

PN-ABT-247  
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**The  
MID-AMERICA COMMITTEE**  
for international business and government cooperation, inc.

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EXPANDING PANAMA EXPORTS AND JOINT VENTURE POSSIBILITIES

BPE-0809-R-GI-3019: Project #628

F I N A L   R E P O R T

For

Bureau For Private Enterprise  
Agency For International Development  
Washington, D.C. 20523

20 February 1984



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FOREWORD:

The Mid-America Committee, carrying out a project for the Bureau For Private Enterprise, Agency For International Development, sent a team of consultants to the Republic of Panama during the period 29 January to 10 February 1984.

During the visit, the team met with U.S. and Panamanian officials and representatives of private firms and business organizations. Based on these interviews and on previous experience and contacts in the Midwestern business community, the team formulated findings and recommendations designed to aid Panama in seeking expanded exports and increased investment -- joint venture and other -- from the U.S.

The attached report sums up the team's work and presents our assessment of the present situation and the programs we believe would materially advance Panama's export and investment resources.

We acknowledge with thanks the courtesy and helpfulness of U.S. Government staff both in Washington and Panama; they materially smoothed our path and made it possible to gather the most information in the least time.

The Mid-America Committee stands ready to formulate, develop, or implement whatever programs may be decided upon as a result of this investigation.

Thomas H. Miner  
President

## TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
Chapter 1 IDENTIFYING POTENTIAL OPPORTUNITIES	6
1.1 IMMEDIATE HIGH POTENTIAL	6
1.1.1 FISHERIES--SHRIMP AND RED SNAPPER	6
1.1.2 TROPICAL JUICES INCLUDING CITRUS	8
1.1.3 JAMS AND JELLIES	9
1.1.4 LEATHER AND LEATHER GOODS	10
1.1.5 LIVE POTTED PLANTS	10
1.1.6 BISCUITS	11
1.1.7 HARDWOOD FURNITURE INCLUDING HARDWOOD DOORS	12
1.1.8 ETHANOL	13
1.1.9 TELEPHONE ASSEMBLY	14
1.2 PROJECTS WITH LONGER-TERM POTENTIAL	15
1.2.1 BANANA BY-PRODUCTS	15
1.2.2 CASHEWS	16
1.3 OTHER INDUSTRIES EXAMINED	17
1.3.1 TEXTILES	17
1.3.2 BEEF	17
1.3.3 MILK	18
1.4 EXPORT-RELATED SERVICES AND PROJECTS	18
Chapter 2 FINDINGS AND CONCLUSIONS	20
2.1 KEY CONSTRAINTS TO TRADE	20
2.1.1 Marketing	20
2.2 Low Production	21
2.3 Lack of Marketing Infrastructure for Export	21
2.4 Governmental Support	22
2.5 Lack of Awareness That Panama as a National Entity Can Offer Products to the World	22
2.6 MARKET OPPORTUNITY STRATEGIES	23
2.6.1 Trade Events	23
2.6.2 Appointing the Best Distributor	24

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APPENDIX: List of Persons Interviewed in Panama

# EXPANDING PANAMA'S EXPORTS AND U.S. JOINT VENTURE INVESTMENTS

## Executive Summary

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### INTRODUCTION

Due to Panama's unique geographic location, its economy is strongly impacted by the level of foreign commerce. Business activity has slowed as a result of the worldwide recession. Panama is also in a strategic position relative to the Caribbean Basin Initiative geographically and based on having strong private enterprise.

This short-term project was developed to help facilitate renewed growth of the private sector of the Panamanian economy, particularly on a business-to-business basis. One task was to identify products which offer potential for export to the U.S. through Midwest businesses. Another parallel task was to identify projects which offer potential for production and/or processing in Panama. One avenue for this is joint ventures between U.S. and Panamanian businesses.

A third task was to identify the constraints to expanded trade with the U.S.; the alternatives for overcoming these constraints; and areas in which potential exporters may require assistance, such as critical information and services which might be provided to enhance trade and joint venture opportunities.

### ADVANTAGES ON WHICH TO BUILD

Panama, as a result of its leadership relationships with other countries, its resource base, and its geographic position, has important advantages on which to build business and exports:

The Caribbean Basin Initiative;

A dollar economy tied to U.S. inflation;

A labor force that is educated and trainable;

Dual language capabilities;

Business infrastructure and services in place;

Good transport -- water, roads, air;

A 20% tax writeoff on exports (CAT);

Ease of entry and repatriation of profits;

A social and governmental situation that is relatively stable for Latin America

Full or controlling ownership of business by foreigners permitted.

#### KEY CONSTRAINTS

As is always the case, there are problems and constraints that thwart and deter business growth:

U.S. regulatory requirements;

Market needs abroad, e.g. quality control, volume, standardization, reliability of supply, packaging and labelling;

Size of Panamanian producers (low volume);

Historical orientation to only serving the domestic market;

Lack of commercial contacts abroad, lack of know-how;

Lack of coordinated "one-stop" export services;

Exporting costs -- port and shipping;

Panamanian Labor Code;

Panamanian Government selective price controls;

Insufficient promotion of Panama in the U.S.

#### PROJECTS WITH IMMEDIATE HIGH POTENTIAL

Shrimp -- ocean, aquaculture;

Fish -- corvina, red snapper;

Fruit juice concentrates from tropical fruits;

Jams and jellies from tropical fruits;

Leather -- tanned hides for auto seats, upholstery, etc.

Live tropical plants and locally made pots;

Biscuits (cookies)

Furniture or hardwood for furniture, doors;

Ethanol;

Telephone Assembly

PROJECTS WITH LONGER TERM POTENTIAL

Banana By-Products;

Cashews.

