

**PANAMA LEGISLATIVE ASSEMBLY**  
**LAW No. 19**  
**(Of June 11, 1997)**  
**"WHEREBY THE PANAMA CANAL AUTHORITY IS ORGANIZED"**

**NOTICE:**

**The English translation of the Organic Law of the Panama Canal Authority is intended solely for the purpose of facilitating an overall understanding of the content of the original Spanish version. In those cases where differences may be found between the two, the Spanish document must be considered as the authoritative version.**

**PREAMBLE:**

That the purpose of this Law is to furnish the Panama Canal Authority with legislation for its organization, operation, and modernization to make the Canal a safe and profitable enterprise, a pillar in the human, social, and economic development of the country, open, without discrimination, to the participation of men and women and integrated to the national maritime strategy.

In compliance with the provisions of Article 317 of the National Constitution, the regulations herein issued are of a general nature and shall provide the framework for the regulations to be issued so that the Canal will provide uninterrupted, efficient, and safe service.

**Chapter I**

Character, Definitions, and General Rules

**Article 1.** The Panama Canal Authority is an autonomous, legal entity established and organized under the terms of the National Constitution and this Law.

**Article 2.** For the purposes of this Law and the Regulations, the following words and terms will be understood in accordance with the definitions established in this article, unless used in a different manner, or that in the respective context another meaning may result therefrom.

**Authority:** The legal entity defined in Article 1 of this Law.

**The Canal:** The Panama Canal, including the waterway itself, as well as its anchorages, berths, and entrances; lands and sea, river, and lake waters; locks; auxiliary dams; dikes and water control structures.

**Directors:** The members of the Board of Directors.

**Canal Watershed:** The geographic area whose surface and underground waters flow toward the Canal or are emptied into it, as well as into its reservoirs and lakes.

**Officials:** The Administrator, the Deputy Administrator, the Inspector General, the Chiefs of the main offices, and those to whom the Regulations assign this category and designation.

**Workers in Positions of Trust:** Those excluded from any bargaining unit whose work or

position within the Authority could, in some way, create a conflict of interest for the Administration, the worker, and any bargaining unit. The Regulations shall determine the positions that will be so designated.

**Workers:** Except officials and workers in positions of trust, all other workers who are part of the labor force of the Authority.

**Regulations:** Rules of a general or specific nature approved by the Board of Directors of the Authority in the exercise of its constitutional and legal authority.

**Employment conditions:** Policies, practices, and personnel matters established by this Law, Regulations, collective bargaining agreements, or any other appropriate instrument, that affect working conditions, except those expressly excluded by this Law.

**Canal Operation:** Includes the management, operation, maintenance, preservation, and protection of the Canal.

**Area of Compatibility with Canal Operations:** The geographic area, including its lands and waters, described in Annex A, which, for all purposes, is a part of this Law, wherein only those activities compatible with Canal operations may be conducted.

**Bargaining Unit:** A group of workers recognized, in accordance with this Law and the Regulations, as having a community of clearly identifiable interests that promote the efficiency of Canal operations, as well as effective dealings with the management of the Authority, and which is constituted to the effect of being represented by a labor union.

**Exclusive Representative:** The labor organization that represents the workers of a bargaining unit duly certified by the Labor Relations Board in accordance with this Law and Regulations issued thereto.

**Grievance:** Any claim submitted by a worker in a bargaining unit or by an exclusive representative concerning job-related matters of that worker or submitted by any worker, exclusive representative, or the Authority for alleged violation, misinterpretation, or misapplication of this Law or of any rule, practice, regulation, or collective agreement that affects employment conditions.

**Representational Time:** The time authorized and allowed the worker designated by the exclusive representative to represent him in an activity authorized by this Law, the Regulations, or the Collective Bargaining Agreements.

**Article 3.** The Canal constitutes an inalienable patrimony of the Panamanian nation; therefore, it may not be sold, assigned, mortgaged, or otherwise encumbered or transferred.

**Article 4.** The Authority shall have the exclusive charge of the operation, administration, management, preservation, maintenance, improvement, and modernization of the Canal, as well as its activities and related services, pursuant to legal and constitutional regulations in force, so that the Canal may operate in a safe, uninterrupted, efficient, and profitable manner. The Authority may delegate to third parties, either totally or partially, the implementation and performance of certain projects, works, or services according to this Law and the Regulations.

**Article 5.** The fundamental objective of the functions attributable to the Authority is that the Canal always remain open to the peaceful and uninterrupted transit of vessels from all nations of the world, without discrimination, in accordance with the conditions and

requirements established in the National Constitution, international treaties, this Law, and the Regulations. Because of the nature of the highly essential international public service provided by the Canal, its operation shall not be interrupted for any reason whatsoever.

