific Area, pursuant to the terms of this Law and of such rules and regulations as may be provided for its development, as well as to coordinate the obtainment of those that must be granted by entities other than the Agency. To such end, the Agency shall create a Register of the Panama-Pacific Area.

Article 48. To obtain the registration or recording referred to in the preceding article, natural and corporate persons shall submit the following:

- 1.** Names and surnames, nationality, copy of personal identity card or passport of the applicant, in the case of a natural person; the trade name, the name of the country under whose laws it has been organized, including data regarding its registration at the Public Registry of Panama, as well as the particulars of its Legal Representative and its Registered Agent, in the case of a corporate person.
- 2.** Description of the activities to be developed, the jobs that will be generated, as well as the initial and future investment.
- 3.** Copy of the organizational deed and its amendments, in the case of a corporate person.
- 4.** Recent certificate evidencing the good standing of its corporate personality, directors, officers and Registered Agent, in the case of a corporate person.
- 5.** Such other documents and requirements as may be determined by the Agency.

Carrying out economic activities in the Panama-Pacific Area shall be open both to nationals and to foreigners. The requirements, criteria and procedures for reviewing applications for registration shall be applied in a fair, transparent and equitable manner to all applicants, through a non-discriminatory business treatment, respecting the principles of free participation and free financial competition.

Article 49. The registration or recording of a natural or corporate person on the Register of the Panama-Pacific area shall be ordered through a Resolution issued by

the Administrator, which shall grant the title holder, as from the day of its issue, the status of Company of the Panama-Pacific Area, as well as the right to enjoy the benefits and incentives envisaged in this Law and in such rules and regulations as may provide for its development.

Save for the provisions of the following paragraph, any natural or corporate persons that establish themselves in the Panama-Pacific Area may carry out any kind of activities, of any nature, that are not expressly forbidden by the legal regulations in force in the Republic of Panama on the matter of health, security and public order. In the case of activities that, in the judgment of the Agency, may affect the equilibrium of agreements entered into by the State, any natural or corporate persons that engage in these activities may be registered or recorded on the Register of the Panama-Pacific Area, but shall not benefit from the tax and labor incentives of the present Law.

There shall be no halls within the Panama-Pacific Area for exhibiting the products that are commercialized wholesale internationally in other free zones or under a special tax treatment.

The Companies of the Panama-Pacific Area shall not need any additional registration, aside from that set forth in this article, in order to operate in the Panama-Pacific Area, nor shall they be subject to obtainment of a business or industrial license from the Ministry of Commerce and Industry. Excepted from the above are the permits and licenses required by the State, depending on the economic activity, for reasons of public health, public security and labor security, consumer protection, competition and national security; and financial companies and those engaged in the banking and insurance businesses, which shall be subject to the legal regulations in force that regulate such activities, and to oversight and inspection institutions or authorities.

The Companies of the Panama-Pacific Area shall automatically enjoy, as from their registration on the Register of the Panama-Pacific Area, the guarantees referred to in article 10 of Law 54 of 1998, regulated by Executive Decree No.9 of 22nd February 1999.

⁷Article 50. The wholesale importation and re-exportation of finished products shall not be allowed. This prohibition shall be effective until the provisions of the following article are complied with. The following cases are excepted from the above prohibition:

1. The provisioning of vessels and aircraft.
2. The import and re-export of finished products that exit the Panama-Pacific Area by air.
3. The wholesale import and re-export of finished products that is done by companies that manufacture finished products within the Panama-Pacific Area, provided that the products so commercialized are complementary to the products manufactured by them within the Panama-Pacific Area, or are products manufactured by them in any other place.
4. The wholesale import and re-export of finished products relating to the maintenance, repair, conversion and re-conversion of aircraft and connected activities.
5. The logistic activity of transport, as defined in subsection 1 of article 3 of this Law.
6. The import and re-export of products relating to the petroleum free zones that operate within the Panama-Pacific Special Economic Area.
7. Those made by multinational companies or by branches, affiliates, subsidiaries or companies of the same economic group of such multinational companies.

⁷ Section 7 Added by Article 149 of Law 8 of March 15, 2010

All the provisions of this Law that are contrary to the prohibition set forth in this article shall not be applied until the provisions of the following articles are complied with.

Article 51 (transitory). To equalize the competitiveness conditions of the Colon Free Zone with those of the Panama-Pacific Area, the prohibitions set forth in the preceding article shall be maintained until the freeway between the cities of Panama and Colon is completed.

Non-enforcement of the prohibitions provided for in the preceding article shall give rise to the automatic cancellation of the registration of the transgressing company.

Chapter II

Rights and Obligations of the Companies of the Panama-Pacific Area

Article 52. Every Company of the Panama-Pacific Area shall have the following obligations:

1. To start the operation and/or investment planned within a term of one year, as from the time of its registration on the register of the Panama-Pacific Area.
2. To establish a business domicile in the Panama-Pacific Area within the term agreed upon.
3. To maintain, update and file in an orderly manner, the accounting, customs and inventory records pursuant to the provisions of this Law and as such rules and regulations as may be provided for its development.
4. To assume all responsibility in respect of the assets imported or acquired tax free within the Panama-Pacific Area, and to comply with all the requirements set down in this Law and in such rules and regulations as may be provided for its development.
5. To comply with the provisions of this Law, such rules and regulations as may be provided for its development, the regulations issued by the Agency as well as the applicable laws in force.
6. To print, legibly, the name of the Company on every agreement, invoice, negotiable document and order that is made in respect of assets or services granted or rendered on its behalf.

7. To pay the taxes, rates, duties and levies in force in the Panama-Pacific Area.
8. To submit, upon demand by the Agency, the annual financial statements audited by an external auditor.
9. To notify the Agency, within a term not exceeding thirty calendar days, of any amendment to the information provided to the Agency with regard to the activity or business that it carries out; the directors, officers, Registered Agent and administrators of the Company; its good standing, insolvency, bankruptcy or liquidation status.
10. To comply with the rules in force in the Panama-Pacific Area, including those that are set forth with regard to the recovery and protection of the environment, the control and elimination of contamination, the conservation of green and sea areas, hygiene measures and safety at work, and all such provisions as may be set forth for the protection of the flora and the fauna.
11. To submit a quarterly statistical report to the Agency with information on the activities, including, among others as may be requested by the Agency, exports, total value of same, amount, type and destination; number of employees; country of origin of the investment; entries, according to value and source; and space occupied.
12. To pay the respective taxes for the differences determined in the audits of inventories of merchandise, products, equipment and other assets in general.
13. To comply with any other obligations provided for in this Law and in such rules and regulations as may be provided for its development.

Article 53. Every Company of the Panama-Pacific Area shall have the following rights:

1. To engage freely in any kind of business or activity that is not expressly prohibited by this Law, in accordance with articles 1, 49 and 50, such rules and regulations as may be provided for its development, or other applicable laws in force.
2. To be the beneficiary of all the incentives granted by this Law and such rules and regulations as may be provided for its development, save for the provisions in articles 49 and 117 of the present Law.
3. To import and export all kinds of merchandise, products, equipment and other goods in general, free from taxes, towards or from the Panama-Pacific Area, without

any obligations of registration and additional reports being required of it, save for those as may be expressly stipulated in such rules and regulations as may be provided for the development of this Law, without prejudice to the provisions of the final paragraph of article 1 of the present Law.

4. To employ foreign employees to work within the Panama-Pacific Area, pursuant to the provisions of this Law and to such rules and regulations as may be provided for its development.

5. To enjoy any other rights and benefits that this Law and such rules and regulations as may be provided for its development grant to Companies of the Panama-Pacific Area.

Article 54. Any information given by the Developer, Operator, the Companies of the Panama-Pacific Area and the residents to the Agency, whatever its nature, may be used publicly only for statistical purposes and must be handled by the Agency in a confidential manner, because of which such information shall be of a restrictive nature and shall not be disclosed or given to any natural or corporate person save in the event of demand by other governmental institutions, whether autonomous or semi-autonomous, through the intermediary of the pertinent authorities. The Agency shall only publish such information as total data, without any reference whatsoever to its source.

Chapter III

Residences

Article 55. The establishment of residences and the development of housing projects by the Agency, the Developer or Operator shall be allowed within the Panama-Pacific Area. The Agency shall keep a register of residence of the Panama-Pacific Area.

