



Kingdom of the Netherlands



# State of Play of the Panamanian Maritime and Logistics Sector 2023

**Maritime and Logistics Sector Report 2023**

**Embassy of the Kingdom of the Netherlands in Panama**



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## Introduction

Panama's regional competitive advantage is based on its geographic location, dollarized economy, and stable democracy. The country has leveraged its location by building a logistics infrastructure – the Panama Canal, the ports, the Pan-American highway, and the Copa Airlines air-transport hub, giving it the connectivity to access the whole Latin American market and its 700 million consumers. Despite the global shocks that have severely hampered international trade over the past three years, Panama's geographic position continues to prove its vital importance as a transshipment hub for cargo and for the transiting of vessels via the Canal. Panama will continue to maintain its position as one of the regional frontrunners in terms of growth. This report is a continuation of the Embassy's [Maritime and Logistics Report of 2020](#). It provides an update and overview of the maritime and logistics sector, a summary of key stakeholders and highlights opportunities and challenges for Dutch companies interested in expanding their business into the market.

## Panama in The Global Market

The maritime and logistics sector is the backbone of Panama's economy. Services represent 83% of the GDP, of which 20%-35%, depending on the sources, is made up of the maritime, ports and logistics sector including the Panama Canal and airports and represent 18.4% of the labor market<sup>1</sup>. Despite being hard-hit by covid-19 restrictions, which resulted in a GDP contraction of almost 18% in 2020, Panama has managed to recover from the economic impacts of the Covid-19 global pandemic.<sup>2</sup> According to ECLAC's Preliminary Overview of the Economies of Latin America and the Caribbean, Panama will continue to maintain its position as one of the regional frontrunners in terms of growth. Panamanian gross domestic product is expected to top off at 8.4% at close of 2022, however deteriorating global economic conditions is projected to dampen growth to 4.2% in 2023.<sup>3</sup>

Panama's regional competitive advantage is based on its geographic location, dollarized economy, and stable democracy. The country has leveraged its location by building a logistics infrastructure – the Panama Canal, the ports, the Pan-American highway, and the Copa Airlines air-transport hub, giving it the connectivity to access the whole Latin American market and its 700 million consumers. Panama's positive economic performance creates business opportunities for Dutch companies but not without its challenges. For the maritime and logistics sector, opportunities include new port developments, nearshoring, digitalization, and climate change. Challenges involve trade protectionism, weak institutions and connecting the local market to the international market.

## Overview of Panama's Maritime Sector

### The Panama Canal Cluster

**The Panama Canal** is a mayor world trading route serving more than 180 maritime routes and connecting 1,920 ports in 170 countries. More than 14,000 vessels transited the 80km channel in 2022.

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<sup>1</sup> [Info N°64-Logística para el desarrollo competitivo.png \(1632×2112\) \(cncpanama.net\)](#)

<sup>2</sup> [Panama GDP - Panama Economy Forecast & Outlook \(focus-economics.com\)](#)

<sup>3</sup> [Preliminary Overview of the Economies of Latin America and the Caribbean 2022. Executive summary | Publication | Economic Commission for Latin America and the Caribbean \(cepal.org\)](#)



Its expansion in 2016 resulting in a third set of locks which tripled its capacity and allows for maximum draught at 15.24m makes it accessible to 96.8% of the world container fleet and 95% of the world’s liquified natural gas (LNG) fleet. For 2022, most of the vessels that transited the canal were dry bulk carriers, followed by container ships, chemical tankers and liquified petroleum gas carriers<sup>4</sup>. Due to its favorable geographic location, the canal facilitates a unique connection for commercial maritime routes between the Atlantic and Pacific oceans with the Asia-US east coast representing its busiest route. 5% of world maritime trade transits through the Panama Canal.

Panama has one of the largest **port systems** in the Latin American and Caribbean region, underscoring the country’s importance as a trading hub. In total, 8.62 million TEUs were transferred in 2021, a historic record for Panama representing an 11.5% increase compared to 2020 (7.73mn TEUs) and an 18% increase compared to 2019 (7.3 TEUS). 2022’s performance dipped slightly to 8.5 million TEUs but the outlook for 2023 remains cautiously optimistic. Despite the global shocks that have severely hampered international trade over the past three years, Panama’s geographic position continues to prove its vital importance as a transshipment hub for cargo and for the transiting of vessels via the Canal. According to the latest UNCTAD’s Review of Maritime Transport, from 2020-2021, Panama experienced a 22% increase in the number of container ship arrivals as more container ships opted to transit via the Panama Canal to avoid port congestion in the US West Coast. This in turn increased port calls and other maritime services such as bunkering and crew changes<sup>5</sup>.

In total there are 50 seaports: 25 public and 25 private ports that provide a variety of services to containerized, bulk, liquid and general cargo and includes 2 passenger cruise terminals. Missing in the “21 puertos concesionados” image below are Puerto Baru, Amador Cruise Terminal, and Astibal Shipyard.