**Article 6.** The Authority is responsible for the management, maintenance, use, and conservation of the water resources of the Canal watershed. To safeguard this resource, the Authority shall coordinate with the corresponding specialized governmental and non-governmental organizations which have responsibility for, and interests in, the natural resources of the Canal watershed, its management, preservation, and use of the natural resources of the watershed, and shall approve the strategies, policies, programs and projects, both public and private, that may affect the watershed.

The Board of Directors of the Authority shall appoint and regulate an Interinstitutional Commission on the Canal Watershed, which shall be coordinated and governed by the Authority to coordinate the activities of the Government and non-government organizations.

**Article 7.** The Authority has financial autonomy, its own patrimony, and the right to manage it. Consequently, the Authority shall exercise freely the right to receive, safeguard, and assign its financial resources, and it may deposit its funds in private or official banks.

**Article 8.** The Authority shall appoint, promote, discipline, remove, and assign duties to its officials, its workers in positions of trust, and its workers in accordance with this Law and the Regulations.

**Article 9.** The Authority shall set the tolls to be charged for use of the Canal, fees, and rates for services rendered, as well as the rules for the admeasurement of ships which will be in force in the Canal, in accordance with the National Constitution, this Law, and the Regulations.

**Article 10.** By reason of their transit through the Canal, the vessels, their cargo, passengers, owners, and operators shall not be subject to any national or municipal tax, fee, rate, charge, lien, levy, or payment, except as established in the preceding article.

**Article 11.** The Authority has the primary responsibility to provide what is necessary to ensure the adequate protection and surveillance of the installations of the Canal, as well as guarantee safe, unimpeded navigation, and will, therefore, coordinate with police organizations in charge of safeguarding the integrity of public and private property.

The Authority shall issue rules on the access to Canal installations, its waters, and its banks; it will establish restrictions on the use of lands and waters as may be suitable for its operation or administration, and, in general, will provide for the security of workers, vessels, property, and assets under its responsibility.

In the case of police or criminal charges for crimes and offenses incurred against the Canal and ships, any report from the Authority shall be considered to be carrying the weight of evidence concerning the facts under investigation.

## **Chapter II**

### Administrative Organization

**Article 12.** The Board of Directors shall establish policies for the operation, improvement, and modernization of the Canal, as well as supervise its management pursuant to the National Constitution, this Law, and the Regulations.

The Administrator shall implement the policies issued by the Board of Directors and shall have responsibility for the daily operation of the Canal and the required authority for its execution.

### **Section One**

#### Board of Directors

**Article 13.** The Board of Directors is composed of 11 directors, whose appointment shall be made as follows:

1. A Director designated by the President of the Republic, who shall chair the Board of Directors and shall have the rank of Minister of State for Canal Affairs
2. A Director designated by the Legislative Branch, who may be freely appointed or removed thereby.
3. Nine Directors appointed by the President of the Republic with the consent of the Cabinet Council and ratification by an absolute majority of the members of the Legislative Assembly.

The Directors shall serve in their posts for a term of 9 years, and may only be removed for the reasons set forth in Article 20 of this Law.

**Provisional paragraph:** For the initial designation, the President of the Republic shall appoint three Directors for a period of three years each, three others for six years each, and the remaining three for nine years each. Upon expiration of the initial periods, every Director's appointment shall be made for a period of 9 years.

**Article 14.** Directors must meet the following requirements:

1. Be a Panamanian citizen of acknowledged integrity.
2. Must not have been convicted by the Judicial Branch for any criminal offenses or offenses against the Public Administration.
3. Must not be related, at the time of appointment, to any of the Directors, up to within the fourth degree of consanguinity or second of affinity.
4. Hold a university degree or possess equivalent training.

**Article 15.** The Directors, as such, may not receive remuneration or representational expenses, but they may receive a per diem for their attendance to the meetings of the Board of Directors.

**Article 16.** Without prejudice to any other limitations established in the Law or in the Regulations, the members of the Board of Directors may not, on their own behalf nor through a third party, enter into any contract with the Authority or with organizations or firms connected thereto, nor undertake business dealings with the Authority during their term as members of the Board of Directors, nor for the two years following the expiration of their term. Directors may be candidates to elected office only if they resign from their

posts at least six months prior to the election date.

**Article 17.** The decisions and resolutions of the Board of Directors shall be adopted by the favorable vote of the absolute majority of its members, except when this Law or the Regulations require a different majority.