OTHER PROJECTS CONSIDERED UNCERTAIN

Textiles -- possibility of quotas;

Beef -- question of meeting U.S. regulations and standards;

Cocconut oil, shark products.

STRATEGY FOR EXPORT AND INVESTMENT EXPANSION WITH MIDWEST BUSINESSES

The following are suggested strategies which could be used to specifically meet the particular needs of Midwest U.S. businesses:

Promotion of Panama in the Midwest: e.g. teleconference;

Identification of additional Midwestern importers and investment partners;

Identification and development of specifications -- quantities, quality, packaging, etc. -- for import products;

Market surveys in the Midwest, market research and forecasts of appropriate market niches, target markets, competitive costs and prices;

-Working with Panamanian agencies and businesses to identify ways to meet Midwestern demands for products/services;

Development of export trade missions;

Participation in trade shows held in the Midwest;

Development of reverse investment missions -- Mid-America to Panama;

Organization and conduct of training programs:

Second-level Panamanian management

Export paperwork; legal, tax, tariff restrictions

Export sales, distribution, grading, storage, shipping;

Creation of Panamanian export trading company.

#### POTENTIAL OPPORTUNITIES

A great number of potential business and trade opportunities were brought to our attention by governmental and business leaders. We found it very difficult, however, to discover entirely new exports. Nearly all export possibilities have been exploited at various times, to various degrees and with highly variable levels of success. It is our best business judgment, nevertheless, that there are realistic, short-term business opportunities to pair up appropriate companies from the U.S. with the appropriate partner in Panama for export expansion and joint venture investments.

It does not appear feasible for most Panamanian businesses to compete head on, on a volume basis, with large U.S. firms strongly entrenched in the market. An illustrative case would be Pascual Cookie Company attempting to compete with Nabisco in the entire U.S. market.

It does, however, appear to be feasible to discover "market niches" of many types that can be profitably served by Panamanian private enterprise -- both the medium sized and smaller enterprises as well as the largest Panamanian companies. The selection of these market niches must be based on the particular advantages of Panama at this time, such as the CBI and other business advantages outlined earlier.

The market niches may be ethnic-based, e.g. products for the Spanish-speaking population; product-based, e.g. tropical fruits; or market-based, e.g. looking to capture a small percentage of the U.S. market for shrimp, red snapper, etc. A small share in the market for a product can often be secured without disturbing the overall structure or competitive positions in the marketplace.

In cases where the production is fragmented among many small producers it may be necessary to develop a cooperative or some other type of business organization that performs the function of product accumulation. This organization will need to standardize

product quality and packaging as well as assemble adequate quantities to meet market demand. The agricultural section of USAID is initiating a program to develop additional cooperatives in Panama. The coordination of that program with the opportunities and needs developed in this project should result in greater benefits from both projects.

One alternative is for these cooperatives to go further and be "export cooperatives," performing all or many of the functions of traditional trading companies.

## Chapter 1

### IDENTIFYING POTENTIAL OPPORTUNITIES

We have identified potential business and trade opportunities in two major categories -- those with immediate high potential and those with a longer term potential. While the great majority of products are in the agro-industrial field, this should not be taken to mean that the group's analysis did not encompass manufactured products or products of a similar nature for re-export. We found that the various free manufacturing zones in Latin America, including the Mexican border industrialization program, have become highly competitive and that demand is limited for their assembled products.

Finally, an admittedly cursory analysis would indicate that the comparative advantages of the agri-business sector within Panama with its lower rural labor costs appear to outweigh those of the electro and mechanical trades found in the urban areas, including the free zone, with their higher labor costs compared with other areas.

#### 1.1 IMMEDIATE HIGH POTENTIAL

##### 1.1.1 FISHERIES--SHRIMP AND RED SNAPPER

Fisheries, including shrimp products, now comprise one of the top four major exports from Panama and the rate of exportation is increasing notably; moreover the demand for shrimp and fishery products, particularly for varieties known in the United States, is increasing rapidly. Red snapper for example is now a fairly common variety consumed throughout lower moderate to moderate income group categories. Such companies as the John Sexton Company and La Preferida would be interested in this food product if competitive prices were offered, deliveries were

prompt, and packaging were modified, when necessary, to suit possible individual distributor needs.

The shrimp industry of Panama is composed of three components : a river or sweet water production which is now only in the experimental stage, a brackish water production undertaken now on a moderate scale by the Ralston Purina Company, and ocean fishing, both deep sea and coastal, undertaken by firms who operate either with fishing fleets of their own or who work with individual captains. While the bulk of Panama's exports come from ocean fishing, the brackish water production is increasing and now accounts for approximately twenty per cent of overall exports.

Our visits to the sites of both the brackish water production and the coastal fishers and packers revealed open opportunities for both immediate contract sales and for joint venture opportunities. The marketing manager of Ralston Purina, Mr. Luis Arguedas, can offer commercial volumes of one to two container loads of shrimp a month in the range of thirty-six to fifty shrimp per pound. He is willing to take offers immediately.

In addition, one of the largest of the coastal shrimpers, Processadora Baccamonte, which operates twenty-two shrimp vessels itself, will, when the fisheries season reopens in April, be willing to answer price offers from interested importers from the Midwest and will be able to ship up to 120,000 pounds a month in fifty pound boxes. The managing director of that company, Mr. George Limberopolous, also expressed interest in opening conversations on possible joint ventures for business expansion. At the moment, the company is limited in its ability to offer a wide variety of shrimp sorted by size. The most popular U.S. size falls in the category of thirty to forty-five shrimp per pound.