Chapter IV

Penalties and Cancellation of Registrations

Article 56. The Agency shall have the right to investigate the Developer, the Operator or the Companies of the Panama-Pacific Area for possible infringement of this Law

and of such rules and regulations as may be provided with regard thereto. These investigations may be made without prior notice, up to twice a year. Any subsequent investigations shall be first notified in writing.

Non-compliance on the Part of the Developer, the Operator or of the Companies of the Panama-Pacific Area with their obligations, the other provisions of the present Law, such rules and regulations as may be provided for its development, as well as the other legal provisions applicable to the Panama-Pacific Area, that originate in their juridical relationship with the Agency may give rise to penalties, suspension or cancellation of the respective registration, save if it is proved that non-compliance was due to acts of God or cases of force majeure.

Article 57. Save for the provisions in the second paragraph for article 51, non-compliance with the provisions of the present Law, with such rules and regulations as may be provided for its development and with the obligations of the registered companies shall be penalized by the Agency in accordance with their gravity, thusly:

1. Written warning and granting of a term up of to ninety calendar days to correct the infringement.
2. Written warning, imposition of restrictions on operations and granting of a term of ninety calendar days to correct the infringement.
3. Levying of an administrative fine of up to one hundred thousand balboas (B/.100,000.00). In the event of a second offense, the Agency may increase the fine up to the sum of two hundred and fifty thousand balboas (B/.250,000.00). The amount of the fine shall depend on the gravity of the infringement. Non-payment of the fine shall be cause for suspension or cancellation of the registration.
4. Suspension of the registration pursuant to such rules and regulations as may be provided for the development of this Law.
5. Cancellation of the registration pursuant to such rules and regulations as may be provided for the development of this Law.

The Agency shall adopt the pertinent regulations for the application of the above-mentioned penalties.

The administrative penalties shall be applied without prejudice to the exercise of other legal actions as may be applicable.

Non-compliance with the obligations and legal and regulatory provisions relating to each of the public institutions that carry out functions within the Panama-Pacific Area shall be penalized by such institutions in accordance with the provisions of each of the juridical ordinances regulating the subjects under their jurisdictional authority.

Title V
General Investment System
Chapter I
Fiscal System of the Panama-Pacific Area

⁸Article 58. The Panama-Pacific Area is an area or zone free from all taxes for the Companies of the Panama-Pacific Area, the Operator and the Developer, except for the provisions of article 60, 72,77 of the present Law on the subject of: (a) Income Tax, Tax on Dividends, Complementary Tax and Tax on Remittances to Foreign Countries; (b) Taxes applicable to companies engaged in rendering retail fuel services for land transportation vehicles, which will be subject to applicable taxes according to the legislation in force in the national tax territory; (c) Import tax in the case of services inherent to the exercise of regulated professions, in particular by the current national legislation; And (d) Import Tax and Transfer of Goods and Services Tax, for the retail sale of goods to residents and visitors of the Panama-Pacific Area, except for what is stated in paragraph (d) of Article 60 of this Law.

Therefore, and except for the exceptions noted above, all activities, businesses, services, operations or transactions of the Companies within the Panama-Pacific Area, the Developer o the Operator, shall be one hundred per cent free from direct and indirect taxes, levies, rates, duties and national encumbrances, including but not limited to the following exonerations:

⁸ Modified by Article 4 of Law 31 of June 22, 2006 (final paragraph) and Article 150 of law 8 of March 15 of 2010 (first paragraph)

1. Exemption from any tax, levy, rate, encumbrance or import duty on any kind or class of merchandise, products, equipment, services and other goods in general that are entered into to the Panama-Pacific Area, including but not limited to machinery, material, containers, construction, pre-fabricated material or merchandise, raw material, fuel and lubricants, production input material, final products, cranes, vehicles, automobiles, artifacts, supplies and spares entered into the Panama-Pacific Area.
2. Exemption from the Transfer of Goods and Services Tax on all kinds or types of merchandise, products, equipment, goods, services and other goods in general entered into the Panama-Pacific Area, as well as any tax, rate or duty on the rendering of services. This exemption includes the financial lease of any equipment or other movable good, as well as equipment, raw material and production input material.
3. Exemption from any tax, duty, rate, levy or fee with regard to the movement or storage of fuel or other hydrocarbons and their derivative.
4. Exemption on the payment of any fee for commercial or industrial licenses or registration.
5. Exemption from Stamp Tax.
6. Exemption, on commercial and industrial improvements, from real estate taxes on land and improvements as well as from the Tax on the Transfer of Immovable Goods. For the purposes of the Tax on the Transfer of Immovable Goods, it must be evidenced in the respective public deed only that the immovable good that is being transferred is located within the Panama-Pacific Area, and it shall not be necessary to have the exemption from the payment of tax and the data of the respective affidavit evidenced, the notaries public being able to bear witness of the respective agreement.
7. Exemption from any tax on the export or re-export of any type or class on merchandise, products, equipment, goods or services.
8. Exemption from any tax, rate, duty, encumbrance, withholding or other fees of a similar nature applied to payments to foreign creditors, for the interest, commissions, royalties and other financial fees generated by the financing or refinancing granted to the Companies of the Panama-Pacific Area, to the Operator and to the Developer as referred to in this Law, and for the financial lease of the equipment required for the

development of the activities, business or operations carried out within the Panama-Pacific Area.

9. Exemption from the payment of the tax levied on international telephone calls.

The Developer, the Operator or the Companies of the Panama-Pacific Area shall submit the following statements, documents and reports to the Ministry of Economy and Finance:

- a. Affidavit in respect of Income Tax.
- b. Statement regarding the Tax on the Transfer of Movable Property and the Rendering of Services.
- c. Return on the Tax on the Transfer of Immovable Property.
- d. Any other returns, reports or documents provided for in the present Law and/or its regulations.

It falls on the Ministry of Economy and Finance to take cognizance of all the matters relating to the administrative procedure on tax matters that is referred to in Book VII of the Fiscal Code.

Article 59. The workers of the Developer, the Operator or of the Companies of the Panama-Pacific Area, the residents and the visitors of the Panama-Pacific Area shall not enjoy the tax benefits provided for in the present Chapter.

⁹Article 60. The Companies of the Panama-Pacific Area, the Developer and the Operator, both because of their internal operations as well as because of their foreign or export operations shall be subject to payment, pursuant to the legal tax rules in force, of the following taxes:

1. Income Tax on the net taxable income earned from the activities, businesses or operations carried out within the Panama-Pacific Area.
2. Tax on Dividends withheld from earnings or dividends paid to their shareholders or partners and the Complementary Tax.

⁹ Article 60 was amended by article 35 of Law 69 of November 6, 2009, article 5 of Law 31 of June 22, 2009, article 151 of Law 8 of March 15, 2010 and by article 2 of the Law 3 of 10 February 2015 (rewriting full article 60)

3. Tax on Remittances or Transfers sent Abroad, withheld from the payment of commissions, royalties, payments for technical assistance services, or for any other account.

4. Tax on Imports and Tax on the Transfer of Goods and Services, specifically for companies that render services inherent to the exercise of specially regulated professions by the legislation in force.

For the purposes of this article, domestic operations are understood to be the disposition or transfer of all kinds or classes of merchandise, products, equipment and goods, as well as the rendering of services, to the National Fiscal Territory, by the Developer, the Operator or the Companies of the Panama-Pacific Area. Foreign or export operations are understood to be the sale of all kinds or classes of merchandise, products, equipment and goods carried out by the Developer, the Operator or the Companies in the Panama-Pacific Area, to natural or corporate persons located outside the territory of the Republic of Panama.

The income, profits or earnings derived from the following activities shall be exempt from the payment of the taxes referred to in subsections 1, 2, 3 and 4 of the present article:

- a. The rendering of services to natural or corporate persons located outside the territory of the Republic of Panama.
- b. The disposition or transfer of shares of Companies of the Panama-Pacific Area, of the Operator or of the Developer, whether such transfer is evidenced in a direct or indirect manner, through the sale of shares of companies that are in turn the owners of the shares of Companies of the Panama-Pacific Area, of the Operator or the Developer.
- c. ¹⁰The activities carried out by the Developer, pursuant to the Master Developer Agreement of the Panama-Pacific Area and to paragraph 5 of Article 42 of this Law.