Figure 1: private and public seaports



The five largest port operations are located on the Pacific and Atlantic terminus of the Panama Canal and are privately run through government concessions. The largest Panamanian ports ranked by TEUs in 2022 are: MIT (2.74mn); Balboa (2.18mn); PSA (1.16mn); Colón Container Terminal (1.44mn) and Cristobal (913k). The Pacific cluster can serve up to five Neopanamax and two Panamax simultaneously, while the Atlantic cluster can serve up to five Neopanamax and eight Panamax

<sup>4</sup> [TransitAndCargoNube.xlsm \(pancanal.com\)](#)

<sup>5</sup> [UNCTAD’s Review of Maritime Transport 2022: Facts and Figures on Latin America and the Caribbean | UNCTAD](#)



simultaneously. With over 8,000 reefer plugs, these five seaports rank Panama as the number one country in Latin America in terms of operating quay cranes (82 in total). Transshipment represents approximately 89% of the yearly throughput of Panama’s ports.<sup>6</sup>

Figure 2: 5 container ports at both ends of the Panama Canal

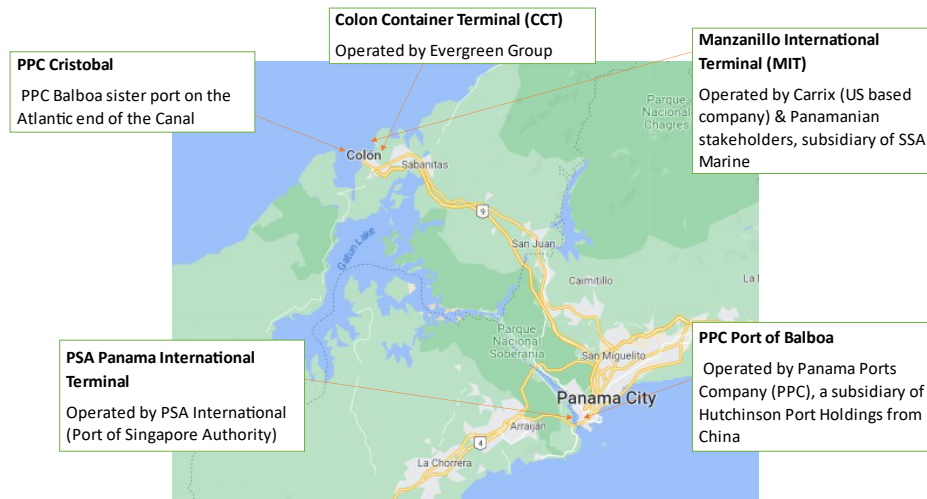
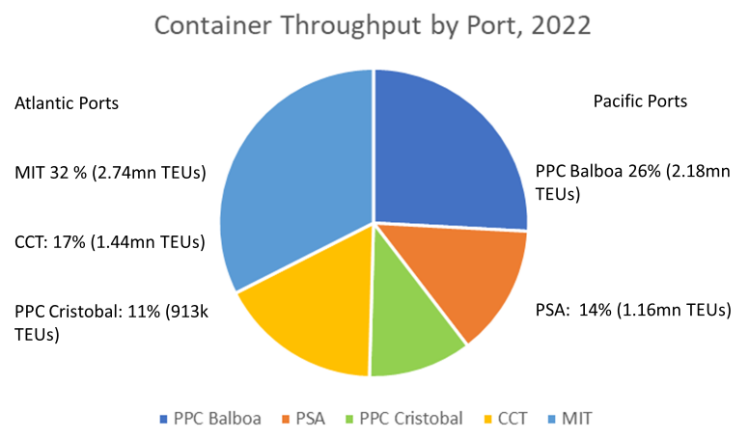


Figure 3: Container throughput by ports in TEUs, 2022



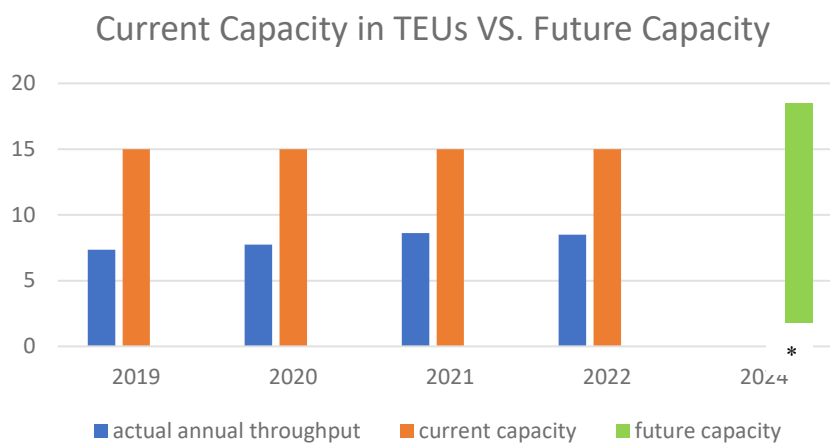
A **new container port** on the Atlantic end of the Panama Canal is in the pipeline. MSC-TIL in partnership with private investment firm Notarc Management Group (NMG) replaces the former Chinese concession of the **Panama Colon Container Port (PCCP)** located on Isla Margarita, Colon for a concession up to 2042. The new group is expected to invest USD\$1.4bn and resume construction early 2024. This new transshipment facility is expected to handle 2.5mn TEU with the capacity to grow 5mn TEU. This new port, once fully operational, will expand Panama’s total port capacity to 20mn TEUs. However, Panama’s 5 operating seaports handle half of its current capacity: 8.64mn TEUs out of approximately 15mn TEUs. In comparison, the Port of Rotterdam alone handles approximately 15mn

<sup>6</sup> [Seaports | Panama Logistics Portal \(gatech.pa\)](#)



TEUs annually. There are plans in place to boost Panama’s competitiveness as a transshipment hub and to secure more cargo to the ports (read the opportunities section for further information).