The strategy that we recommend these exporters follow, in terms of initiating contacts with a Midwest industry, would be to write directly to those large and interested importers who sell directly to the very large food chains and to institutions such as the Chicago Importing Company, La Preferida, and John Sexton Company offering the minimum CIF price deliverable to Chicago, a sample box or two illustrating the product, the packaging, and the label.

One of the leading shrimp exporters we visited in the southern part of Panama is also active in exporting chilled red snapper to Florida. He is vitally interested in entering the Mid-America marketing area. Red snapper would be a relatively simple new addition to market in this region because it is well known to the American palate, is relatively inexpensive, and requires relatively little special handling.

The firm, Mariscos de Azuero S.A., Puerto Elagallito, Chitre, Panama, is run by Mr. Andy Scoop, and catches snapper mostly off the Panamanian coast. The fish are immediately washed in cold water and chilled aboard the firm's vessel. On landing they are sent to a nearby processing plant for cleaning, etc., and are then packed in styrofoam cases of about 80 pounds (70 pounds fish, 10 pounds ice) and airfreighted to Miami. C&F prices the week of February 8, 1984, were \$1.55 per pound. Fish weight varies from one to eight pounds per fish, depending on requirements. Payment is by Interbank draft in dollars.

The firm is shipping about 10,000 pounds weekly, and Mr. Scoop said he could supply the Mid-America market with a similar volume. He is also actively seeking a U.S. joint venture partner to make an initial modest investment of about \$40,000 for an ice-flakes plant and, later, added capital for two red snapper fishing vessels.

#### 1.1.2 TROPICAL JUICES INCLUDING CITRUS

Exports of these products from Panama are not sizable at this time. We believe there is potential, however, because of current demand. Importers and food distributors in the Midwest have told us that they are always looking for new sources of tropical fruits and fruit juices, including such exotic items as passion fruit (maracuya), soursop (guanabana), papaya, guayaba, and mango among others.

The leader in production and experimentation with tropical fruit juices is Citruses of Chiriqui. During our visit to that company in the western part of Panama it was clear that the company has the capacity to expand production into a variety of new lines, including the aseptic juice market which will allow storage for a period of six months without refrigeration. While the company is currently government-owned, there is a strong desire by management there, and we understand by the government ministries concerned, to turn over much of the ownership to a private foreign concern. In other words, there is a willingness to negotiate. The company management informed us that it hopes to enter the U.S. market for the first time with passion fruit concentrate, shipping up to 100 tons annually sometime after six months from now.

For the time being, the key constraint for expanding sales to the U. S. market in concentrated fruit juices, including citrus, is the overwhelmingly large volume required to meet the U.S. market. Therefore we urged the producers to seek out regional market niches, particularly in varieties of fruit juices

within the Midwest in selected markets. As in the case of shrimp and other foodstuffs, the beginnings of a correspondence with several leading food distributors, mentioned above, was encouraged. We stressed the importance of meeting local packaging requirements (e.g. 2-lb. cans, 1-lb cans, 5-lb. cartons, etc.) labelling requirements (labels of course should be in English and the ingredients must be specified in order of importance as per U.S. food and drug regulations).

### 1.1.3 JAMS AND JELLIES

The 475 million dollar retail premium jam industry in the United States is bursting with new domestic companies, new imports, and expanded lines studded with new flavors, previously considered too exotic for the humdrum American palate. The reason is the widespread upscaling of specialty foods within the American supermarket. This trend, which began in California and jumped to the East Coast, is now affecting the middle of the country; it means many supermarkets now stock a few lines of quality preserves, some of which were once only staples of gourmet stores. Competition of the supermarkets has also spurred the specialty stores in the Midwest and the department store gourmet shops to add a tremendous number of new flavors and lines to their stock. As a result, we envisage that if properly packaged and merchandised, jams and jellies from Panama can offer the American consumer a new and exotic source of culinary satisfaction.

We visited one of the two major producers in the country in the western provinces, the Cia. de Tedman, which preserves and bottles a wide variety of jams derived from the fruits listed in the previous section, soursop, passion fruit, pineapple, papaya, etc. The company intends to build up its production of passion fruit, which appears to offer by far the greatest immediate potential for exports, to about 240 tons a year and of guanabana, or soursop, to about 400 tons a year. The packaging of these preserves is well done. Both bottled and frozen plastic packaged preservation is undertaken. While volumes are small, with proper encouragement from a major distributor to enable the company to enter a market niche, we believe this company offers potential. The company does need assistance in proper labelling. The current English labels are for a small market being developed in Florida. We suggested the company consider packaging for the gift and premium market a variety of its jams in smaller bottles in an indigenous basket, and we urged them to send a few samples to be shown to potential local distributors.

One key constraint that may affect this industry is the fact that the domestic price of sugar is kept high under price

control. As a result, the price of the jams, for which sugar is obviously an essential ingredient, may be somewhat high compared with sources in the Caribbean and other parts of Central America. Nonetheless, this is the type of market where quality, labelling, and presentation can offset advantageous price differentials.

The owner of the plant was highly receptive to possibilities for joint venture, and would welcome offers to begin discussions on capital participation, technical assistance, and marketing assistance.

#### 1.1.4 LEATHER AND LEATHER GOODS

Leather goods are for the moment a minority export from Panama and some of these goods are not exempted from tariffs under both the General System of Preferences and the Caribbean Basin Initiative. Among the items included in the higher tariff are leather gloves, leather shoes, and leather garments. Tanned hides and other leather goods are exempt from the tariffs. We believe a demand exists for leather for upholstery, particularly for certain niches in the automotive upholstery industry in the Midwest.