¹⁰ The original text of Article 60 (on exemption of services between companies) was repealed by article 35 of Law 69 of November 6, 2009

d. The sale of any kind or class of merchandise, products, equipment and goods, as well as the rendering of services, to visitors, passengers or crew members in transit or whose destination is foreign countries, except in cases where the sale is made by the own manufacturer of the merchandise, products, equipment or goods, or by a Company of the Panama-Pacific Area that belongs to the same economic group as the manufacturer.

e. The sale of any kind or class of merchandise, products, equipment and goods, as well as the rendering of services, to vessels that cross the Panama Canal bound for foreign ports or that navigate between any operational port of the Republic and foreign ports, except in cases where the sale is made by the own manufacturer of the merchandise, products, equipment and goods, or by a Company of the Panama-Pacific Area that belongs to the same economic group as the manufacturer.

f. The sale of any kind or class of merchandise, products, equipment and goods, as well as the rendering of services, to aircraft that use the operational airports of the Republic, bound for foreign airports, except in cases where the sale is made by the own manufacturer of the merchandise, products, equipment and goods, or by a Company of the Panama-Pacific Area that belongs to the same economic group as the manufacturer.

g. The rendering of services relating to aviation and airports, including the transportation, handling and warehousing of cargo in general; the repair, maintenance, conversion and reconversion of aircraft; the distribution, maintenance, conversion, reconversion and manufacture of parts and/or spares for aircraft, whether for their import into the Natural Fiscal Territory, their export or disposition or transfer between the Companies of the Panama-Pacific Area, the Operator and the Developer, or to companies established in other free zones of the Republic of Panama, whether of petroleum or which have a special tax treatment.

h. ¹¹The manufacture of high technology products, components and parts, whether for their import into the National Fiscal Territory, their export or disposition or transfer between companies of the Panama-Pacific Area, the Operator and the Developer, or

¹¹ Modified by Article 5 of Law 31 of June 22, 2009.

to companies established in other free zones of the Republic of Panama, whether of petroleum or that have a special tax treatment.

The activities of processing, packaging , assembling or manufacturing of products, components and parts in which high technology processes are used.

The Panama-Pacifico Agency will adopt the pertinent regulations in order to determine the parameters applicable to the activities indicated in this paragraph

i. ¹²The rendering of services from call centers for commercial use; the gathering, processing, storage, commutation, transmission and re-transmission of data and digital information; the connection of radio, television, audio, video and/or data signals; the administration of offices for users within the Panama-Pacific Area, the Developer or the Operator, or that are established outside the territory of the Republic of Panama; the investigation and the development of resources and the digital applications for use in Intranet and Internet networks;the provision of high value-added services protected by intellectual or industrial property regulations, provided to companies established within the Panama-Pacifico Area, to the Developer or Operator or to companies established outside the territory of the Republic of Panama.

The Panama-Pacifico Agency will adopt the pertinent regulations in order to determine the applicable parameters for services with high added value.

j. ¹³ The activities of import, export and re-export of merchandise and other articles or goods of commerce, including the activities of re-invoicing of goods that do not enter the Panamanian territory; As well as logistics and multimodal services. Notwithstanding what is stated in Article 733 (d) of the Tax Code, companies engaged in these activities are only obliged to pay the dividend or participation tax or the supplementary tax, in accordance with the provisions of articles b and g of article 733 of the Tax Code, as well as to the payment of the tax contemplated in article 1004 of said Code. The provisions of this paragraph do not apply to companies that have

¹² Modified by Article 2 of Law 3 of February 10, 2015 and by Article 69 of Law 8 of April 4, 2016 (only changed from paragraphl "j" to paragraph "i" between one law and another, maintaining the text).

¹³ Modified by Article 69 of Law 8 of April 4, 2016.

registered with the Panama-Pacific Area Business Registry prior to December 31, 2016.

The Developer, the Operator and the Companies of the Panama-Pacific Area shall keep accounting records and documents in Panama that clearly reflect their tax exempt and non-exempt operations.

Companies that render retail fuel sale services to land transportation vehicles shall not be subject to the special tax treatment envisaged in this article.

The above exemptions shall not apply where the incomes that benefit from them are encumbered abroad at the domicile or residence of the titleholder and credit is granted for the tax that would be payable in Panama for such income. If such credit is acknowledged in an amount less than the tax that would be payable in Panama, the income corresponding to the amount of the non-admitted credit could be considered to be exempt. Taxpayers that make use of such benefits shall give credible evidence, in the terms and conditions as set forth in the regulations of the present Law, that they conform to the provisions provided therefor. Any income that has been calculated as exempt income where exemption is not in order, shall be calculated for the fiscal year in which it should have been included as taxable for the payment of tax, without prejudice to the respective surcharges and interest and penalties.

Chapter II

Customs System of the Panama-Pacific Area

Article 61. The Companies of the Panama-Pacific Area, the Developer and the Operator may enter into the Panama-Pacific Area any kinds or classes of merchandise, products, equipment and other goods in general, as well as transfer them and sell them to other Companies of the Panama-Pacific Area, to the Developer and to the Operator, with no limitations as to amounts, same being exempt at all times from the payment of taxes, levies, rates, encumbrances, import duties and other fiscal assessments, whether national, provincial or of any other kind, including consular fees or fees of any other denomination, except for those provided for in the

present Law, both for entry into the Panama-Pacific Area and for their storage within such area, save for payment of the lease of premises or for storage, custody, stowage, transportation or any other kind of services that are rendered within the Panama-Pacific Area.

Upon the entry of any merchandise, product, equipment and other goods in general into the Panama-Pacific Area, all the laws, regulations and national policies concerning the protection of humans, animals and cultivations in respect of diseases and plagues, as well as public health, animal and vegetable health, and quarantine shall apply pursuant to the provisions of article 111 of the present Law.

Article 62. There shall be an automatized system of merchandise and inventory movement control within the Panama-Pacific Area. A record of the inventories and the entry and exit movements of merchandise, products, equipment and other goods in general of the Panama-Pacific Area shall be kept through this system. Such system will also keep record of the general movement of merchandise, products, equipment and other goods in general within the Panama-Pacific Area, as well as of the transformations to which same have been subjected.

The entry and exist controls of merchandise, products, equipment and other goods in general of the Panama-Pacific Area shall be done through the auditing of inventories of the Companies of the Panama-Pacific Area, of the Developer and of the Operator, and not through prior physical controls.

The Companies of the Panama-Pacific Area, the Developer and the Operator shall be obliged to keep a register of the entries, exits, transfers and transformation of the merchandise, products, equipment and other goods that they own.

Article 63. Entry into the Panama-Pacific Area of all kinds or classes of merchandise, products, equipment and other goods in general whose importation is not forbidden shall be allowed, provided that such merchandise is consigned to Companies of the Panama-Pacific Area, to the Developer or to the Operator and it is so indicated in the respective shipping documents.

Subject to the provisions of article 111 of the present Law and the provisions in force on the subject of security and public order, compliance with prior approval requirements by any governmental institution, whether autonomous or semi-autonomous, shall not be required, except for merchandise, products, equipment and another goods in general whose importation is forbidden or restricted.

¹⁴Article 64. All the merchandise, products, equipment and other goods in general that are entered free of taxes into the Panama-Pacific Area may exit such Area for:

1. Exportation or re-exportation.

¹⁴ Modified by Article 3 of law 3 of February 10,2005.

2. Sale to visitors, passengers or crew members in transit or whose destination is foreign countries and whose departure port or airport is found within the Panama-Pacific Area.
3. Sale to visitors, passengers or crew members in transit, whose destination is foreign ports or who transit between any operational port of the Republic and foreign ports and whose departure port is found outside the Panama-Pacific Area.
4. Sale to vessels that transit the Panama Canal bound for foreign ports or that navigate between any operational port of the Republic of Panama and foreign ports.
5. Sale to the aircraft that use the operational airports of the Republic of Panama and are bound for foreign airports.
6. Sale or transfer of ownership for introduction into the Fiscal Territory of the Republic, upon inclusion and payment for them of all the taxes and/or fees that are caused by their import and of the respective Tax on the Transfer of Goods and Services, which shall be recorded in the respective sale invoice, upon a customs liquidation made by a duly authorized customs broker.
7. Their exportation to other zones having a special tax treatment.
8. Their destruction.
9. Its use as instruments of work of the Companies, Developers or Operators of the Panama-Pacific Area, specifically for the purposes of turning their business operations.
10. To be subjected to some manufacturing process, assembly, processing or treatment.
11. To be donated to public, autonomous, semiautonomous or decentralized entities or institutions, as well as to non-profit or charitable entities that have legal status.
12. Any other form of departure legally permitted in the Republic of Panama, after payment of the corresponding taxes or to consign the guarantees required by law.