**Article 18.** In addition to the authority assigned by the National Constitution, the Board of Directors shall exercise the following functions:

1. Appoint and remove the Administrator, the Deputy Administrator, and the Inspector General, and establish their salaries and other payments. The Board of Directors may not designate any of its members to these posts while they are acting in the capacity of Director.
2. Determine, upon previous consultation with the Administrator, the vessel admeasurement system to be used by the Canal.
3. Set the tolls, rates, and fees for use of the Canal and related services, subject to final approval of the Cabinet Council.
4. Adopt the annual budget proposal of the Authority, as well as any supplemental or special proposals, in accordance with the projects the Administrator may prepare to that effect, and submit them to the Cabinet Council for consideration; the Cabinet Council, in turn, will submit them for consideration of the Legislative Branch for review, approval, or rejection, pursuant to the National Constitution and this Law.
5. Approve, pursuant to the authority granted by the pertinent general provisions established in this Law, the necessary or appropriate regulations for the proper operation, and modernization of the Canal, including the following:
  - a. Regulations that shall govern labor relations and establish, among other matters, criteria and procedures for selection and promotion and the wage scale and monetary benefits for officials, workers in positions of trust, and workers. These regulations shall contain, as a minimum, a Merit System; a Position Classification System; rules of ethics and conduct; occupational health and safety standards; training and development of human resources standards; disciplinary sanctions, measures, and procedures; grievance, claim, and arbitration procedures; and the rules that may guarantee the effective exercise of the right to unionize and bargain collectively.
  - b. Regulations to implement the provisions of Article 6 of this Law.
  - c. Regulations applicable to contract work, supply acquisition, and the rendering of services necessary or suitable for the proper functioning and modernization of the Canal, and the limits, conditions, and restrictions that shall govern therein.
  - d. Regulations on the criteria and procedures applicable to contracting special services the Authority may render or receive and to granting concessions.
  - e. Regulations applicable to the admeasurement and inspection of vessels, Canal navigation, marine traffic control, vessel pilotage, the procedures for investigation of accidents, the formulation and recognition of claims arising from accidents in the Canal, and other matters relative to Canal navigation.
  - f. Regulations on the criteria and procedures applicable to financial planning, accounting, and treasury standards; audits of Canal finances; and the budget preparation and execution process.

- g. Regulations applicable to the criteria and procedures relative to the rendering of services and the disposition of movable property of the Authority to the National Government, autonomous entities, municipalities, non-government organizations, private enterprises, and civic organizations.
  - h. Regulations that apply to the lease, sale, or other transfer or concession for the use of the real or movable property of the Authority granted to third parties when this property is no longer used or becomes obsolete or otherwise ceases to be necessary or suitable for the adequate management, operation, conservation, maintenance, or modernization of the Canal.
  - i. Regulations for the application of laws for ecological preservation in a manner that may not affect the adequate operation of the Canal.
  - j. Regulations concerning surveillance and security of the Canal.
  - k. Regulations to set tolls, rates, and fees charged by the Authority and its concessionaires for the transit of vessels through the Canal, and the rendering of related services.
  - l. Regulations to organize and establish the responsibilities for the administration of the Canal, the organization of functions and duties of the various bureaus and departments of the Authority.
  - m. Regulations on sanitation, health, and safety related to the transit of vessels and the areas reserved for the operation of the Canal.
  - n. Regulations on the criteria and procedures applicable to the management of information and records to allow for proper and adequate recording and to duly document the policies and transactions of the Authority.
  - ñ. Regulations for the use of the area of compatibility with Canal operations.
6. Propose the boundaries of the Canal watershed, and the reviews to be made to said boundaries, for approval by the Cabinet Council and the Legislative Branch.
  7. Authorize, upon duly reasoned and supported proposal by the Administrator, the acquisition of loans and other credit obligations upon approval by the Cabinet Council and within the terms provided by this Law.
  8. Adopt the policies, programs, and projects of the Authority aimed at integrating the operation of the Canal to the national maritime strategy adopted by the Executive Branch, and, to that effect, authorize the coordination with the National Government and the State agencies in charge of the development preparation and implementation of such strategy.
  9. Adopt policies for engaging in any commercial or industrial activities or services that complement the operation of the Canal, either directly by the Authority or through concessions to third parties.
  10. Adopt administrative, scientific, and technological policies that will promote and ensure the competitiveness and profitability of the Canal and the development of its human resources.
  11. Approve indemnity payments to third parties for damages, to the extent that the amount of the respective indemnity exceeds the limits the Administrator is authorized to grant, pursuant to the Regulation.
  12. Supervise the Administrator's performance.
  13. Ratify the appointments of bureau chiefs made by the Administrator.
  14. Approve the requirements for Authority funds to be deposited in private or

official banks.