As part of our effort to evaluate constraints on production and export, we visited a plant in the southern part of the country, the Centro Industrial de Herrera, of Chitre. The company is now producing fine quality leather for export to Italy for shoe manufacture. It exports split leather hides which are not subject to the duty and are exempted under the Caribbean Basin Initiative and the GSP and this should offer some incentives and price advantages in the U.S. market. The quality of leather is good.

One of the constraints on volume production at this point is the fact that the leather is subject to some marring caused by an indigenous insect. Selection of quality hides therefore is a necessity and quality control must be established by any intending importer. Additional hides are said to be available from neighboring slaughterhouses and the company is interested in expanding production and monitoring quality to meet export requirements.

#### 1.1.5 LIVE POTTED PLANTS

There is now a \$22 million U.S. market for imports of live

potted plants and it is growing rapidly. The majority come from Central America, from Costa Rica, Guatemala and Honduras. Most plants are sold directly to hothouses and to importers in Florida, Texas and California who in their turn sell to institutional consumers or retailers. The greatest final consumer of the product is the large percentage of the population that grows or uses these plants as gifts. There are no ethnic, racial or color limitations. Supermarkets have now become a major mode of sales of this product.

The product is traditionally imported through personal contact by representatives of growers in Central America who meet directly with interested distributors, and occasions are found at trade shows for such contacts. These plants are exempted from most duties under the General System of Preferences through 1985 and by the Caribbean Basin Initiative for at least twelve years. However they are also subject to a great variety of regulations and quarantines issued by the U.S. Department of Agriculture. Possible importers in the Midwest region could include Marshall Field & Co. of Chicago.

During our visit to the western province of the country we visited a number of possible growing areas and discussed the situation with representatives of the Chamber of Commerce of Chiriqui. Everyone contacted expressed complete ignorance of the fact that their neighbors in Central America had developed a thriving export business and immediately offered to set about establishing businesses and asked for contacts.

We noted that in an adjoining province in the south, a very attractive system, unique to Panama, of indigenous pottery-making plants existed. This system comprised both glazed and raw earthen pottery. Designs were unique; prices were very low. We suggested to representatives of both the pottery groups and the Chambers of Commerce that they unify their efforts to offer a distinctive Panama-type potted plant with its distinctive and unique pot.

#### 1.1.6 BISCUITS

Sales of cookies and crackers in the United States were projected at about \$4 billion in 1982. While import figures were not immediately available to our group we know that substantial imports are brought in from Europe and to a growing degree from smaller producers in the Caribbean and Mexico. Tins of biscuits sell well in the United States. There was much interest expressed in recent surveys among biscuit importers that were seeking competitive brands to Danish and British imports which have a small delivery charge and come in tariff-free.

We called on a principal producer, Mr. Vicente Pascual B., of Productos Alimenticios Pascual, S.A. in Panama. His company has opened up a market serving Latin American groups in Florida, and he expressed interest in obtaining assistance in entering the Midwestern market which he has not yet tried. The Midwestern Spanish-speaking community too is growing rapidly. A possible first step in opening the Midwestern market for these biscuits and crackers would be for him to contact the specialty biscuit importers and distributors by means of a personal visit by him or his immediate representative with samples. The selection of a name for the biscuit product may be particularly important if he tries to capture a niche in the non-ethnic market. Clearly it would not be practical to try to compete with one of the larger British or French names. He should pick a label that will reflect the attraction, the beauty of the Panamanian environment. The selection of the name and the label as part of the total marketing package should probably be done with the assistance of some American firm knowledgeable about the U. S. consumer goods market in the biscuit and cracker field.

Mr. Pascual has a large business by Panamanian standards and owns his own flour mill, bakery, ink manufacturing, and packaging companies. He is interested in speaking to reputable co-investors and joint venture partners.

#### 1.1.7 HARDWOOD FURNITURE INCLUDING HARDWOOD DOORS

Panama has a number of furniture manufacturers working mahogany, teak, oaks, and other indigenous hardwoods for local production and for some export to the surrounding region as well as to parts of Europe. Exports to the United States have been almost non-existent, principally because of the high cost of transportation, the highly competitive nature of our own furniture production and marketing and the comparatively high labor costs in Panama. Nonetheless, for quality furniture and particularly to develop a niche for particular tropical woods, for example in hardwood doors, Panama seems to have a good productive capacity. Mexico is one of the U.S.'s leading suppliers of hardwood doors and there is no reason, based on the quality of the article that we saw, that Panama could not become competitive. This is particularly true now that Panama would receive favorable tariff treatment under the GSP and the Caribbean Basin Initiative.

We visited one of the principal production centers, the Centro Industrial de Herrera in Chitre. The company is run by a Spanish manager and is owned by a Panamanian. It is now producing a fairly complete line of highboys, chairs, tables, doors, and

mouldings. With some technical assistance to adapt lines to suit quality American tastes (e.g., putting quality rollers in drawers, using quality hinges ) a market niche should develop. We understand the company is open to foreign investment in the magnitude of \$100,000 - \$200,000 and certainly appears keen to benefit from any marketing and technical assistance that an American joint venturer could propose. Since this particular project will take some time, we believe that care should be taken by the proprietor in making approaches to potentially interested distributors/joint venturers in the Midwest. He should begin first by visiting the annual furniture fair at McCormick Place in Chicago where he will have unlimited opportunities to get to know the trade in the United States nationally.