In the cases of subsections 1, 2, 3, 4, 5, 7, 8, 9 and 11 , the exit of such merchandise, products, equipment and other goods in general shall be free from the payment of any export tax, encumbrances and other tax assessments.

In the case of subsection 6, import into the National Tax Territory shall be done upon prior compliance with all the requirements specified in the laws of Panama with regard to imports.

In the case of subsection 10 of this article, the provisions established in Article 68 of the present Law shall apply.

Article 65. There shall be no limitations on the import of the merchandise, products, equipment and other goods in general subject to a license and/or customs quotas, provided that they are entered into the Panama-Pacific Area for the purposes set forth in subsections 1, 2, 3, 4, 5 and 7 of the preceding article.

Article 66. The exports made by the Developer, the Operator or the Companies of the Panama-Pacific Area from such Area, as well as the merchandise, products, equipment and other goods in general that enter into the National Tax Territory coming from the Panama-Pacific Area shall not be subject to any quantity restrictions nor any requirements, procedures or formalities not provided for in the present Law.

Article 67. Any merchandise, products, equipment and other goods in general that enter into the National Tax Territory from the Panama-Pacific Area shall have unlimited access to the market of the Republic of Panama, unless they are subject to a license and/or customs quotas, in accordance with the provisions of the legislation in force on the matter.

¹⁵**Article 68.** Notwithstanding the provisions of the penultimate paragraph of this article, products manufactured or assembled by Companies of the Panama-Pacific Area, the Developer or Operator, may be introduced to the National Tax Territory by paying the respective customs duties or taxes, only on the value of foreign raw materials and components incorporated in the product, based on the tariff corresponding to each raw material or component incorporated in the final product.

¹⁵ Modified by Article 4 of Law 3 of February 10,2015.

For these purposes, the importer must submit to the customs authorities the input-output relationship sheet, previously verified and approved by the National Customs Authority, according to a format approved and provided by the Panama-Pacifico Agency.

For the calculation of these duties and taxes, the amount corresponding to the value of the foreign inputs or goods that have been incorporated into the finished product that can be imported duty-free by virtue of international treaties or agreements; The amount corresponding to the value of the national or nationalized components used for manufacturing, processing or assembly purposes; The national added value added to the finished product during its manufacturing, processing or assembly process in the Panama-Pacifico Area, will be excluded.

In the case of finished products, manufactured, assembled or manufactured in the Panama-Pacifico Area that are free of duties, taxes and import duties to the Panamanian territory by virtue of international treaties or agreements signed by the Republic of Panama, products manufactured, assembled or manufactured in the Panama-Pacifico Area to the national territory or to any zone or area within the Republic of Panama shall not cause any tax, duty or import duty.

The Companies of the Panama-Pacifico Area, Developer or Operator may temporarily transfer raw materials and semi-finished products to companies located outside the Panama-Pacifico Area to undergo some manufacturing, assembly, processing or treatment process. The entry of these inputs or products into the National Tax Territory will not cause a tax or import tax for a maximum period of six months, extendable for the same period, at the request of a party. If the re-entry to the Panama-Pacifico Area is not registered, in its original condition or transformed into a finished product or with the added value by which it was exited, the responsible company must pay the corresponding import taxes and charges, without prejudice to Applicable penalties. Control of this mechanism shall be carried out by the customs authorities, in accordance with the system of clearance of goods with guaranteed payment, by means of a simplified system of entry and exit, in accordance with the

customs procedures in force, without prejudice to the fact that the Executive Branch can adopt special regulations on the subject.

Any merchandise, products, equipment and other goods in general that are made, manufactured, modified, assembled, bottled or canned, or transformed within the Panama-Pacific Area and exported to another country and imported into the National Tax Territory shall be considered to be foreign products.

Article 69. For the purposes of applying the legislation that governs the National Tax Territory, any commodity, product, equipment and other goods in general entering the Panama-Pacific Area from such Territory shall for all legal purposes be considered to be exports.

Article 70. The transfers of merchandise, products, equipment and all goods in general that are legally located within the Panama-Pacific Area shall be allowed between Companies of the Panama-Pacific Area, the Developer and the Operator. Any Company of the Panama-Pacific Area may request the exit of merchandise, products, equipment and other goods in general, whether for export or for any other exit reason allowed, even where the dispatcher is not the original importer of the merchandise but has obtained same through the transfer referred to the present article.

Article 71. For the transfer of merchandise, products, equipment and other goods in general from the Panama-Pacific Area to an airport, port or border center within the National Tax Territory, whose destination is abroad, or from the Panama-Pacific Area to other zones that have a special tax treatment, for their processing or transformation and subsequent shipment to the Panama-Pacific Area, or to an airport, port or border center, whose destination is abroad, or to a zone that has a special fiscal or customs system, the requirements and formalities set forth by the Customs Matters and Collection Directorate of the Agency shall be complied with.

¹⁶Article 72. The Companies of the Panama-Pacific Area, the Developer and the Operator may import all kinds of vehicles that use a commercial license plate exempt from any taxes, assessments, encumbrances, rates or duties, for exclusive use in operations associated to their activities within the Panama-Pacific Area.

The Executive Branch shall regulate all that concerns the use of vehicles within the Panama-Pacific Area, as well as the entry, transit and exit of persons and private and commercial transportation vehicles.

Article 73. The Executive Branch shall determine all such regulatory provisions as it may deem necessary or expedient for the oversight of the entry, movement and exit of all kinds of merchandise, products, equipment and other goods in general in the Panama-Pacific Area, in order to prevent and repress contraband and all customs fraud, and to prevent and penalize any infringement of the legal or regulatory provisions in force.

The Executive Branch may set down such provisions as it may deem expedient for regulating the transportation of all kinds of merchandise, products, equipment and other goods in general, from and/or to the Panama-Pacific Area, the determination of the routes to be followed in one and/or the other case, the definition of one part or all of the Panama-Pacific Area as a primary zone, or its total or partial integration into another primary zone already existing within the territory of the Republic of Panama.

Article 74. The representatives of the Directorate General of Customs at the Customs Matters and Collection Directorate of the Agency have the authority to check and audit the inventories of merchandise, products, equipment and other goods in general that are located within the warehouses of the Companies of the Panama-Pacific Area, the Developer and the Operator.

If there should be any differences in any of these investigations between the inventories of the Companies of the Panama-Pacific Area, the Developer or the Operator, and the records of the Agency, it shall be necessary for the Company of the

¹⁶ Modified by Article 147 of Law 8 of march 15, 2010.

Panama-Pacific Area, the Developer or the Operator that is the owner of the merchandise, products, equipment and other goods in general that are missing, to prepare a customs declaration immediately and to pay the import duties that would normally have applied to the missing merchandise upon its importation into the National Tax Territory, without prejudice to the application of any respective penalties, in accordance with the procedures and the investigation system and penalties envisaged in the legislation in force on customs matters.

If there should be within any of these investigations surpluses in the inventories upon comparison with the records of the Agency, the necessary adjustments shall be made once the required investigations are made.

The Agency and the Directorate General of Customs shall enter into the memorandums of understanding required to ensure that the customs formalities are carried out in an expeditious manner and coordinated between both institutions.

Article 75. In accordance with the legal tax provisions in force and the exemptions envisaged in the present Law, the Directorate General of Customs shall determine the amount that shall be paid by way of Import Tax and Tax on the Transfer of Movable Property and the Rendering of Services by the Developer, the Operator and the Companies of the Panama-Pacific Area, their workers, as well as by visitors and residents.

Article 76. The Customs officers, acting officially or by order of any competent authority, or where they by any means receive notice of merchandise, products, equipment and other goods in general having entered into the Panama-Pacific Area or into the National Tax Territory in violation of the provisions of this Law on customs matters, may inspect and hold such merchandise.

Subject to the provisions contained in the laws in force, the Agency has the authority to sell, destroy or convert for its own use, merchandise, products, equipment and other goods in general that have been abandoned, left unclaimed, embargoed or

seized within the Panama-Pacific Area, and to adopt regulations and procedures for the sale, destruction or conversion of such articles.

Article 77. The Executive Branch shall determine all such regulatory provisions as it may deem necessary or expedient to allow the access of visitors to the Panama-Pacific Area. The workers of the Developer, the Operator or the Companies of the Panama-Pacific Area, as well as the residents and visitors to the Panama-Pacific Area may purchase within such Area, retail merchandise, products, equipment and other goods in general for their use and/or consumption within the Panama-Pacific Area, subject to payment of the Import Tax, the Tax on the Transfer of Movable Property and the Rendering of Services, and the Selective Consumption Tax, in accordance with the provisions of the regulations adopted on the subject.