15. Appoint committees of three or more of its members and delegate functions to them, provided they are not those established in items 1, 2, 3, 4, 5, 6, 7, and 11 of this Article.
16. Issue its internal regulations.
17. Exercise other functions and duties as assigned by the Law and the Regulations.

**Article 19.** Because of the international public service provided by the Canal, the Authority will have an Advisory Board on which Panamanian and foreign citizens may serve. The Board of Directors will designate the individuals who will make up this Advisory Board, taking into account their past experience and areas of expertise.

**Article 20.** The members of the Board of Directors may be suspended, and, as the case may be, removed from their posts for any criminal offense or offense against the Public Administration.

The suspension or removal of the Directors shall be applied without prejudice to any appropriate criminal punishment.

Directors also may be suspended or removed because of proven physical, mental or administrative incompetence, by decision of the President of the Republic, with the consent of the Cabinet Council and the Legislative Assembly.

**Article 21.** The Chairman of the Board of Directors shall exercise the following functions:

1. Chair the meetings of the Board of Directors. During the temporary or occasional absences of the Chairman, the Director selected by the Board for such purpose shall perform his duties.
2. Attend the meetings of the Cabinet Council, having the right to voice and vote, and provide reports, suggestions, and explanations regarding projects and activities of the Authority.
3. Propose and defend, together with the Administrator, all actions pertaining to the Authority that may require authorization or approval by the Executive Branch, and endorse them.
4. Submit and justify to the Cabinet Council the draft of the annual budget of the Authority, and its supplementary credits, and justify them to the Legislative Assembly. In this instance, he shall be accompanied by the Administrator, who shall have a right to be heard.
5. Submit and justify to the Cabinet Council the revision of tolls, fees, and rates charged by the Authority and its concessionaires for the rendering of services. In these instances he shall be accompanied by the Administrator, who shall have a right to be heard.
6. Keep the Board of Directors and the Administrator informed of the policies, programs, and projects of the National Government that may affect the operation and modernization of the Canal.
7. Submit annual reports of the operations and finances of the Authority to the President of the Republic, the Legislative Assembly, and the Office of the Comptroller General.
8. Perform other duties set forth in this Law and the Regulations.

## **Section Two**

### The Administrator and Deputy Administrator

**Article 22.** The Administrator is the highest-ranking executive officer and the legal representative of the Authority, and is responsible for its administration and the implementation of the policies and decisions of the Board of Directors. He shall exercise his authority and duties according to the National Constitution, this Law, the Regulations, the respective annual budget of the Authority and the extraordinary credits, and the resolutions and agreements adopted by the Board of Directors, subject, in all instances, to oversight by the Authority. The Administrator may partially delegate his powers to the Deputy Administrator and other Authority officials or workers according to the respective regulation.

Relatives of the Administrator or the Deputy Administrator up to the fourth degree of consanguinity and second of affinity may not be appointed as Authority officials.

**Article 23.** The following are the requirements to occupy the post of Administrator or Deputy Administrator:

1. Be a Panamanian citizen.
2. Hold a university degree or have sufficient practical experience, in the judgment of the Board of Directors.
3. Must not have been convicted of an offense with criminal intent or an offense against the Public Administration.
4. Must not be related, at the time of appointment, to the members of the Board of Directors up to the fourth degree of consanguinity or second of affinity. The Administrator and Deputy Administrator may not be related to each other in any manner as described above.

**Article 24.** The Administrator shall be appointed for a seven-year term, and may be re-elected for an additional term.

**Article 25.** The Administrator shall have the following functions and duties:

1. Represent the Authority in any judicial or administrative action and negotiation.
2. Develop and implement the decisions of the Board of Directors.
3. Establish salaries and other payments, as well as appoint, transfer, promote, apply disciplinary actions, and remove Authority officials, workers in positions of trust, and workers whose appointment is not the direct responsibility of the Board of Directors, pursuant to what is established in this Law, the Regulations, and the collective bargaining agreement in any case.
4. Prepare the draft annual budget and supplementary reports of the Authority, in conjunction with the annual report on Authority activities and projects, and submit them for consideration by the Board of Directors.
5. Make periodic reports to the Board of Directors, as it may so require, on the development of Authority activities and projects and the performance of the other aspects of its budget.