#### 1.1.8 ETHANOL

Ethanol, a by-product of sugar processing among other products, is imported in growing volumes in the United States from Brazil principally, from certain European countries as a derivative from alcohol spirits production, and elsewhere as a derivative from sugar production. During our visit the government of Panama announced the formation of a special ministerial working group to study the possibilities of the commercialization of derivatives of sugar and it is our understanding that ethanol production is high on the list of study priorities of the group. During our calls on Chambers of Commerce around the country, on government ministries, and on manufacturers including rum processors, it became evident that there was a increasing appreciation for the possibilities of export of ethanol and a lack of understanding as to processes concerned.

In fact, we learned from the Ministry of Commerce that the existing installed capacity for 180 proof ethanol is over 20 million gallons a year, with potential productive capacity in the neighborhood of thirty to fifty million gallons a year. CIF prices of ethanol now delivered to Houston are in the neighborhood of \$1.25 to \$1.45 a gallon. Some Panamanian producers are selling the ethanol domestically at between sixty and seventy cents a gallon. Hence the advantages of bringing ethanol in from a Caribbean Basin and Central American source is obvious; already to the committee's knowledge, the Costa Ricans who faced the same problems have been negotiating with buyer's groups from the United States.

There are a number of problems and constraints in this particular line of activity: the capital investment for the creation of a rectifying plant for the magnitude of ethanol concerned would cost in the neighborhood of six to ten million

dollars. However one advantage is that these plants can be put in place relatively quickly, in six to eight months. Users in the United States are feed distributors and manufacturers, paint and chemical concerns who use ethanol as a prime base or as a fuel alcohol additive. Exports are usually negotiated not between the prime consumer and seller but between a well-defined and closely held group of brokers. The sugar industry in Panama seems to know who the appropriate brokers are and how to contact them; they did not seem to be aware of the potential for marketing until our committee apprised them of it.

#### 1.1.9 TELEPHONE ASSEMBLY

With the forced breakup of the Bell system and the proliferation of telephone sales by smaller independent companies to the consumer in the United States, entrepreneurs in the free zone are looking to the probable growing market in the United States and in Latin America for assembled telephone sets. It is our understanding that the GSP and the CBI apply insofar as tariff exemptions are concerned.

The Panamanian government has identified this project as one of high potential for attracting foreign investment and technology, for employment creation, and for increased exports. A local group, called Technical Communications, Inc., headed by an American, Mr. Albert White, is behind the efforts to begin the assembly of telephone sets in the Canal Free Trade Zone. The idea would be to utilize a mold to make the plastic parts of the sets in the zone. The interior and technical parts, such as the ringer and the transmission unit, would be purchased from factories in the United States.

The market envisaged would be the government-owned and operated telephone companies that rent equipment to subscribers in Latin America and the independent telephone companies that sell and lease telephone equipment in Latin America, as well as the above-described U.S. market. Proponents of the plan believe that the government will provide benefits in view of the import substitution nature of the project, that the Panamanian government will provide tax advantages. Capital needs for the outset are very low, approximately \$120,000 to \$150,000 for the first year's investment costs for salaries, facility rental, and working capital for inventory and parts acquisition.

A major possible constraint is that of pricing. In view of the labor costs in Panama, there is a question as to whether the assembly of telephones would be competitive with those undertaken in the Mexican border area or elsewhere in the Caribbean area. It would be advantageous to the entrepreneurs here to attend any

of the several trade shows in Chicago, given for manufacturers and distributors of telephones and telecommunications equipment. This proposal should be brought to the attention of appropriate U.S. companies. Despite the possibilities of adverse price competition, we believe the advantages of trading in the dollar, the English language basis of doing business in Panama, knowledge of American styles, and ready access to the U.S. market all argue in favor of the project.

## 1.2 PROJECTS WITH LONGER-TERM POTENTIAL

### 1.2.1 BANANA BY-PRODUCTS

Officers of the Ministry of Agriculture urged us to consider that members of MITA assist in the joint ventures and production for external markets in the following banana by-products: dehydrated banana baby chips which, mixed with milk, form a baby food base; manufacture of snacks from banana pulp; and production of banana chips. We drew upon our knowledge of the demand for such specialty products in the U.S. market to come to the conclusions that will follow and also drew upon the observations of Panamanian entrepreneurs in related food lines during the course of our visit.

The demand for exotic new snacks, such as banana chips and banana tidbits, in the U.S. market is relatively large among the non-ethnic U.S. purchaser taken in light of the increasingly sophisticated palate of the typical U.S. consumer in recent years. Supermarkets everywhere abound in specialty chips of corn, potato, soya, beans, even vegetables and fruits as tidbits and food accompaniments to alcoholic beverages. Most of the largest food distributors and brokers now have a growing percentage of their food lines in this specialty area and they are increasingly seeking new and exotic sources of supply.

Of the three projects the banana snacks and chips appear to be the most viable; we understand that banana puree in jars has been tried and found wanting in other Central American countries for a variety of reasons including very rigorous Food and Drug Administration standards. For the chips project, a total U.S. investment of about \$125,000 is required. According to the feasibility study, internal rate of return of fifty percent means that the project should become profitable about the second year.

For the production of snacks based on bananas, a total U.S. investment of about \$90,000 is required and the break-even point should also be around the second year.

In both projects, it might be well to adapt as a U. S. marketing strategy first to attempt to penetrate the Spanish-speaking Florida or Puerto Rican market and subsequently to try to develop a niche in the broader U.S. market. It is important that in locating or seeking a distributor for a product such as this, an intending Panamanian entrepreneur offer a marketing allowance of perhaps 10% of cost to allow for the promotion costs of such a new food product. Any of the large Midwestern specialty food importers including Beatrice and La Preferida should be directly approached by the Panamanian private sector that will initiate the project.