Article 78. Subject to the provisions of the International Agreements and Treaties subscribed by the Republic of Panama or as it may subscribe to and/or pursuant to the policies and rules applied by the Republic on the matter, the Developer, the Operator or the Companies of the Panama-Pacific Area or the public or private institution or association designated for such purpose shall issue the certificates of origin for the products manufactured within the Panama-Pacific Area.

Chapter III

Labor System of the Panama-Pacific Area

Section 1

Provisions Relating to the Formation of the Employment Agreement

Article 79. The rules of the Labor Code and other legal provisions in force on labor matters shall be applicable to the labor relations within the Panama-Pacific Area, without prejudice to the provisions of the present Chapter.

Article 80. Individual and group employment agreements must be evidenced in writing and shall be subject, as to their format and content, to the provisions of the Labor Code. With regard to the birth and existence of the work relation, the provisions of article 62 of the Labor Code shall be applicable.

Article 81. The penalties set forth in Section 4 of the present Chapter shall be levied on employers that do not comply with the obligation of subscribing the employment agreements in writing, without prejudice to any administrative remedies or judicial actions that employees have the right to and whose objective is compliance with the provisions of the preceding article.

Section 2

Provisions Relating to the Work Day, Compulsory Rest Periods and Alteration of Work Conditions

Article 82. The employer shall remunerate work during a night or mixed working day only for the hours during which the employee effectively renders his services or is at the disposal of the employer at his work site within such working days.

Article 83. The employer and the workers may agree to extraordinary work hours within the limits of the Labor Code. Save for any agreement to the contrary, employees shall render services during extraordinary schedules or working days in cases where their respective replacements have not started their work and only during the time necessary for the respective replacement to be made. The work done in such cases shall be subject to the surcharges required in the present Law and may not exceed the limits set in the Labor Code.

Article 84. Work done during extraordinary work schedules or working days shall be remunerated with a surcharge of twenty-five percent (25%) over the salary.

Article 85. Employers and workers may agree at any time, whether individually or collectively, on the rendering of services during shifts, establishing a maximum of weekly work days and hours to carry out work under such form.

In the event that the parties have effectively agreed to the rendering of services in shifts, each employer shall give prior notice to his respective employees, no less than forty-eight hours prior to the end of the ordinary working day, with the object of advising them of their assignment to their respective shifts. The work carried out in such cases may not exceed the limits set by the Labor Code.

Article 86. The employer and the workers are free to agree at any time on the compulsory weekly day off, which may be any day of the week. Work on the weekly day off shall be remunerated with a surcharge of fifty percent (50%), without prejudice to the right to enjoy another day off.

For the purposes of article 42 of the Labor Code, companies and establishments that hold licenses to operate within the Panama-Pacific Area may remain open on Sundays and national holidays or days of mourning.

Work on Sundays shall be considered to be work done during the compulsory weekly day off only when Sunday has been agreed upon for such purpose.

Article 87. The employer and the workers may negotiate, through a collective convention, regarding the programming and the manner in which workers shall make use of their right to yearly leave. For such purposes, the parties may provide, among other things, that part or all of the staff shall make use of their yearly leave during certain periods of the year, even where such vacation is not applicable at the time they are enjoyed. The length of time the said vacation lasts in the latter case shall be compensated with the respective work time.

During the time between the start of operations of the company and the adoption of a collective convention, the provisions of the Labor Code relating to the exercise of the right to annual leave shall be applied, but it shall fall on the representatives of the Ministry of Labor and Labor Development at the Labor, Immigration and Social Security Matters Directorate to mediate in determining the dates on which vacation may be enjoyed, in the supposition envisaged in article 57 of the Labor Code. Any agreements reached by the employer and the workers in respect of the accumulation of vacation days for up to two periods shall be notified to the representatives of the Ministry of Labor and Labor Development at the Labor, Immigration and Social Security Matters Directorate, who may forbid such accumulation within twenty calendar days following receipt of the notice, pursuant to the provisions of article 59 of the Labor Code.

Article 88. The employer may assign a worker to shift work in several production lines or transfer him from one production line to another one, or freely assign him to different departments, units or sections of the company, or between different establishments or work centers of the same company that exist within the Panama-Pacific Area created by this Law, provided that such mobility is compatible with the position that the employee occupies at the time, as well as with his seniority, skills, capacities, strengths and training, does not imply any decrease of his remuneration or salary, and does not affect the dignity or self-esteem of the employee, or causes significant relevant damages or major risks in the execution of his work.

Section 3

Provisions Relating to the Termination of Employment Agreements

Article 89. The employer and the workers may agree, through a collective work convention, on the adoption of regulations with the purpose of evaluating the performance and productivity of the workers. Once the said regulations are agreed upon, no approval whatsoever shall be required from the Ministry of Labor and Labor Development in order to determine the causes for dismissal as provided for in subsection 16 of section A of article 213 of the Labor Code with regard to a lack of performance by employees.

Where such regulations have not been adopted in accordance with the provisions of the preceding paragraph of this article, prior approval of same by the Labor, Immigration and Social Security Matters Directorate of the Agency shall be required in order that the causes for dismissal as provided for in subsection 16 of section A of article 213 of the Labor Code may be applied.

Article 90. In addition to the causes envisaged in section C of article 213 of the Labor Code, the decrease of the volume of sales or purchase orders, or the decrease in the demand for services, or the cancellation of orders or purchase orders or of rendering of services or other causes of an analogous nature not blamable on the employer that arise as a consequence, whether direct or indirect, of the fluctuations in the offer and

demand in the markets served by the employers authorized to operate within the Panama-Pacific Area shall be considered to be special justified causes for the termination of work relations.

When the dismissal is grounded on any of the events envisaged in the present article, as well as the provisions of section C of article 213 of the Labor Code, the employer shall request authorization to dismiss and to prove the respective causes to the representatives of the Ministry of Labor and Labor Development at the Labor, Immigration and Social Security Matters Directorate of the Agency. Any dismissal that is done without complying with this requirement shall be considered by full right to be unjustified. However, if upon expiry of a term of fifteen calendar days, the representatives of the Ministry of Labor and Labor Development at the Labor, Immigration and Social Security Matters Directory of the Agency have not resolved regarding the request for dismissal, the employer shall proceed with the dismissal, which shall be considerate to be fully justified, the employer being obliged to pay the indemnity that is provided for in article 225 of the Labor Code.

Section 4

Miscellaneous Provisions

Article 91. Any employer duly authorized to operate within the Panama-Pacific Area may engage foreign staff that does not exceed ten percent (10%) of the total of the ordinary employees, specialized foreign staff, both as to the merely technical aspects of the respective activity, as well as in matters inherent to administrative management, such that fifteen percent (15%) of the total of the employees of the company is not exceeded.

As to companies that engage exclusively in maintaining offices that manage transactions that are perfected, consummated or have effect abroad, as well as companies that have fewer than ten employees, provisions in this regard in the Labor Code shall apply.

The representatives of the Ministry of Labor and Labor Development at the Labor, Immigration and Social Security Matters Directorate shall verify compliance with the percentage set out above at the time that the respective Work Permit for the Panama-Pacific Area is granted.

Notwithstanding the above and pursuant to the provisions of Chapter IV of Title V of the present Law, the representatives of the Ministry of Labor and Labor Development at the Labor, Immigration and Social Security Matters Directorate may grant work permits that grant the right to work within the Panama-Pacific Area in a proportion higher than the fifteen percent (15%) set forth herein, in favor of foreign specialists or technicians that need to be engaged for the purpose of giving training to national employees that the company requires, due to a lack of qualified Panamanian labor for rendering certain services, subject to what is provided for such purposes in the legislation in force on the exercise of each profession. For the granting of the Work Permits set forth in this paragraph, the Ministry of Labor and Labor Development shall ensure compliance with the requirements and restrictions provided for such purposes in the legislation in force on the exercise of each profession.

Once the requirements demanded by the legislation in force on the exercise of each profession have been complied with, one or more colleagues that are of Panamanian nationality must be assigned to each of the foreign employees in order to fully comply with the aims of the training. Assignment of a Panamanian colleague or colleagues shall likewise be necessary in the case of professions or occupations not regulated in a special manner in Panama.

Visas that pursuant to the provisions of the preceding paragraph and in accordance with the provisions of Chapter IV of Title V of the present Law are issued by the representatives of the Directorate National of Immigration and Naturalization of the Ministry of Government and Justice at the Labor, Immigration and Social Security Matters Directorate shall in no case be valid for more than three years and their granting shall be subject to approval of a full training program by the authorities of the Ministry of Labor and Labor Development.