6. Draft the regulations for the proper operation and adequate modernization of the Canal and submit them for consideration and approval by the Board of Directors.
7. Enter into and award legal actions and contracts to which the Authority is a party.
8. Approve the indemnity payments to third parties for damages sustained by them by reason of ship accidents while navigating the Canal, provided that the amount of such indemnity does not exceed the limits set by the Board of Directors.
9. Approve the payment of compensation and claims arising from reasons other than those contemplated in item 8 of this Article provided they do not exceed the limits set by the Board of Directors.
10. Reply to any inquiry made by the Board of Directors regarding the setting of tolls, fees, and rates for Canal transit and related services rendered by the Authority.
11. Provide active and passive administration of Authority patrimony and funds, and ensure the efficient execution of its budget.
12. Submit, annually, to the Board of Directors, financial statements audited by independent certified public accountants, within the three months following the close of the corresponding fiscal year, and unaudited financial statements when the Board so requires.
13. Coordinate the functions and activities of the Authority, as required, with the Executive Branch, autonomous entities, the Legislative Assembly, the Judicial Branch, the Public Ministry, municipalities, and the private sector.
14. Propose to the Board of Directors any projected decisions, resolutions, and measures deemed necessary for the best management of the Authority.
15. Organize and coordinate the trade and marketing strategy of the Canal and its public relations policy.
16. Appoint, subject to the ratification of the Board of Directors, the directors of the main bureaus.
17. Attend, with a right to speak, the meetings of the Board of Directors, except those which at the Board's discretion must be held without his being present.
18. Exercise summary jurisdiction to collect the obligations due the Authority.
19. Propose to the Board of Directors the operative and administrative structure of the Authority.
20. Perform any other function as assigned by this Law, the Regulations, or the Board of Directors.

**Article 26.** The Administrator shall be relieved during his temporary or occasional absences by the Deputy Administrator, who must meet the same requirements as the Administrator; and the Deputy Administrator shall fill the vacancy left by the Administrator upon his resignation or death, or for any other reason, until a replacement is appointed and takes office.

The Board of Directors shall set forth in the Regulations the line of succession in the absence of the Administrator and Deputy Administrator.

**Article 27.** The Administrator may only be suspended or removed from his post with the concurrence of eight members of the Board of Directors.

The Administrator and the Deputy Administrator may also be suspended or removed because of a proven physical, mental, or administrative incompetence, as

determined by the Board of Directors.

The suspension or removal of the Administrator or the Deputy Administrator shall be applied without prejudice to any other applicable criminal sanction.

### **Section Three** The Inspector General

**Article 28.** The Office of the Inspector General is charged with conducting and overseeing audits and investigations pertaining to the operation of the Panama Canal Authority.

The Inspector General shall promote economy, efficiency, and effectiveness in the administration, prevent and detect fraud and abuse of office, and recommend policies toward those ends.

**Article 29.** Following are the requirements to occupy the post of Inspector General:

1. Be a Panamanian citizen.
2. Hold a university degree and have no less than ten years of professional experience.
3. Must not have been convicted of an offense with criminal intent nor an offense against the Public Administration.
4. Must not be related, at the time of appointment, to the Administrator or Deputy Administrator or members of the Board of Directors up to the fourth degree of consanguinity or second of affinity.
5. Be at least 25 years of age.

**Article 30.** The Inspector General shall report solely to the Board of Directors, shall be under its general supervision, and shall not be under the supervision of any other official of the Authority.

**Article 31.** The Inspector General shall discharge the following duties:

1. Develop policies for the steering, performance, oversight, and coordination of audits and investigations into the operation of the Canal.
2. Review current and future laws, regulations, and procedures pertaining to the operation of the Authority, and make appropriate recommendations on the impact of such legislation or regulation on the economy and efficiency of the Authority or for the prevention of fraud, waste, or abuse, and other anomalies in the Authority.
3. Conduct the investigations and audits that, in the judgment of the Inspector General, are necessary or advisable, and report to the Board of Directors the results and the corresponding corrective actions.
4. Submit periodic reports to the Board of Directors on fraud, waste, abuse, or anomalies in the administration or finances of the Authority.
5. Designate the staff needed to discharge his duties, in accordance with the selection procedures established by this Law and the corresponding Regulations.
6. Take statements on matters under investigation with respect to fraud, waste, or abuse of authority, and anomalies in detriment of the Authority.
7. Investigate cases brought to his attention concerning waste, abuse of authority, fraud, violations of the Law and Regulations, and actions that endanger the public health or

safety. The Inspector General will not disclose the name of officials, workers in positions of trust, and workers or others, except that such disclosure is absolutely indispensable to clarify facts and follow due process.

8. Require from workers, as well as from public and private organizations, such information, documents, reports, background, and other information and evidence necessary for the faithful discharge of his duties. In the case of contempt of the requirements made by this official, the appropriate authority must enforce them.

The Inspector General shall have access to all records, reports, audits, reviews, documents, recommendations, or any other Authority material relative to his responsibilities, and shall inform the Board of Directors when he is denied or is refused access to the information or assistance required for an investigation.

