75% Domestic ownership rule under new law

Promising business image slips

A new law waylays the hunt for much-needed global talent and foreign investment


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> **While canal expansion is seen as a** magnet for foreign companies wishing to set up regional headquarters in Panama, some warn of challenges ahead.

"The fact that Panama has a strategic location is no longer an edge," said APL managing director, Panama, Efrain Osorio. A 40-year-old engineer from King's Point who joined APL in 2001, Osorio returned to Panama when APL decided to transfer its Latin American operations to the isthmus last year.

"We must go to the next step and improve the quality of maritime professionals because we have a difficult time recruiting people across all areas of business: commercial, finance, technicians. Panamanians have to understand that the maritime industry is not only the Panama Canal, but an economic cluster that includes auxiliary services, transhipment and suppliers."

The maritime sector – comprising the canal, terminals and ancillary businesses – represents 24% of Panama's GDP and weighs heavily on the country's economy, with 200 companies registered.

"We need a better business environment for global players to come to Panama," admitted Panama Canal Authority (ACP) executive vice-president of research and analysis Rodolfo Sabonge. "We don't have the human resources. Therefore, we need those global players to come with their know-how, human resources, expertise and global networks," he told *Fairplay*.

'The fact that Panama has a strategic location is no longer an edge' Efrain Osorio

"There is a general consensus, internationally and locally, that the canal expansion will be a game-changer only if we succeed" in improving the business climate.

Osorio warned *Fairplay*: "There must be more cohesion among players to provide services to the industry and shipping lines. That is not happening now. Services, efficiency, productivity and connectivity are not at the levels they were five ago."

Even worse, a bill was passed into law in mid-June that will limit the participation of foreign investors in certain maritime operations. The law mandates that ships engaging in maritime auxiliary services must belong to a company in which 75% of the shares are in Panamanian hands. That should cut competition from several foreign companies currently operating in the country, limiting their participation in the maritime space.

The law was passed despite the fact that Panama's maritime sector is being promoted internationally as one that's open to both foreign and local investment.

It "affects the legal stability and the investment companies have already made, dragging down the image of Panama", warned Jose DiGeronimo, Panama general manager of Netherlands-based VTShip. "We are telling the world to come to Panama to invest, but we change the laws after they have arrived," he lamented.

The Panama Chamber of Shipping opposed restrictions on foreign investments. Furthermore, some analysts believe the law is likely to violate the protection of investments under trade agreements Panama has signed. They warn that in retaliation for the law, Panama could be subject to international demands from countries with which it has signed free trade agreements.

Fairplay has learned that several European embassies, on the eve of signing a free trade agreement between Panama and the European Union, sent notes of protest and expressed their concern. However, the National Assembly approved the new measure on 17 June.

Now that the much-criticised domestic-ownership proposal is a law the question is whether it can be challenged, possibly with an appeal to Panama's Supreme Court. F

> Restarted shipyard revs up

One recent positive development for Panama's maritime cluster was last year's concession award for the former Braswell Shipyard. The new operator, Panamanian consortium MEC Balboa Shipyard, reopened the facility in late January 2013.

The concession calls for payments to the Panama Maritime Authority (AMP) of $3M a year plus 5% of sales.

The yard, which cannot handle ships larger than the current Panamax size, is booked until September. "We are trying to develop part of the shipyard into an economic processing-free zone for the maritime sector," said MEC Shipyard chief executive Marvin Castillo, a 39-year-old nautical engineer with a speciality in transport.

"We have 1ha available for vessel repairs that are not done by the shipyard and we want to attract companies that service vessels with new technologies that are not [yet] present in Panama," he added.

The consortium has already invested $6M in equipment. AMP administrator Roberto Linares said: "MEC Shipyard has been paying through and through since the very first day. The previous concessionaire's annual fee was only $300,000, so we believe the government did the right thing."