¹⁷Article 91-A. The Executive Branch shall regulate the requirements applicable to the processing of work permits of the Panama-Pacific Area, under the categories of workers within ten percent (10%) of ordinary workers; Workers within fifteen percent (15%) of technical or specialist workers, both in technical aspects and in matters of administrative management; Workers who exceed fifteen percent (15%) of technical or specialists workers, both in technical aspects and in matters of administrative management; Workers of companies that are exclusively dedicated to maintaining offices in order to direct transactions that are perfected, consumed or have effects abroad; Workers in companies with less than 10 workers.

The workers of Companies of the Panama-Pacific Area, Developer or Operator may manage, before the representatives of the Ministry of Labor and Labor Development in the Panama-Pacific Area, the obtaining of work permits under any other category provided for in the national labor legislation In force or that can be adopted in the future, under the terms established in said legislation.

Article 92. Work By-laws may be drawn up jointly by the employer and the employees, in which case they shall subscribe a minutes approving such instrument, upon which such regulations shall be considered to be in force without need for any other formality. However, Regulations so approved shall be subsequently reviewed by the representatives of the Ministry of Labor and Labor Development at the Labor, Immigration and Social Security Matters Directorate of the Agency, which shall ratify them or not on the grounds of the provisions of the labor rules applicable to the Panama-Pacific Area, although this does not mean that their effectiveness shall be suspended while the ratification herein required is being decided upon.

Article 93. The service of inspecting the work conditions of companies that operate in the Panama-Pacific Area shall be rendered exclusively by representatives of the Ministry of Labor and Labor Development at the Work, Immigration and Social

¹⁷ Added by Article 5 of law 3 of February 10, 2015.

Security Matters Directorate of the Agency, ensuring, in as far as possible, that such inspections are done in a manner such that impairment and undue interruptions may be prevented in the normal functioning and operation of the company being inspected.

Article 94. The Panama-Pacific Area Agency may impose on any company that breaches or infringes the provisions of the present Chapter administrative fines of up to one hundred thousand balboas (B/.100,000.00) depending on the gravity of the fault.

In the event of a second offense, the Agency may increase the fine up to the sum of two hundred and fifty thousand balboas (B/.250,000.00) or suspend the Registration of Operation of the company in question up to a term of thirty days, all this depending on the gravity of the fault. In the event of such a suspension, the work relation between the company and its employees shall not be affected.

Article 95. An Office of Labor Conciliation shall function within the Labor, Immigration and Social Security Matters Directorate of the Agency, being the equivalent of the one at the Ministry of Labor and Labor Development, as a conciliatory and mediation entity that precedes the instances of jurisdiction in ordinary labor disputes that, where there is no Company Committee, shall have jurisdiction to hear all the claims deriving from the application of the provisions of the present Chapter and of the other constitutional, legal and regulatory provisions that govern the work relations in the Panama-Pacific Area, with the purpose of extrajudicially resolving such claims.

Article 96. The Ministry of Labor and Labor Development shall periodically transfer the head offices of the Conciliation and Decision Boards to the installations of the Work, Immigration and Social Security Matters Directorate of the Agency located in the Panama-Pacific Area, in order to hear the cases under its jurisdiction that arise from the work relations existing in such Area. Likewise, the Supreme Court of Justice shall provide what has been set forth herein, in order that the Labor Section Courts may periodically transfer their head offices to the installations of the

Work, Immigration and Social Security Matters Directorate of the Agency located in the Panama-Pacific Area for the same purposes.

Article 97. The Higher Learning Center for the Training of Panama-Pacific Area Employees is hereby created as a technical institution attached to the Panama-Pacific Area Agency whose main object is to provide and manage the resources required for fully satisfying the educational needs of employees that render services in the Panama-Pacific Area, as well as of such other persons who may join the labor force that is required in the Panama-Pacific Area, above all in respect of the high technology activities developed or to be developed therein and, generally, those that render educational assistance in respect of all technical and professional aspects in an integrated manner, including aspects linked to the labor culture and the rights of workers, gearing such educational assistance mainly to satisfying the specific needs of each of the companies established in the Panama-Pacific Area.

Article 98. The Higher Learning Center for the Training of Employees of the Panama-Pacific Area shall be governed by a Board of Trustees whose composition, functions and duties shall be regulated by the Executive Branch.

Article 99. The Fund for Educational Assistance for the Panama-Pacific Area is hereby created with the purpose of enforcing compliance with the main objects of the Higher Learning Center referred to in the above articles, which same shall be made up of the following contributions:

1. Twenty percent (20%) of the remainder of the surplus referred to in article 8 of the present Law.
2. One hundred percent (100%) of the proceeds of the fines levied in accordance with the present Law.
3. The budgetary allocations provided for by the State for such purposes, which shall in no case be less than the administrative expenses relating to staff, furniture, computer equipment and the premises required for the operations of such Educational Center.
4. Any other donations from other public or private institutions.

Immigration System of the Panama-Pacific Area

¹⁸Article 100. Foreigners engaged by Companies of the Panama-Pacific Area, the Developer, the Operator or the Agency shall apply for and obtain a Work Permit for the Panama-Pacific Area and a resident permit as worker for the Panama-Pacific Area, which shall be processed by representatives of the Ministry of Labor and Labor Development and of the Immigration and Naturalization Directorate respectively, that are present at the Panama-Pacific Area.. Any persons to whom a resident permit as worker for the Panama-Pacific Area is granted shall have the right to reside in the country and in the Panama-Pacific Area.

The Work Permit for the Panama-Pacific Area shall grant such persons the right to work at the service of Companies of the Panama-Pacific Area, the Developer or the Operator that engages the foreign worker.

Granting of the resident permit as worker for the Panama-Pacific Area shall also include the right to multiple exits and entries, valid for the duration of the resident permit. Once the resident permit as worker for the Panama-Pacific Area and the Work Permit for the Panama-Pacific Area have been granted, no additional procedure shall be required nor shall there be any need to obtain any permits from any other state institution in order to work or reside in the Panama-Pacific Area.

According to the kind of foreign worker concerned, the resident permit as worker for the Panama-Pacific Area shall be issued according to the the following subcategories and in accordance with the following terms:

1. The resident permit as worker for the Panama-Pacific Area granted to workers within the ten percent (10%) of the ordinary employees shall be valid for up to two years. Subject to verification of labor continuity, once two years have elapsed since the issuance of this permit, the person in whose favor same was issued shall have the right to fix his or her permanent residence in the Republic of Panama by requesting a definitive residence, having the right to a personal identity card, for

¹⁸ Modified by Article 6 of law 10 of February 10, 2015.

which he or she shall follow the procedures set down in the regulations approved by the Executive Branch for such purposes.

2. Residence permits as a specialized or technical personnel, in a percentage that does not exceed fifteen percent (15%) of ordinary workers: it will be issued for the term of two years. Subject to the verification of continuity of work, two years after the issuance of this permit, the person in whose favor it has been issued shall be entitled to establish his permanent residence in the Republic of Panama, requesting the permanent stay, with the right to a Personal identity card, for which the procedures established in the regulations to be adopted by the Executive Branch must be followed.

3. Residence permits as a specialized or technical personnel, in a percentage that exceeds fifteen percent (15%) of ordinary workers: shall be issued by the term of the labor contract, always up to a maximum of three years.

4. Residence permits as worker of companies that have less than ten workers: will be issued according to the terms and conditions established in the current national legislation that regulates this matter.

Employees of Companies of the Panama-Pacific Area, Developer or Operator, or their dependents, may manage, before the representatives of the National Migration Service in the Panama-Pacific Area, any type of visa or permit established in the migratory legislation in force in The Republic of Panama, or to be adopted in the future.

Article 101. Foreigners that prove that they have invested a sum not less than two hundred and fifty thousand balboas (B/.250,000.00) in venture capital of Companies of the Panama-Pacific Area or in Development or Operation Companies shall have the

right to apply for a Resident Visa as an Investor in the Panama-Pacific Area from the representatives of the Immigration and Naturalization Directorate of the Ministry of Government and Justice present at the Labor, Immigration and Social Security Matters Directorate. Any persons to whom an Investor Visa of the Panama-Pacific Area is granted shall have the right to reside in the country and within the Panama-Pacific Area for a term of five years, and the granting of such Visa includes the right to multiple departure and entry permits. Once the Visa referred to in the present article has been granted, no additional procedure shall be required, nor shall there be any need to obtain any permit from any other state institution in order to reside in the Panama-Pacific Area.