Figure 4: Current capacity in TEUs vs future capacity



\*No estimates or real data available for 2024

Linking the transshipment ports on either end of the Panama Canal is the **Colon Free Trade Zone (CFZ)**, the second largest free trade zone in the world after Hong Kong with 1,064 hectares for exhibition and more than 2,800 companies operating under its tax-free regime. It is strategically located on the Atlantic end of the Panama Canal to serve the regional market. By connecting the major suppliers from Asia, Europe, and North America, the CFZ re-exports tax exempted merchandise to Central America, South America, and the Caribbean. The three ports on the Atlantic end of the Canal and the two ports on the Pacific end are connected to the CFZ by rail and road. Furthermore, Panama has 12 active free zones with 6 in development and 14 Logistics Parks, with many under development.

### The Maritime Service Cluster

The Panama Canal and its role in facilitating a short passage between the Pacific and the Atlantic oceans has served not only as an essential path for international sea borne trade but as a magnet for the development of a **maritime service cluster**, and furthermore, to potentially **add value to the cargo** that transits the channel and strengthening Panama’s competitiveness.

With an approximate 14,000 vessels transiting the canal annually, Panama has the potential to transform itself into a world-class **maritime service cluster** in the likes of Singapore and Rotterdam. Most of the biggest shipping lines have set up their regional operations in Panama. Furthermore, around 8,650 vessels sail under the **Panamanian flag** representing 16% of the world’s merchant marine fleet. Together with the Canal, Panama’s Flag Registry and the 5 transshipment ports on either side of the canal, this ecosystem attracts a variety of companies that provide auxiliary services from inspection, class, and certifications for the shipping registry and to shipping agencies, towage, ship repair services, chandlery, bunkering, consultancy, port construction, security, and IT services, and maritime, shipping and port equipment, among others.



## Bunkering

Panama is an important **bunkering hub**. The country has 9 terminals that provide the supply, storage and transfer of fuel and currently delivers fuel to 25% of the vessels that dock at Panamanian ports or transit the canal. As an oil and gas importing country, growth in this segment depends on Panama's ability to leverage the vessel waiting times to transit the canal and to expand its logistical service offering. This includes the eventual arrival of cleaner and alternative fuels to the market to meet the IMO carbon emissions targets by 2030. Panama was one of the frontrunners when it came to the supply of VLSFO by introducing the fuel into the market 9-months before the IMO 2020 requirement came into effect.<sup>7</sup> Panama was also the first in the Central American region to build an LNG hub facility, albeit a fossil fuel. Early 2023, Panama's Government presented its **Green Hydrogen Roadmap**. The roadmap includes the development of studies for the design and build of green hydrogen production plants and other green fuels such as green ammonia, e-methanol, and e-kerosene as well as the accompanying storage and distribution infrastructure. One project in the pipeline is the development of an advanced biorefinery facility led by SGP BioEnergy, which plans to refine 180,000 barrels a day of biofuels, including sustainable aviation fuel (SAF), and generate 405,000 metric tons of green hydrogen annually.<sup>8</sup> So far, the project has not taken shape.

## Ship Repair

**Ship repair** is showing signs of becoming a promising sector. In August 2021, the Spanish firm Astican (Astilleros Canarias) was awarded the Balboa Shipyard for a 20-year concession and plans to invest \$USD20mn to modernize the facility. This is the only facility in the region that has three dry docks with the dimensions to service Panamax ships. The operation of the shipyard offers opportunities for Dutch companies providing maritime services such as repair and spare parts. An example is that of AEGIR-Marine, the maritime stern tube seal and propulsion service provider, that inaugurated their office in 2021 to not only offer support to customers transiting the Panama Canal but to their customers in the Latin American region.<sup>9</sup>

## Added-Value Services

Instead of focusing on just transit and transshipment services, Panama plans to **add value to the cargo** by developing logistical solutions to global trade. Currently, Panama is providing basic warehousing, distribution, labelling, picking and packaging services but has yet to identify a strategic market segment to add-value to cargo via light manufacturing or other high-value services. However, that has not yet hampered the Government's progress in creating fiscal, customs, migratory, and labor incentives to encourage the development of specific economic activities across the country and to attract foreign investment to use Panama as a platform for their regional operations, as a regional distribution hub and/or for nearshoring. According to Panama's Ministry of Trade and Commerce, 177 companies have registered under the 2007 SEM law (a special regime for multinational companies to set up regional headquarters). The EMMA law passed in 2020 replicates the successful model of the

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<sup>7</sup> [Classified Central Media Limited \(3dissue.com\)](#)

<sup>8</sup> [Panama to add green hydrogen production to major advanced biorefinery | Reuters](#)

<sup>9</sup> [AEGIR-Marine opens new in office in Panama | Aegirmarine](#)



SEM law but applies for companies that want to produce services in manufacturing, assembly, remanufacturing, logistics, packaging, and repair, among other related activities.

## Overview of Key Stakeholders

Panama's maritime industry is dominated by two key institutions: the Panama Canal Authority (ACP) and Panama's Maritime Authority (AMP). Other key stakeholders are the Logistics Cabinet, Logistics Business Council (COEL) and the Maritime Chamber (CMP).