### 1.2.2 CASHEWS

At the moment some cashew production is undertaken on an ad hoc basis throughout the Republic of Panama, mostly in forests and semi-arid areas where the tree grows wild and the nut is picked as a handicraft industry. The government of Panama is trying to encourage construction of a cashew processing plant involving the planting of three thousand hectares of cashew trees, construction of a processing plant with the capacity to manufacture 750 tons of nuts per year. Sixty-five workers will be employed and according to the pre-feasibility study shown to us the market would be essentially a local market with exports to be met from surpluses. Financing required is \$1.3 million for the seeding and growing and half a million dollars for the processing equipment itself.

Cashews are now the most expensive nut product sold at retail level to the U.S. consumer. This high cost is a reflection not only of the high value assigned by the consumer to the cashew taste but also of the global difficulties experienced in finding viable cashew growing areas and efficient cashew processing. Attempts to process and market from East Africa, repeatedly tried throughout the years, failed for climatic reasons, among others. Our own cashew industry has not been able to keep up with the bounding needs of the U.S. consumer.

During visits to provinces where cashews are grown, our discussions with entrepreneurs in the area suggest a good potential for cashew commercialization given the right mix of marketing expertise in the U.S., some technical assistance, Panamanian government support in terms of tax concessions, assistance in siting the plant, etc. As a beginning, we suggest the Ministry send representatives to any of the major food and

gourmet shows held in the Chicago area to meet members of the trade and submit the project for consideration.

In addition to capital needs some technical assistance on labelling, packaging, and shipping will be required early if the overseas market is to be properly developed in the United States and Europe. The major constraint as we see it is the high initial capital investment costs.

### 1.3 OTHER INDUSTRIES EXAMINED

Our group also examined a number of projects that from a production or supply point of view would be entirely feasible for Panama to undertake but for which we felt export is basically impractical, given constraints that are exogenous to Panama.

#### 1.3.1 TEXTILES

Foremost of these were in the field of textiles: ready-to-wear, multifibers, garments, stockings, underwear, women's wear, etc. There are several quite substantial textile manufacturers in Panama who approached us and asked for marketing help. We understand, however, that discussions are underway considering U.S. quotas as a result of significant increases in the exports of textiles to the U.S.

#### 1.3.2 BEEF

Another area is beef exports to the United States. Here again there are two major constraints for increased exports of the product to the U.S. market. First is that of the increased restrictiveness of food and drug controls on meat products from around the world and the difficulty of meeting the higher and more exacting sanitary standards imposed by the United States. Second, and perhaps of even greater commercial importance, is the longer term outlook for increased exports of these products to the United States in light of the historical tendency for American industry in this area to persuade the U.S. government to apply or reapply import restraints either on a voluntary or forced basis. Quotas in fact would probably be applied on any

Panamanian imports once they reach certain prohibitive levels.

### 1.3.3 MILK

One other project that we studied at the suggestion of the Ministry of Agriculture was that of a milk processing plant in Colon. After a visit to the plant and an examination of the inadequacy of the existing machinery, the likelihood that domestic milk production was not sufficient to meet the plant's needs and that much of the production would depend on imports of reconstituted milk and moreover the added ingredient that price control on milk products appears to be having a negative effect on milk production, we believe that this was one area that could not attract U.S. investors at this time.

### 1.4 EXPORT-RELATED SERVICES AND PROJECTS

At several points during our trip the question of whether an export trading company could be established in Panama with the technical and capital assistance of Midwestern entrepreneurs was raised. Panamanians -- paradoxically some of the most trade-minded of all Latin American businessmen -- have not themselves established export trading companies along the pattern of the European, the Japanese, or now, the United States. There is strong interest among entrepreneurs there in the new U.S. export trading company experience and questions of a technical nature as to how a trading company can be set up, its advantages, its disadvantages, minimum capitalization costs, the issue of overseas associates, etc. A leading manufacturer and businessman, Mr. Pablo E. Durang (owner of among other things Durang Cafe Puro) and his consultant, Mrs. Miriam Pinilla, have both expressed interest in establishing an export trading company but were anxious to receive technical and capital assistance. We said we would bring their interest to the attention of appropriate Midwestern firms and we suggested too that they contact the commercial attache's office for details.

During our visit to the port of Colon and on our call to Mr. Belga, administrator of the port, he cited the desirability of converting Colon, Panama's key Atlantic port, to become a major container trans-shipment point, like Miami and Jamaica, for the entire Caribbean Basin region. An IBRD study has pointed the way towards such a development. Mr. Belga and the administration of

the port would like to receive interested inquiries from major engineering and consulting firms to undertake feasibility studies for such a trans-shipment development.

## Chapter 2

### FINDINGS AND CONCLUSIONS

#### 2.1 KEY CONSTRAINTS TO TRADE

##### 2.1.1 Marketing

One constraint that needs particular attention is marketing. From the contacts made with the less-than-large domestic or multinational companies, the historical orientation has been to the domestic market. Historically and currently the primary export products are bananas, petroleum derivatives, marine products, and sugar. It is necessary, and a focus of this project, that if the base of exports is to be broadened, private enterprise must be involved irrespective of size.

Among the less-than-large producers we found a strong interest in exporting, and in some cases a need and an interest to have U.S. joint venture investments. In this group there was a significant and admitted lack of export market knowledge and capability. Joint ventures or sales contracts could be a means of meeting these marketing needs. Joint ventures would provide capital for expansion of production, knowledge of market needs and exporting procedures, and distribution and sales channels. Sales contracts would not directly provide the capital or technology for production expansion, but could provide product specifications and assistance with all aspects of marketing. Sales contracts may or may not, depending upon the terms, meet Panamanian needs for knowledge and capability in export procedures and paperwork.