**Article 32.** The Inspector General is appointed and removed at the pleasure of the Board of Directors; consequently, he may be suspended or removed from his position.

### **Chapter III**

#### **Patrimony, Finances, and Oversight**

### **Section One**

#### **Patrimony and Budget**

**Article 33.** The following shall constitute the patrimony of the Authority:

1. The installations, infrastructure, buildings, equipment, and other personal or real property assigned for the operation of the Canal, received by the Republic of Panama as a result of the transfer of the Canal, such as electrical power plants and water purification plants, piers and docks, dry docks, radio stations, telemetric and hydro-meteorological stations, dredge spoil areas, spillways, lighthouses, buoys, and other aids to navigation, workshops, pipelines, vessels, cranes, locomotives, engines, vehicles, machinery, parts, spare parts, materials, furniture, all type of control systems, computer and communication systems, and, in general, the installations, systems, components, parts, and other assets, as long as, in the judgment of the Authority, they are necessary or pertinent for the operation and modernization of the Canal.
2. Revenues received from tolls, fees, and rates for use of the Canal, for the activities of the Authority, and for the services it may render.
3. Revenues derived from the concessions it may grant and other contracts it may enter into, pursuant to the corresponding legal and regulatory provisions.
4. Any other property and rights generated directly or indirectly by the operation of the Canal, or from the use or lease of any property that is part of the patrimony to which this article refers.
5. Revenues from the sale of personal or real property incorporated into its patrimony, whenever said sale is authorized because the property is no longer needed for the operation of the Canal.
6. Revenues generated from the use of the installations, personal, and other (types of) property along the banks of the Canal, its waters, or its adjacent areas, or that are part of its patrimony.

7. Any other property, rights, or assets assigned to it by the Law, the State, municipalities, international organizations, autonomous Government entities, workers, or corporations.

**Article 34.** The Authority shall maintain a general inventory of its patrimony, with an appraisal of all the property in it. Both the inventory and the appraisal shall be updated as provided by the Board of Directors.

**Article 35.** The Authority shall operate in accordance with a three-year financial planning and management cycle, with yearly execution and controls, not precluding that by reason of its activities relative to international maritime trade, it may prepare projections for longer periods.

**Article 36.** The annual budget of the Authority shall be prepared in advance as established in the Regulations. The beginning and ending dates of the fiscal year shall be stipulated therein. The budget of the Authority will not be a part of the General Budget of the Government, nor will the provisions of the General Budget of the Government be applied to the budget of the Authority.

The Regulations shall provide the necessary mechanisms and procedures to make the required adjustments between the revenues and expenditures of the Authority when a budget deficit has occurred or may occur in a specific fiscal year.

**Article 37.** The Authority shall forward its draft budget to the Cabinet Council. After granting their approval, they will forward it to the Legislative Assembly.

Once the draft budget has been examined by the Legislative Assembly, it may only approve or reject it. An absolute majority vote of its members is required to reject it. In such an event, the budget of the previous year shall remain in effect with the changes and adjustments the Board of Directors may make, as proposed to and approved by the Cabinet Council, to ensure the continued safe, uninterrupted, efficient, and profitable operation of the Canal.

If a vote on the Authority's budget is not held by the first day of the corresponding fiscal year, the draft budget proposed by the Authority shall become effective, and shall be adopted by a decision of the Cabinet Council.

In both cases, the items in the draft budget relative to the Authority's public debt, the labor and contractual obligations it must meet, and investment financing shall be automatically approved.

**Article 38.** Should it be necessary to incur an expense not contemplated in the annual budget, and it is urgent and necessary to maintain the uninterrupted operation of the international public service provided by the Canal, the Administrator shall make the required disbursements and will recommend the corresponding budget adjustments to the Board of Directors.

## **Section Two**

### Payments to the National Treasury

**Article 39.** The Authority shall pay annually to the National Treasury fees per Panama Canal net ton, or its equivalent, collected from ships transiting the Canal, subject to the payment of tolls. These fees, as well as others it must pay, shall be set by the Authority and may not be less than those the Republic of Panama must receive for the same items as of December 31, 1999.

### **Section Three** Oversight, Exemptions, and Payments

**Article 40.** For the oversight and control of actions in the management of funds and its patrimony, the Authority shall have an internal auditing system assigned to the appropriate administrative office. The Board of Directors shall also hire the services of independent auditors. In any case, the Office of the Comptroller General of the Republic shall conduct a post-audit of such actions.

**Article 41.** After covering the costs for Canal operation, investment, modernization, and expansion, as well as the necessary reserves provided by the Law and the Regulations, any surplus shall be forwarded to the national treasury in the following fiscal period.