The **Panama Canal Authority (ACP)** is an autonomous legal entity that oversees the administration, operation, maintenance, conservation and modernization of the canal and related activities. Due to its importance and nature, the ACP enjoys financial autonomy, its own assets, and the right to manage it. A special chapter regarding the Canal is included in Panama's constitution. Any plans for construction, the use of water resources within the Panama Canal watershed, and the utilization, expansion, and development of the ports, or any other work or construction along the banks of the Panama Canal require the approval of the Panama Canal Authority<sup>10</sup>. The ACP Organic Law of June 11, 1997, establishes the rules for its organization and operation. Due to the Canal's importance to the global economy, the canal also has an international Advisory Board of highly distinguished advisers that offers guidance to the ACP's Board of Directors and the Canal administration.

**Panama's Maritime Authority (AMP)** is responsible for the regulation and promotion of the shipping industry in Panama. It administers the country's ship registry and oversees the concessions of privately operated ports and manages the network of cabotage ports. It also grants the licensing of maritime service providers, such as shipping agents and brokers. In total there are 50 seaports: 25 public and 25 private ports that provide a variety of services to containerized, bulk, liquid and general cargo and includes 2 passenger cruise terminals.<sup>11</sup>

The **Logistics Cabinet** established in 2016 is a platform formed by different ministries, the Canal Authority and other logistics related institutions including private sector. It oversees steering the implementation of Panama's **National Logistics Strategy 2030 (PENLOG)**. The office of the Coordination of the Logistics Cabinet sits within the Ministry of the Presidency.

**Logistics Business Council (COEL)** is a union that brings together 24 of the most important associations of the logistics sector including Panama's Maritime Chamber. It was founded by the private sector in 2012-2013 to steer forward a long-term plan to transform Panama into the most competitive transport route in the region. COEL was instrumental to the development of the **National Strategic Logistics Plan (PENLOG)** and the creation of the Logistics Cabinet.

**Panama's Maritime Chamber** has more than 180 members. Members include regional offices of shipping companies, shipping agents, bunkering companies, shipyards, port operators, dredging companies, surveying companies, banks, and insurance companies.

<sup>10</sup> [Microsoft Word - 4564-Title XIV of the Political Constitution.doc \(pancanal.com\)](#)

<sup>11</sup> [All Seaports in Panama | Panama Logistics Portal \(gatech.pa\)](#)





## Opportunities

### Digitalization

As highlighted in the **Maritime and Logistics Report: Investment Opportunities in the Panamanian Maritime and Logistics Sector 2020**,<sup>12</sup> Panama seeks to strengthen its position as the *Hub of the Americas* by consolidating the clustering of sectors into the *five sub-hub* strategy: aviation, business and financial services, value-added manufacturing, digital and talent. There has been progress in the development of these hubs.

Currently, eight international fiberoptic cables, including, the Google-owned Curie passes through Panama. These cables handle 100% of regional internet traffic, 97% of regional voice traffic and 90% of data transmission, making it the ideal location for tech firms. Furthermore, the Government announced in early 2023, the creation of two new free trade zones, Tech Valley Free Zone, and Panama Digital Gateway, the last involving a joint partnership with TIM Sparkle. **Digitalization** in the maritime logistics industry is progressing as well. Many former paper procedures have been digitized such as those related to customs and the ship registry. Panama's "maritime single window", known as VUMPA (Ventanilla Unica Maritima de Panamá), implemented in 2017, has been further improved to streamline and shorten procedures regarding the reception, stay and dispatch of international trade vessels. A more recent development is PORTCEL (Portal Tecnológico de Comercio Exterior y Logística), a digital platform that integrates all state institutions related to the control of imports and exports to simplify, make paperless and improve traceability in port and shipping procedures<sup>13</sup>.

The **Panama Canal Authority** is also investing USD\$500mn over the next 10 years in digital transformation including advanced data analytics capabilities. The **Integrated Operations Control Center project** (CICO; Spanish acronym) is currently underway and aims to digitally transform and optimize all the operational processes from planning, to operations, monitoring and control and post-service activities related to vessel transits and harbor movements between the port terminals and the Canal. One of the key challenges is how to streamline each operational process to foster scalability and efficiency.

Elements to be implemented are big data in logistics, autonomous equipment and digital tools like a port community system and port call system, among others. Yet, a study on **Digitalization in ports in the Latin American Region 2020**.<sup>14</sup> commissioned by the **Netherlands Enterprise Agency (RVO)** rightly points out that digitalization is not so much a goal in itself, but rather simply a means to ensure efficient and sustainable port operations, attracting more cargo to drive economic growth and to lower emissions with just-in-time arrivals of vessels. There is a lot of potential for improvement in this regard, not only in Panama, but in Latin America in general. It is important to highlight that Panama is not known as an innovative and early adopter. They invest mostly in proven technology and only if necessary. Everything on digitalization, process optimization and the adoption of new technologies offers ample opportunity for the Netherlands to be a part of the process including training and education.