Once the term of five years has elapsed, the person in whose favor this Visa has been issued shall have the right to fix his or her permanent residence in the Republic of Panama by requesting a definitive residence, having the right to a personal identity card, for which he or she shall follow the procedures set down in the regulations approved by the Executive Branch for such purposes.

If an investor withdraws, transfers or in any way loses his investments or in any way provides false or fraudulent information or documentation, the benefits provided for him by the present Law shall be automatically cancelled, without prejudice to the criminal penalties that such action or omission implies.

Article 102. The procedures and authorizations for the immigration of foreigners that work for Companies established in the Panama-Pacific Area and/or foreigners that invest in the Panama-Pacific Area as provided for in the foregoing articles shall require the verification of documents and information on matters of security pursuant to the requirements of the security policies existing in the country. In the case of foreigners that invest in the Panama-Pacific Area, documents and information on financial matters shall also be verified, as well as aspects relating to the background of associated companies and/or employees and dependents thereof.

The Visas provided for in the foregoing articles shall also cover, in like conditions, the spouse and children, either minors or of legal age up to twenty-five years of age,

provided that they are single, that they have no children and that they are dependent on the main applicant. These Visas shall also cover in like conditions the parents of the main applicant, provided that same are over sixty-two years of age.

Article 103. The work permits and visas provided for in the foregoing articles shall be issued or refused expeditiously by the representatives of the Ministry of Labor and Labor Development and of the National Directorate of Immigration and Naturalization of the Ministry of Government and Justice, respectively, present at the Labor, Immigration and Social Security Matters Directorate. All the procedures that must be followed for the issuance or rejection of such permits and visas shall be carried out jointly and in a coordinated manner by the representatives of the above-mentioned state institutions following the procedures set forth in the regulations or rules approved for such matters.

Reconsideration remedies may be exercised against the decisions issued by the officers designated by the institution legally authorized to exercise such functions, by filing with such officers, and appeals against such decisions may be filed with the respective authorities of the Ministry of Government and Justice and/or of the Ministry of Labor and Labor Development, as the case may be and provided that the legislation in force on such matters allows such remedies.

In the event that within the term of validity of a Work Visa for the Panama-Pacific Area, the person in whose favor same has been issued stops working at the service of the Company of the Panama-Pacific Area, of the Developer or of the respective Operator, his Work Visa for the Panama-Pacific Area and his respective Work Permit for the Panama-Pacific Area shall be automatically and immediately revoked. For such purposes, the Company of the Panama-Pacific Area, the Developer or the respective Operator shall immediately advise the Labor, Immigration and Social Security Matters Directorate of the termination of the work relation. Breach of this obligation shall incur, in each case, the levying of pecuniary penalties from five thousand balboas (B/.5,000.00) up to one hundred thousand balboas (B/.100,000.00). Besides application of the aforementioned penalties, breach of such

obligation may be considered just cause for the suspension and/or revocation of the respective Registration.

The Executive Branch shall regulate all that concerns the requirements for the granting, processing procedures, and just causes for the revocation of the Work Permit for the Panama-Pacific Area, the Work Visa for the Panama-Pacific Area and the Resident Visa as Investor in the Panama-Pacific Area; the procedures for beneficiaries of both visas to obtain the definitive residence, including the right to a personal identity card, as well as the requirements that the dependents of the applicants must comply with so that visas may be issued for them pursuant to the provisions of the preceding article. This regulation shall be approved within three months following the date on which the present Law enters into effect.

The Agency, the National Directorate of Immigration and Naturalization and the Ministry of Labor and Labor Development shall enter into any memorandums of understanding required to ensure that the immigration procedures are carried out expeditiously and in a coordinated manner between the two institutions.

The Directorate National of Immigration and Naturalization of the Ministry of Government and Justice and the Ministry of Labor and Labor Development shall at all times maintain at the disposal of the interested parties, a list of the foreigners to whom a visa and a work permit have been granted pursuant to the system set forth in the present Law.

Article 104. Any foreigners engaged by Companies of the Panama-Pacific Area, the Developer, the Operator or the Agency as specialized foreign staff in respect both of merely technical aspects of the respective activity and of matters proper to administrative management, to whom a Work Visa for the Panama-Pacific Area is granted, as well as any persons to whom an Investor in the Panama-Pacific Area Visa is granted, per family, shall, besides the rights set forth above in the present Law, have the right to import, one hundred percent (100%) free from any direct or indirect taxes, assessments, rates, duties and national charges, one sole time, any kind of

articles of domestic or personal use up to a sum of one hundred thousand balboas (B/.100,000.00).

Any articles of domestic or personal use that have been entered into the country free from any direct or indirect taxes, assessments, rates, duties and national charges may not be sold, donated, leased, given in guarantee, or judicially auctioned without the respective taxes, assessments, rates and duties being first paid for them.

Article 105. Any persons to whom a Work Visa for the Panama-Pacific Area and an Investor in the Panama-Pacific Area Visa are granted shall have the following obligations:

1. To keep a record of all the articles of domestic or personal use that are imported free from taxes.
2. To pay taxes on their personal income as well as the Social Security fees.
3. To inform the representatives of the Directorate National of Immigration and Naturalization of the Ministry of Government and Justice and the representatives of the Ministry of Labor and Labor Development present at the Labor, Immigration and Social Security Matters Directorate concerning their domicile in Panama, and to advise them of any change of same, as the case may be. Breach of this obligation shall incur the levying of pecuniary penalties and may be considered just cause for the revocation of the Visas.
4. To comply with any other obligations set forth in this Law and in such rules and regulations as may be provided for its development.

Every Company of the Panama-Pacific Area, the Developer or the Operator at the service of which the beneficiary of a Work Visa for the Panama-Pacific Area works or in whose activities the beneficiary of an Investor in the Panama-Pacific Area Visa has invested shall ensure due fulfillment of the above described obligations.

Title VI

Use of Lands and Infrastructure, Environment and Public Health System

Chapter I

Use of Land and Control of Development

Article 106. The provisions of Law 21 of 1997 shall be applied in the Panama-Pacific Area, being same approval of the Regional Plan for the Development of the Inter-Oceanic Region and the General Plan for the Use, Conservation and Development of the Canal Area, as shall other rules applicable concerning this matter, until such time as the Agency shall draw up, adopt and/or approve a Master Plan for the Use of Lands and a Detailed Zoning Plan for part or all of the Panama-Pacific Area, as an instrument of territorial rules, for the purposes of article 41 of the present Law, which shall be the guideline for the zoning, use of land, growth and development of part or all of the Panama-Pacific Area. The Master Plan for the Use of Lands shall include a detailed schedule of the minimum works and investments to be carried out in part or all of the Panama-Pacific Area. In the event that the Agency adopts and/or approves a Master Plan for the Use of Lands and a Detailed Zoning Plan applicable to a specific area or zone of the Panama-Pacific Area, the provisions of Law 21 of 1997 quoted above shall continue to be applied in the rest of the Panama-Pacific Area.

Any regulations that are adopted on the matter of the use of lands and zoning shall guarantee the orderly and well-planned development of the Panama-Pacific Area, and shall as well protect and promote the health, safety and general welfare of its users and inhabitants.

The Agency shall have the authority to modify the Master Plan for the use of Lands and the Detailed Zoning Plan in force, upon a proposal by the Developer or through its own initiative if there should be no such proposal. The Executive Branch shall regulate all that concerns the procedures and requirements for modification by the Agency of the Master Plan for the Use of Lands and the Detailed Zoning Plan.