**Article 42.** The Authority shall have summary jurisdiction to collect or obtain settlement of its receivables.

In addition to the documents specified in the Judicial Code, any internal audit certifications regarding obligations of any nature due the Authority shall cause a right of execution.

**Article 43.** The Authority is exempt from the payment of any national or municipal levy, tax, duty, fee, rate, charge, or contribution, with the exception of Panama Social Security payments, educational insurance, workmen's compensation, fees for public services, and those provided in Article 39 of this Law.

**Article 44.** The funds of the Authority may be placed in short-term investment instruments, and may not be used to buy other types of financial investment instruments issued by Panamanian or foreign public or private entities, nor to grant loans to said entities or to the National Government.

**Article 45.** The National Government may not commit the gross revenues received by or through the Authority, or offer any property from its patrimony as collateral for loans or any financial transaction of the State or by any of its autonomous agencies.

Also, the National Government may not charge, on its own, any expense against future Canal revenues.

**Article 46.** Neither the National Government nor the Authority may pay any debt, liability, or financial obligation undertaken prior to December 31, 1999, except as backed by funds received for the liquidation of the Panama Canal Commission, or as may arise from express acknowledgments or commitments undertaken by the State by reason of the transfer of the Canal.

**Article 47.** Without prejudice to the provisions of this Law, the Authority may not make any payment or transfer of money to any individual or corporation, whether state or private, except for services hired by the Authority, for property it may acquire, or for an obligation it has lawfully contracted.

**Article 48.** The Authority may render services by contract to the State, Government and non-governmental entities, as well as to workers, provided that an adequate surety for payment or a deposit has been posted similar to those set forth in Article 78 of this Law, or that the requirements established in the Regulations are met.

**Article 49.** The Authority may dispose of any personal or real property incorporated into its patrimony that is not required for the operation of the Canal, in favor of the State, autonomous agencies, or private individuals or corporations, pursuant to the provisions of the Regulations.

**Article 50.** The Authority may obtain loans or assume any other type of credit obligations for the purpose of having funds available for emergency expenses or to make investments, with the prior authorization of the Cabinet Council, and pursuant to the decisions made to this regard by the Board of Directors.

**Article 51.** The maximum ordinary term for concession or lease contracts shall be twenty years. Nonetheless, such contracts may be granted up to a maximum period of forty years, when, in the judgment of the Board of Directors of the Authority, as set forth in a resolution explaining the reasons, they involve projects that, because of the amount of their investment, economic impact, or job generation potential, require a longer than usual period.

#### **Section Four**

##### **Contracting for Work, Acquisition of Goods, and Rendering of Services**

**Article 52.** The Authority may contract for and acquire work, supply of goods and services, and purchases in general, with or without an intermediary, directly, locally or abroad, to ensure the best quality, the most favorable prices, efficiency and competitiveness. It is the exclusive right of the Authority to establish the regulations under which the general rules in this section will be applied.

**Article 53.** Regulations concerning the matters referenced in the preceding article shall establish a system that guarantees appropriate or highest quality, the most favorable prices, and the most timely delivery or performance of projects or supply of goods and services. This system shall be established on the following general bases:

1. Efficient and expeditious procurement of goods and services.
2. Decentralized delegation of the contracting authority.
3. Fostering the broadest competition for acquisitions and contracts.
4. Reasonable flexibility in the designs and specifications to promote contractor

participation without diminishing the quality of the work.

5. Impartiality in the decisions.
6. Fairness in the relationship with contractors.
7. Post-auditing of expenses.
8. Sufficient flexibility to allow decision-making in emergency situations.

**Article 54.** The Regulations the Authority may adopt shall contain provisions that establish objective mechanisms to promote the broadest competition in the selection of suppliers and contractors, shall establish the limiting amounts for each type of contracting, and must be updated in accordance with the provisions of the Board of Directors.

**Article 55.** In contracting matters, the Authority shall not be responsible for those actions of its officials that are carried out in criminal misuse of their office or abusive substitution of competition that result in damage to third parties.

**Article 56.** Contracts entered into by the Authority shall be subject to the regulations issued by the Authority concerning contracting, as well as to the terms and conditions of each particular contract. The Regulations will contain provisions establishing mechanisms for the fair and expeditious resolution of objections by bidders, as well as for claims by contractors.

#### **Chapter IV** Vessels and Navigation

**Article 57.** The Authority shall regulate:

1. Navigation in the Canal.
2. Vessel transit, inspection, and control, and all other activities related to navigation in the Canal and adjacent ports, including maritime safety, pilotage, and the issuance of special licenses to pilots, mates, and operators of vessels and other floating equipment to work in the Canal.
3. Disaster prevention and control; disposal of waste and discharges from vessels, mainly industrial; the transit of cargo that is hazardous or may cause environmental or any other type of damage; the handling of ballast; waste removal during anchorage; environmental health protection; and environmental impact studies for proposed Canal projects.
4. Requirements relative to the insurance coverage required of vessels transiting the Canal, for liabilities resulting from damages caused by such vessels to the Canal, its property, its workers, or third parties.