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<sup>12</sup> <https://www.rvo.nl/sites/default/files/2020/03/Maritime-and-logistics-Report-Panama-2020.pdf>

<sup>13</sup> [Portcel](#)

<sup>14</sup> [STUDY DIGITALIZATION IN PORTS IN THE LATIN AMERICAN REGION \(rvo.nl\)](#)



## Port Development

Port development is still a promising subsector; however, Panama needs to continue to attract and add-value to cargo to ensure sustainable growth in the sector. Experts in the logistics business are experiencing a growing interest from companies in the US and Asia to set up warehousing and distribution centers in Panama. MIT, PPC Port of Balboa and CCT have expanded their business offers with **warehousing and value-added services** to the cargo that is destined to other markets in the region. PSA is looking to do the same. As the gateway to Europe, Dutch companies can offer ample expertise and technology to this growing market. They are also preparing their ports for the imminent green transition. This opens opportunities for Dutch solutions for carbon-neutral, sustainable green ports.

To capitalize its favorable geographic location, Panama could also better **link its local market to international trade**. **Port Baru** is a **new private, multi-purpose feeder port in development** in Chiriquí Province, the country's agricultural heartland, with the expected capacity to handle fertilizers, break bulk, reefers, ro-ro, and general container cargo. A private marina and mini cruise terminal are part of the project plans. The project area consists of 105 hectares to be developed with warehouses and a logistics park. The project developers are currently in the process of getting the necessary environmental permits to begin construction. Operations are expected to begin in 2025. Future plans include the development of an agropark near the vicinity of the port. Port Baru also opens opportunity for Dutch technology and expertise in agritech and agrolistics.

A **new container port** on the Atlantic end of the Panama Canal is in the pipeline. MSC-TIL in partnership with private investment firm Notarc Management Group (NMG) replaces the former Chinese concession of the **Panama Colon Container Port (PCCP)** located on Isla Margarita, Colon for a concession up to 2042. The new group is expected to invest USD\$1.4bn and resume construction early 2024. This new transshipment facility is expected to handle 2.5mn TEU with the capacity to grow 5mn TEU.

Both Port Baru and PCCP opens opportunities for Dutch companies to supply consultancy engineering services, port equipment and dredging services in addition to innovative solution in port optimization and efficiency. When dealing with the privately-operated transshipment ports, including the upcoming PCCP port, it is important to bear in mind that key investment decisions are decided at headquarters abroad. The ports also hire mainly local labor which are backed by a strong union. Introducing innovation in automation and digital technologies to the ports are challenging as the labor unions fear a displacement of workers.

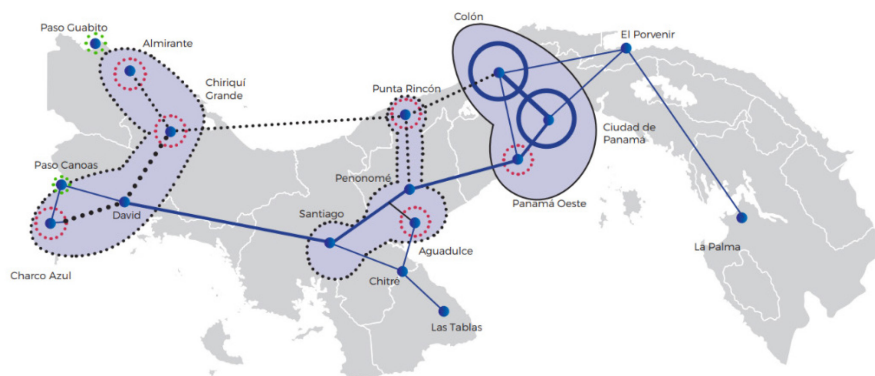
## Hinterland Connectivity

Whilst Panama's interoceanic connectivity is highly developed with the Atlantic and Pacific port clusters connected via the Canal, road and railroad, the connectivity via road to either its western border to Costa Rica or its eastern neighbor, Colombia, is lacking. There is only one highway, the Pan-American Highway, that links the nations of North, Central, and South America along the Pacific coast. This 30,000 km road breaks at the Darién Gap. Mountains, swamps, and dense jungle make the landscape too hostile for infrastructure and has served as a natural barrier to connect the Panamanian and Colombian markets via land. In July 2022, a nationwide strike set up multiple roadblocks across

the Pan-American highway blocking the transit of people and goods. After 2 weeks, villages and cities across the country began experiencing shortages of fuel, food and medical supplies underscoring its vulnerability.

A plan to improve Panama's hinterland connectivity is in place. The **Panama Maritime Authority's (AMP) Strategic Maritime Port Development Plan Vision 2040** includes approximately 26 port development projects in the pipeline worth an approximate USD\$2,980mn.<sup>15</sup> to improve Panama's domestic logistics capacity. The vision includes plans to improve existing infrastructures, to expand and optimize maritime auxiliary services and to build new multipurpose ports and cabotage ports to improve accessibility and logistical connectivity of local economies and to drive the export of local production, especially agricultural goods. Not only does this provide opportunities for Dutch companies to share know-how and technology regarding the development of sustainable ports but also opens the door for greater logistical services such as cold chain, food processing, warehousing, and solutions around *synchromodality*. According to a study on synchromodal logistics, while its main purpose is to reduce costs, emissions, and delivery times through the synchronization of the different modes of transport, it also aims to reduce transportation by trucks in favor of railroads, ships, and barges.<sup>16</sup> In the map below, the areas with the dotted lines are to be developed whilst the solid blue areas reflect existing infrastructure including the canal, the transshipment ports, and the Pan-American Highway.