Article 107. The legal and regulatory provisions existing in the Republic on the matters listed below shall be applied within the Panama-Pacific Area, without prejudice to the Executive Branch issuing, in coordination with the institutions that are competent on each matter, regulations especially applicable to the Panama-Pacific Area in order to simplify the procedures, permits and authorizations and/or in order to

introduce new rules and policies, which shall in no case be lesser than those existing in the Republic of Panama:

1. Rules on the construction of installations, buildings, improvements, expansions and enlargements, urban developments, industries, offices, factories, warehouses and any infrastructure constructed within the Panama-Pacific Area.
2. Rules on the structure and the guidelines concerning design, architecture, landscape, electricity, lighting, security, signals system and plumbing and approval of the respective plans and permits.
3. Inspection and supervision of the execution of works.
4. Issuance of the Site Development Permits required for the construction, remodeling and development of infrastructure works within the Panama-Pacific Area.
5. Drawing of cadastral maps.
6. Review and approval of urban lands and delimitation of properties in respect of their location, measurements and boundaries.
7. Rules on the construction and repair of roads and approval of the respective plans and permits.
8. Rules on construction plans for installations, buildings, improvements, enlargements and expansions, urban developments, offices, factories, warehouses and any infrastructure constructed within the Panama-Pacific Area, and approval of the respective plans and permits.
9. Rules on the design, esthetic, density and height of every building structure and improvement; zoning; traffic and parking; use of hazardous and inflammable material; noise and disturbance of peace; disposal of waste waters; requirements in respect of maintenance, surveillance and care; compulsory insurance; security; and public billboards and signal systems, provided that same are not contrary to the regulations of public order, and approval of the respective permits.
10. Rules on the inspection of construction of installations, buildings, improvements, enlargements and expansions, urban developments, offices, factories, warehouses and any infrastructure constructed within the Panama-Pacific Area.
11. Rates and fees payable with regard to development and construction activities.

12. Penalties and relief measures for breach of the rules concerning the construction, remodeling and development of works, as well as of the Master Plan for the Use of Lands and of the Detailed Zoning Plan.

Chapter II

Concession of Public Services and Infrastructure

Article 108. Concessions for the installation and operation of production systems for the supply of drinking water, sanitary sewerage system, treatment of waste waters, collection and processing of garbage and industrial wastes, security services, as well as public telecommunication services, the generation, distribution and sale of electric power, and other infrastructure required for the operations of the Panama-Pacific Special Economic Area shall comply with the legal and regulatory requirements regulating such activities in the Republic of Panama. To such end, the Agency shall coordinate the formalities with the respective public institutions.

Article 109. No provision of the present Law shall be understood to be to the prejudice of the concessions, rights, duties, obligations and/or functions granted by the Panamanian State, either directly or through the intermediary of its autonomous and semi-autonomous institutions, in matters of the generation, transmission and distribution of electric power, telecommunications and other public services mentioned in the foregoing article, because of which no memorandum of understanding that is approved in accordance with article 115 of this Law may impair the rights and obligations arising from these juridical relations.

Chapter III

Environment

Article 110. The legal provisions in effect on environmental matters shall apply in the Panama-Pacific Area, including the range, guidelines and terms of reference, for drawing up and submitting statements, evaluations and environmental impact studies, environmental auditing and inspections, as well as concerning the fines and penalties for infringement of same, without prejudice to the Executive Branch setting

forth, in coordination with the National Environmental Authority (ANAM, its initials in Spanish) regulations especially applicable to the Panama-Pacific Area in order to simplify the procedures, permits and authorizations required by environmental legislation, which shall in no case be lesser than the environmental rules and policies in effect in the Republic of Panama.

Chapter IV Public Health

Article 111. It shall be incumbent on the respective public institutions to ensure compliance within the Panama-Pacific Area with all the laws, regulations and national policies concerning the protection of human beings, animals and cultivations, plagues and diseases, as well as public health, animal and vegetable health, and quarantine.

Title VII Final Provisions

Article 112. The maintenance of public order and security in the Panama-Pacific Area shall fall on national and municipal authorities working in coordination with the Agency.

Article 113. Companies of the Panama-Pacific Area, the Developer, the Operator and its residents shall be responsible for any damages or harm caused by infringement of this Law, of such rules and regulations as may be provided with regard thereto, as well as of any other provision of the Panamanian juridical system.

¹⁹**Article 114.** The Panamanian State shall, through the Agency, have authority to grant in concession the operation and administration of Howard Airport subject to the regulations in force with regard to air navigation, as well as the ones concerning assistance to air navigation and any other facilities required for rendering services directly related to the operation of air navigation services. The Executive Branch shall

¹⁹ Modified by Article 152 of law 8 of March 15, 2010.

in coordination with the Civil Aeronautics Authority set forth such regulations as may be necessary for the best development of this matter.

The Civil Aeronautical Authority shall have the responsibility and exclusive competence to control, regulate and supervise the conditions of performance and operation of Howard Airport, as well as the ground handling services that are provided in them, accordingly, it is entitled to authorize and regulate its operation, certify it, suspend it, close it down and administer it where applicable, and, in general, control and regulate the air operations carried out in and from said airport.

Article 115. Public institutions shall coordinate their activities and cooperate in order to guarantee compliance of this Law and of such rules and regulations as may be provided for its development, in order to achieve the purposes and execute the policies expressively specified therein. For such purposes, the public institutions that have functions shared with the Agency shall, within ninety calendar days following the promulgation of the present Law, enter into memorandums of understanding with the Agency in order to specify their functions within the Panama-Pacific Area and to designate the officers having the qualification, authority and decisory power referred to in the present Law. Once these memorandums of understanding have been entered into, same shall be promulgated as an executive decree.

The public institutions referred to in the preceding paragraph shall be obliged to ensure faithful compliance with the above-mentioned memorandums of understanding such that the delegation procedures adopted and implemented by each state institution for the purposes of designating the officers that will represent them at the Agency, as well as the procedures for the selection, appointment and removal of such officers may ensure at all times that these positions are filled in due time and that such officers are duly qualified and have the capacity, authority and decisory power required in order to attain the aims of the present Law.

In cases where this Law and/or such regulations as may be set forth for its development envisage the application of specific administrative formalities or procedures for the Panama-Pacific Area, the work of the officers designated to act on behalf of each state institution shall conform at all times to the special provisions contained in the present Law and/or in its respective regulations.

Article 116. As from the promulgation of the present Law, the Panama-Pacific Area shall be under the exclusive custody and administration of the Agency, because of which Law 5 of 1993 and its amendments shall not be applicable to it. The Executive Branch shall through the intermediary of the Ministry of Economy and Finance and the Inter-Oceanic Authority, transfer the custody and administration of all the lands, buildings, improvements, installations, movable and immovable goods located within the Panama-Pacific Area to the Agency in accordance with the provisions of article 2 of the present Law.

²⁰**Article 117.** Any companies that, before the present Law enters into effect, have been established within the geographical area to which the Panama-Pacific Area regime shall apply, and which are governed by laws or agreements that grant them a special treatment concerning certain tax, immigration or other subject matters shall choose between the special treatment contained in such special laws or agreements and the one set forth in the present Law, but they shall in any case submit to the administrative and operational rules that regulate the regime in effect in the Panama-Pacific Area, as well as to the regulations, management, control, authority and supervision of the Agency, of the Developer or the Operator, as the case may be.

²⁰ Modified by Article 6 of law 31 of June 22, 2009.

The labor system contained in this Law shall not be applied to the companies that have already been established, before the present Law enters into effect, within the geographic area where the Panama-Pacific Area regime shall be applied.

The Companies established or to be established in the Panama - Pacifico Area that have a Multinational Enterprise Headquarters License under the protection of the Special Regime created by Law No.41 of August 24, 2007; And those engaged in cinematographic and audiovisual activities, whose industry is encouraged by Law No.36 of July 19, 2007, will have the special regimes and treatments referred to in the aforementioned Laws applicable to them. In any case, the provisions contained in this Law shall only apply to these Companies in respect of the administrative and operational rules governing the Panama-Pacifico Area, as well as to the regulation, direction, control, authority and supervision of the Agency.

Article 118. The provisions of article 16 of this Law in respect of administrative services and execution institutions, as well as those provided for in sections 3, 4 and 5 of Chapter III of Title II of the present Law, may be applied to other state institutions. For such purposes, the Executive Branch shall issue the respective executive decrees.

Article 119. Article 27 of Law 19 of 2001 shall read as follows:

Article 27. A Special Free Commercial Area is hereby created within the Area of Puerto Armuelles and Paso Canoa whose sole aim shall be the sale of tax free merchandise to tourists.

This merchandise shall exit the territory through ports authorized in the Law, by means of the respective customs procedures, and shall therefore not incur any customs tariffs.

Article 120. This Law modifies article 27 of Law 19 of 4th May 2001.

Article 121. The present Law shall enter into effect as from its promulgation.

LET IT BE COMMUNICATED AND COMPLIED WITH.

Approved in the third debate at the Palacio Justo Arosemena, Panama City on the day of the month June two thousand four.

**Acting President,
Noriel Salerno E.**

**Acting Secretary General,
Jorge Ricardo Fábrega**

Disclaimer Note

"If any discrepancy exists between the official English translation of the law and its original Spanish version, the original Spanish version will always prevail."