Few Panamanian businessmen are aware of the needs, size, characteristic labelling, packaging and other requirements for their products in either the U.S. or other foreign markets. When exports occur, they occur as incidental activities arising from surpluses.

We recommend that a mechanism be found, whether through AID

or an international financial agency or Panamanian government assistance, to provide market information through a systematic analysis of the U.S. and European market for selected Panamanian products. Market surveys are expensive, but they pay for themselves if properly done.

Second, we recommend that programs of training of second-level management begin in the mechanics of exporting; the sort of thing that is done now normally throughout the United States and undertaken by the district field offices of the Commerce Department working with the major trade associations there. This means that overseas consultants, possibly from Europe and the United States and Japan, should be brought in on a short-term basis to conduct seminars on the mechanics of exporting including export marketing, surveys, financing, export documentation, requirements for health and sanitary regulations for the developed markets, etc.

## 2.2 Low Production

Given the size of the United States market and the volumes of purchases that the average importer and distributor of agribusiness and other products in the United States must handle, few U.S. distributors are interested in the small volumes that could be supplied by a Panamanian exporter.

We recommend, therefore, that market research be undertaken in order to seek out market niches for Panamanian products as specialties depending on their high quality, particular exotic features, and on aggressive market promotion, in some cases to be able to enter first the ethnic market and then the general market, and in other cases to remain entirely in a limited niche for the general market.

## 2.3 Lack of Marketing Infrastructure for Export

We were surprised to find that in the most highly developed mercantile environment in the Western hemisphere, in a country with the largest number of banks -- more than any other Latin American country -- and with more trading firms than any other of

these countries, there were no export trading companies.

We recommend therefore that assistance be given of a technical nature to help establish an export trading company somewhat along the lines of those that have been established under U.S. legislation for the first time in recent years. An export trading company allows several producers of generally competing products to work under one marketing roof with the strong support of a banking institution to help finance their exports. The presence of a trading company helps to get over the problem of low volume by allowing several competitors to work together. A trading company usually requires the existence of strong overseas associates to help market products tailored to the specific needs of specific countries; hand-in-hand with the creation of a trading company, marketing associates would have to be established for the major markets of Europe, the United States and the Far East.

#### 2.4 Governmental Support

While the Ministry of Commerce and its sub-offices showed every sign of good will and exhibited rigorous efforts to promote exports, resources were obviously insufficient to conduct an adequate export promotion program at the governmental level, either overseas or to stimulate domestic awareness for exports.

We recommend that funding be provided for technical training in this area, both of the few overseas personnel involved in export promotion work and for the domestic training of personnel who will be conducting the necessary programs to stimulate export awareness including programs, described above, explaining how to enter export markets. Furthermore efforts should be made to have sufficient funds allocated for export promotion programs including trade missions and participation in trade exhibitions with greater frequency than Panama undertakes at the present time.

#### 2.5 Lack of Awareness That Panama as a National Entity Can Offer Products to the World

Part of the problem in promoting exports is the lack of general appreciation of Panama's unique situation as a keystone in the transportation of goods throughout the Central American and North and South American basin area, its relative political stability, its high quality labor content, its richness as a financial center, its agribusiness base, etc. The reason for this is the lack of tourism. A half million dollars a year is appropriated annually to tourism (compared to thirty million dollars for Jamaica). Tourism is business and means big business in terms of future trade and investment opportunities for a country like Panama.

We recommend that promotion of trade and promotion of tourism should go hand-in-hand. Greater efforts should be made by Panama, possibly with technical assistance from AID and others, to convey an image of its receptivity to foreign investment, its accessibility for financial and other services such as insurance, and as a reliable source of supply for goods in the field of agribusiness, for repackaged items coming from all over the Central American area.

There are various promotional events which could be undertaken; one which was suggested to the Ambassador was a tele-conference along the lines of one done earlier by OPIC between Egypt and a business group in the United States. Quite possibly OPIC or USIA or some other group could coordinate and possibly finance a live tele-conference with the Mid-America Committee membership, with emphasis on the opportunities for trade and investments that can arise between the United States and Panama.

## 2.6 MARKET OPPORTUNITY STRATEGIES

Earlier sections have identified, wherever appropriate, strategies for marketing to selected Midwestern businessmen specific products identified as having priority in exports. What follows is a more general grouping of strategies particularly suitable for marketing, in the Midwestern region of the United States, products which are typically Central American or Panamanian in origin.

### 2.6.1 Trade Events

The Midwestern United States is rich in a multitude of trade expositions, conventions and events that revolve around themes of an agricultural nature, themes consonant with the basis for Panama's domestic economy and our own Midwest agricultural society. Panamanian manufacturers should be encouraged to attend such shows.

#### 2.6.2 Appointing the Best Distributor

It is often forgotten that even after quality marketing investigation is undertaken and proper labelling and packaging is effected to be consonant with market needs, a marketing effort can fail if the wrong distributor who is the company's representative is named. In the Midwest it is important to select a distributor who can cover the vast distances and varied subregions adequately; it may be necessary to appoint several distributors to cover the entire region. Panamanian companies should not be daunted that they may require half a dozen distributors to cover the region whereas in the New England area one can do the job. We are sure that the additional effort will be repaid manyfold in sales returns.