Figure 5: Overview of Panama's Plan Vision 2040



Another strategy worth highlighting is the **National Logistics Strategy 2030 (PENLOG)**, a roadmap that involves the participation of both public and private sector for Panama's continued development in the logistics sector by developing local economies across the isthmus and integrating them to Panama's highly developed interoceanic region. The strategy was originally financed by the Inter-American Development Bank (IDB) and includes further integration of the country's logistics infrastructure including free trade zones and logistics parks, digitalization, and a plan to modernize its customs authority. The **Logistics Cabinet** established in 2016 is a platform formed by different ministries, the Canal Authority and other logistics related institutions including private sector and is in charge of steering the implementation of this plan. Currently, the project is being financed by the **Latin**

<sup>15</sup> [PEDMP2040\\_PLAN-ESTRATEGICO\\_compressed.pdf \(hub.com.pa\)](#)

<sup>16</sup> [Synchromodal logistics: An overview of critical success factors, enabling technologies, and open research issues - ScienceDirect](#)



**American Development Bank (CAF).** Their first line of action was to reorganize 124 lines of actions to 15 priority actions around 4 clusters: maritime service cluster, transshipment cluster, value-added logistics and the consolidation of Panama's import market for the development of cross-country e-commerce trade which takes into consideration Panama's role as a regional distribution center.

## Climate Adaptation

A challenge that Panama faces is that of **climate change**. The **Panama Canal Authority (ACP)** plans to invest USD\$32bn over the next 10 years to reach carbon neutrality by 2030. The investment includes plans for generating renewable energy, minimizing the carbon footprint of its installations, to efficiently manage its water resources, and migrating the Canal's fleet to electric vehicles and incorporating hybrid tugboats.

Operations of the Panama Canal depend on a sufficient supply of fresh water from Gatun Lake to allow the passage of vessels that require a 50ft draft. The lake is part of a larger watershed that also is the main source of fresh water for roughly 2 million people, half of the country's total population. The water supply has been impacted by shifting rainfall patterns due to climate change and the enormous volumes of fresh water that is lost to the sea due to the operation of the locks. It is estimated that around 37 ships go through the locks every day using more than 9bn liters of fresh water for their passage. The **Water Management Tender** worth an estimated USD\$2bn was originally launched in September 2020 but was put on hold in June 2021 to reformulate the tender model after receiving feedback from the interested parties that participated in the prequalification process. The project is now in the hands of the US Army Corps of Engineers (USACE) to assist the Panama Canal in producing a portfolio of projects considering sustainable development, climate scenarios and growth projections. It is estimated that the portfolio of projects will be put out to tender before January 2024. It is expected that the package of proposals will include elements such as the creation of new reservoirs, construction of new water treatment plants and incorporation of new sources of natural freshwater from river basins near the Panama Canal basin<sup>17</sup>. One of the key pillars of the Panamanian economy, the Canal's profitability is at risk without a proper water management solution to sustain its current and future operations.

## Challenges

According to some industry experts, Panama has been slow to capitalize on the economic opportunities offered by the expansion of the Panama Canal in 2016. A change in government in 2019 and public policy priorities, the Covid-19 pandemic, along with other internal and external factors, has unquestionably contributed to Panama's progress in this sector. Below are the challenges that are most relevant for Dutch companies doing business in Panama or who are planning to do so.

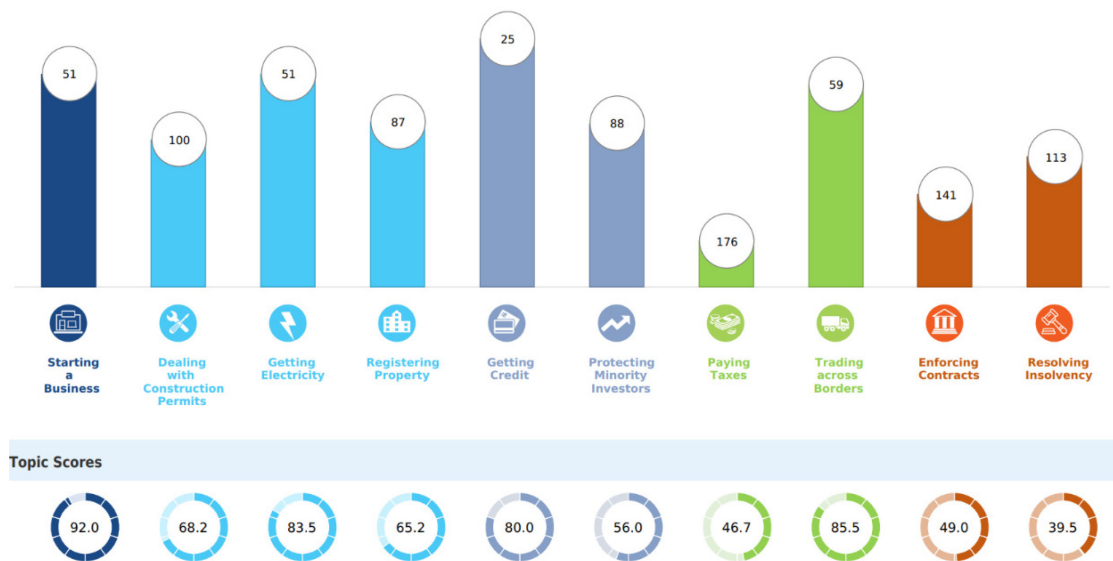
Panama is well-known for its **open economy** and **ease of doing business** compared to other countries in the region. Dutch companies are well represented in Panama with Philips, Van Oord, Boskalis, and

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<sup>17</sup> [Panama Canal Rescopes \\$2B Water Supply Scheme to Cut Contractor Risk | 2022-03-02 | Engineering News-Record \(enr.com\)](https://www.enr.com/news/panama-canal-rescopes-2-billion-water-supply-scheme-to-cut-contractor-risk-2022-03-02)

most recently Aegir Marine and Damen using Panama as a base for their regional operations. According to the 2020 Doing Business report of the World Bank, Panama ranks 86 out of 190 countries in *ease of doing business*, with high scores in *starting a business*, *getting electricity*, *getting credit* and *trading across borders* and with low scores in *paying taxes*, *enforcing contracts*, and *resolving insolvency*<sup>18</sup>.

Figure 6: Panama's Ease of Doing Business report card, 2020



Despite consistent positive economic performance in terms of growth over the past decades, Panama remains a highly **unequal society**. Its poor levels of tax collection and inefficient redistribution of wealth leave many basic needs unmet such as access to quality drinking water, waste management, healthcare, and education. Nearly half of the working population make up the informal sector according to data from the National Institute of Statistics and Census (INEC) which indicate that in 2022 informal jobs represented 48.2% of the 1.8 million people who work<sup>19</sup>. Even though official statistics report that unemployment levels dropped from 18.9% in 2020 to 9.9% in 2022, these statistics do not take into consideration the large informal sector mentioned above. Some experts estimate that the real unemployment level is as high as 19%<sup>20</sup>. The challenge is to increase productivity through the creation of formal employment across the economy which in turn will contribute to more tax collection and greater contributions to social benefits such as retirement pensions, public education, and healthcare. However, both local and foreign companies find it **challenging to obtain a skilled labor force** that matches their business needs. Panama performed poorly ranking 71 out of 77 countries assessed in the latest OECD's education assessment known as PISA. Powerful unions, weak teaching standards, a significant split between public and private schooling and a resistance to allow the immigration of high skilled labor to make up the small labor

<sup>18</sup> Note: WB temporarily suspended the issuing of the Doing Business Report

<sup>19</sup> [FMI mide el pulso de la economía panameña \(laestrella.com.pa\)](https://www.fmi.mec.gob.pa/la-estrella-com-pa/)

<sup>20</sup> [El desempleo real en Panamá | La Prensa Panamá](https://www.laprensa.com.pa/)



pool are difficult to challenges to overcome. Honing in to the ports and maritime sector, both local and foreign companies face the recycling or cannibalization of the labor force, as the pool for qualified skilled labor is so small, that rather than creating new employment, new companies take employees from others.

One of the main bottlenecks to further developing the maritime and logistics sector is **weak institutions**. As previously mentioned, Panama's Maritime Authority (AMP) is responsible for port development. **However, the institution is politically driven and does not have the capacity for long-term planning and implementation.** This also affects one of Panama's sources of prestige. Panama has held the title of representing the largest **flag registry** in the world since 1993. Currently around 8,650 vessels (245 million gross weight tonnage) sail under its flag and represents 16% of the world's merchant marine fleet. It is well known within the industry that Panama will lose its leadership to its closest competitors within the next two years if the AMP does not modernize its business model. The AMP has currently setup a working-group to present modifications to the current law 57 of 6 August 2008 to improve Panama's competitiveness by introducing new technologies and procedures to simplify Panama's vessel registration process without sacrificing the rule of law.<sup>21</sup> As the proud custodian of the world's largest ship registry, Panama is often criticized for being a flag of convenience due to its deficient service levels when it comes to inspection and safety. This is in part related to the **inefficient practice of renewing the staff of public institutions every five years when a new government is elected to office.** APADEMAR, the professional association for maritime lawyers in Panama, are calling for structural changes by partially or fully privatizing the AMP to rid the institution of the inefficiencies caused by bureaucracy and to equip the institution with the flexibility and resources that it needs to maintain its position. A downgrading of Panama's flag will damper Panama's reputation and business case as a logistics and maritime services hub.

Panama's **national budget** approved for 2023 is \$USD27.5 billion, an 8% increase from 2022<sup>22</sup> with \$USD9.7 billion (33%) destined for investments and the remaining for operations. The bulk of the operational budget is for payroll and debt payment. With less budget for investment, this opens the opportunity to promote the framework of **public-private partnerships** which was recently passed in 2019. The framework is still in its infant stages and requires training and capacity building across private and public sector and requires a few successful model projects to build confidence in the framework. Currently, the projects in the pipeline are destined to road infrastructure. It is important to highlight that Panama is entering a lame duck year as many politicians have geared their priorities towards the next general election cycle which will be held in May 2024.

There has been a growing trend of **protectionism**, first and foremost in the agricultural sector, but in the maritime sector, as well. Most concerning of these measures is the Cabotage Law which was sanctioned and signed into law in December 2021. This law made it a requirement for companies offering maritime services, more specifically, vessel-to-vessel services, to have 75% Panamanian ownership. Cabotage services exempted from the 75% Panamanian ownership requirement are: dredging, tugboats, cruise ships, yachts, and mega yachts. The ownership requirement, strongly promoted by ARPA, a local ship owners' organization, will need to be thoroughly considered before doing business in Panama when it comes to vessel-to-vessel services. Even though the law is now in effect, the regulatory framework is still pending.