APPENDIX

PERSONS INTERVIEWED DURING TEAM VISIT TO PANAMA

<u>Firms in Panama</u>	<u>Phone</u>	<u>Telex</u>
J. J. Vallarino, Jr. Chairman of the Board & Chief Executive The Panama Coca-Cola Bottling Company P.O. Box 503 Panama 9A, Panama	60-2937	2184
Pablo E. Duran J. Ingeniero de la Planta Esteban Duran Amat. S.A. Apartado 8307 Panama 7, Panama	23-4750	2934 EDURANA
Jorge N. Cowes Marketing Manager Cia. Panamena de Aceites S.A. Panama, Panama		
Flora Morales de Ortega Gerente Administrativa International Maritime Trade Inc. P.O. Box 6-4378 Vacamonte, Panama, Panama	51-1055	3307 INTMATRA
Eduardo Lewis N. Presidente International Maritime Trade Inc. P.O. Box 6-4378 Vacamonte, Panama, Panama	51-1055	3307 INTMATRA
Antonio E. Ochoa C. Encargado de Promocion y Desarrollo Zona Libra de Colon Apartado 1118 Colon, Panama	45-1033 ext 115	328-9287
Dario Selles Gerente General Adj. Compania Panamena de Alimentos S.A. Apartado 368 Panama 9A, Panama	27-3000	2112 ANYCO
Tesila A. de Rubio Propietaria Jardin Guadalupe Panama, Panama	71-4268	

Appendix A (continued)

Jose Dopeso Presidente & Accionista Principal Edelmiro Rodriguez Sub-Gerente Fabrica Chitreana de Muebles S.A. Apartado 1191 Chitre, Panama	6-4336	
Hector Martinez M. Gerente Cultivos Mazur Apartado Aereo 6584 Cali, Colombia	501675	
Renee Zurbuchen de Martinez Orquidiario "Fely" Apartado 6584 Cali, Colombia	501675	
Ing. Jorge R. Ramirez C. Gerente Centro Industrial de Herrera S.A. Apartado 74 Chitre, Panama	6-4518	
Lic. Bolivar Pitti Director de Fabrica Citricos de Chiriqui, A.N. Apartado 107 David, Chiriqui, Panama	75-3861	7503 CITROPAN
Ing. Jose A. Holquin F. Presidente Construcciones Rurales S.A. Apartado Postal 11 Chitre, Herrera, Panama	96-4713	
Roderick F. Tedman Gerente Conservas de Antano Boquete, Chiriqui, Panama	70-1539	3642 ECONO
Rafael Stanziola Presidente Productos Premier Apartado 413 David, Panama	75-2866	Cable PREMIER
Tomas Gabriel Arias A. Gerente Joyeria Nat Mendez Apartado 146 David, Panama	75-2722	

Appendix A (continued)

Ildefonso Riande  
Owner, Riande Hotels  
Continental Hotel  
Panama, Panama

LaGarantia Muebles y Espejos S.A.  
Panama City

Efrain Santa S.  
Presidente  
Banco de Credito Internacional S.A.  
Apartado 7251  
Panama 5, Panama 619487

Mark Kardonski & Steven Kardonski  
Sanyo  
Peikard, Zona Libra, S.A.  
Apartado Postal 839  
Colon, Panama 45-1922 3688513 - ITT; 9209 - TRT

Roberto Mendez  
Peikard, Zona Libre, S.A.

Alberto C. Motta, Jr. & Remberto Junquera  
Motta Internacional, S.A.  
Apartado Postal 417  
Zona Libre de Colon  
Colon, Panama 45-2077 9232/9330 - TRT; 8550 - ITT

Jorge E. Endara P.  
Director Ejecutivo  
Industrias Panama Boston, S.A.  
Apartado 6615  
Panama 5, Panama 26-3333

Ramy Attie  
Director  
Durex  
P.O. Box "X"  
Panama 9A, Panama 63-8888 2555 TEYCO PG

Ing. Vicente Pascual B.  
Vice-Presidente Ejecutivo  
Productos Alimenticios Pascual, S.A.  
Apartado 8422  
Panama 7, Panama. 24-4520 2262 PASCUAL - TRT

Dr. Luis A. Arguedas  
Ralston-Purina  
Apartado 6-4600  
El Dorado, Panama 64-8991

21

Appendix A (continued)

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Managing Director,  
Panama and Central America  
The Borden Co., S.A.  
Apartado 53  
Panama 1, Panama

61-8000

3579

Jose B. Cabinin  
Product Manager,  
International Division  
Swift & Co.  
1919 Swift Drive  
Oakbrook, Illinois 60521

312/850-5803

28-0140; 4330103 - ITT:  
190110 - TRT

Business Organizations and Government Agencies

Julio E. Alcaine  
Sub-Representante  
Banco Interamericano de Desarrollo  
Apartado 7297  
Panama 5, Panama

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Jefe del Programa de Camarones  
Direccion Nacional de Acuicultura 64-1356

Lic. Rita Mariela Perez  
Viceministro  
Ministerio de Comercio e Industrias  
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27-4338

2256 COMERIN

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Industria Nacional de Artefactos S.A.  
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60-0015

379-3425 INA

Richard Pretto Malca, Ph.D.  
Director Nacional de Acuicultura  
MIDA  
Santiago de Veraguas, Panama

98-4398

2136 BANCONAL

Agr. Said Diaz A.  
Director Regional  
Ministerio de Comercio e Industrias  
David, Chiriqui, Panama

75-2800

Appendix A (continued)

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Instituto Panameno de Turismo  
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Presidente  
Sindicato de Industriales de Panama  
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Union Nacional de Pequeñas Industrias  
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Ruben Reyna P.  
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Union Nacional de Pequeñas Industrias

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