<sup>21</sup> [Apademar recomienda más tecnología para el registro de naves | La Prensa Panamá](#)

<sup>22</sup> [Presupuesto General del Estado 2023: ¿Qué sectores se benefician de la modificación? \(telemetro.com\)](#)



Additionally, it is important to consider challenges related to **lack of transparency, weak rule of law and lack of good governance**. Mega infrastructure projects that were awarded through competitive public tendering processes in the past government (2014-2019), such as the construction of the **third line of the metro together with the 4<sup>th</sup> bridge of the Panama Canal**, two interconnected projects that were meant to facilitate the connectivity between Panama City and the hinterland, were canceled once the current government took over. The original tender for the third line of the metro was awarded to the South Korean consortium HPH Joint Venture in November 2019 and was designed to transit across the 4<sup>th</sup> bridge of the Canal. The contract was then canceled by the current government in power and was subsequently awarded to the consortium *Tunel de las Americas* made up of Spanish firm Tyspa and US Louis Berger for the design and build of an underground metro line. After not fulfilling with the requirement to present a professional design liability insurance, the government then re-awarded the tender back to the South Korean consortium, but this time for the design and build of an underground metro line.

Another example directly related to the industry and concerning **uncompetitive practices** is the automatic renewal of the PPC ports of Balboa and Cristobal under the concession of Hutchinson Ports Holdings for another 25 years. The process to verify whether contractual conditions were met for the automatic renewal to be granted was done by government authorities, with no external auditors and the results were not shared with the public. Experts fear that Panama lost an opportunity to negotiate better contractual conditions and to push forward for the development of added-value services along the banks of the Panama Canal. PPC is known to have blocked the **Panama Canal's ambition to develop the Port of Corozal**, another transshipment container port that was first tendered in 2016 and would have served demand from the expanded Panama Canal. It is important to note that in February 2020, despite no further progress in the development of the Port of Corozal, Panama's Supreme Court recognized the Panama Canal's constitutional right to maximize the value of the channel allowing the institution to proceed with its port development plans.

A more recent concern is the ongoing legal dispute for the renegotiation of a mining contract between the Panamanian Government and the Canadian mining company, First Quantum Minerals, which operates the *Cobre Panamá* copper mine and represents the largest private sector investment in Panama's history. Since it began operations in 2019, mining has now become one of the backbones of Panama's economy and has largely contributed to the economy's reactivation from the pandemic (3.5% of GDP in 2021). Early February 2023, Panama's Maritime Authority suspended loading operations at the Punta Rincón port blocking exports from the copper mine. Conditions around taxes and royalties are at the heart of the stalemate. As of mid-March, the two parties have come to an agreement and port operations resumed but it is yet unclear under what terms.

## Conclusion

Panama's aspiration to become the most competitive maritime and logistics hub in the region combined with its positive economic performance, stable democracy and dollarized economy continues to create business opportunities for Dutch companies. Digitalization, new port development, climate change and greater connectivity of the local market with the international market opens opportunities for Dutch solutions and technologies from port equipment and dredging services to marine ICT technologies for sustainable, green, and efficient operations. Challenges involve obtaining a skilled labor force, weak institutions, and growing protectionism.



## Annexes

### Stakeholders

<b>Key Stakeholders</b>
Panama Canal Authority (ACP)
Panama Maritime Authority (AMP)
<b>Logistics Cabinet</b>
Ministry of the Presidency
Ministry of Commerce and Trade (MICI)
Ministry of Foreign Affairs (MIRE)
Ministry of Public Works (MOP)
Ministry of Economy and Finance (MEF)
Ministry of Housing and Land Ordinance (MIVIOT)
Panama Canal Authority (ACP)
Panama Maritime Authority (AMP)
Civil Aviation Authority
Customs Authority
Transit and Land Transport Authority (ATT)
National Secretariat of Science and Technology (SENACYT)
Secretariat of the Metro
Colon Free Zone (CFZ)
Tocumen S.A. (public-private entity that manages the international airport)
<b>Other relevant government bodies</b>
Ministry of the Environment (MiAmbiente)
Tourism Authority (ATP)
National Secretariat of Energy (SNG)
Aquatic Resources Authority (ARAP)

### Doing Business in Panama- Top Tips!

- ✓ Panama is a dollarized economy
- ✓ Learn the language
- ✓ Invest in building long-term, face to face relations with your key stakeholders
- ✓ Find a local partner
- ✓ Do your Due Diligence





For a soft landing, email Holland House Panama at [info@hollandhousepanama.com](mailto:info@hollandhousepanama.com)

### Suggested Further Reading

- ✓ [Seatrade Maritime Panama Maritime Review 2022/2023](#)
- ✓ [Digitalization in Ports in Latin America 2020](#)
- ✓ [Maritime & Logistics Report Panama 2020](#)

### Contact Details

For more information and questions on opportunities or developments in the maritime and logistics sector in Panama or the contents of this report, contact the Embassy of the Kingdom of the Netherlands in Panama by email: [pan-ea@minbuza.nl](mailto:pan-ea@minbuza.nl)