**Article 58.** All vessels or craft transiting or moving in Canal waters, anchorages, mooring stations, and the ports adjacent to the Canal shall be subject to the orders and supervision of the Traffic Control of the Authority, in accordance with the Regulations.

**Article 59.** The Authority has the right to deny entry to the Canal of any vessel not abiding by the rules and regulations for navigational safety established in this Law and

the Regulations.

## **Section One**

### Board of Inspectors

**Article 60.** The Authority shall have a Board of Inspectors that will perform the following functions:

1. Conduct vessel inspections and investigations of the facts, actions, or omissions that have caused damage to vessels, their cargo, crew, passengers, or any property or worker of the Authority as a result of their transit of the Canal.
2. Submit to the Administrator a detailed report of the investigation, issue an opinion on the causes of and responsibilities for the accident, and identify the nature, scope, and estimated cost of the damages that resulted or may result from same.

The Regulations shall establish the composition of this Board; investigative procedures; the identification of interested parties that shall have access to the report; the procedures to submit claims to the Authority; and determine any other function the Authority may deem necessary.

**Article 61.** In any inspection or investigation referred to in the preceding article, the Board of Inspectors may:

1. Summon witnesses or other persons to testify on matters of their competence.
2. Administer oaths to the deponents.
3. Request the submission of logs or documents it deems necessary.
4. Obtain the support of competent authority to enforce the above provisions when an individual refuses to appear or provide the requested logs or documents.

**Article 62.** The investigations, inspections, and other procedures mentioned in this Section shall be conducted in accordance with this Law and its Regulations.

## **Section Two**

### Damages Resulting from Navigation

**Article 63.** The Authority, with the exceptions set forth in this Section, shall promptly adjust and pay indemnity for damages to vessels or their cargoes, crew, or passengers, which may arise from their transit of the Canal, whether caused during their passage through the locks or while in the Canal or adjacent areas outside the locks, when the Board of Inspectors determines, as a result of an investigation, that the damage was caused through fault or negligence on the part of the Authority or its workers in the performance and within the scope of their duties and the Authority accepts that determination.

If the fault or negligence of the ship operator or shipowner, the master, crew, or passengers contributed to the injury, the award for damages shall be reduced in proportion to the degree of negligence or fault attributable to the shipowner or ship operator, vessel, its master, crew, or passengers.

The Authority may claim indemnity for damages caused to the Canal, its workers, and properties of the Authority after an investigation conducted by the Board of

Inspectors determines that such damages are the result of fault or negligence attributable to the shipowner or ship operator, vessel, master, crew, cargo, or passengers.

The Regulations may establish limits and other conditions to the responsibility referred to in this section.

**Article 64.** The statute of limitations to submit claims to the Authority in accordance with the provisions of the previous article is two years from the date of the incident.

**Article 65.** In determining the amount of the damage award for injuries to a vessel, the following factors may be considered:

1. The actual or estimated cost of repairs.
2. Charter hire actually lost by the owners or charter hire actually paid, depending upon the terms of the charter party, for the time the vessel is undergoing repairs.
3. Maintenance of the vessel and wages of the crew, if they are found to be actual additional expenses or losses incurred outside of the charter hire.
4. Other expenses which are definitely and accurately shown to have been incurred by reason of the accident or injuries.

The shipowner is responsible for promptly performing repairs to the vessel and putting it into service. Claims shall not be allowed for losses incurred as a result of the shipowner's negligence to promptly repair and return the vessel to service. Every claim shall be accompanied by supporting evidence.

**Article 66.** No agent fees or commissions or other similar expenses, or any other undefined or undetermined items subject to speculation or conjecture shall be allowed.

If a vessel is not operated under a charter but by the owner directly, evidence shall be secured if available as to the sum for which vessels of the same size and class can be chartered in the market. If the charter value cannot be determined, the value of the vessel to its owners in the business in which it was engaged at the time of the injuries shall be used as a basis for estimating the damages for the detention of the vessel. The ledgers of the shipowners or proprietors showing the actual earnings of the vessel about the time of the accident or injuries shall be considered as evidence of probable earnings during the time of detention. If the books are unavailable, other appropriate evidence shall be furnished.

**Article 67.** Given the nature and characteristics of the Canal operation, the Authority shall not be responsible for the damages that may result from any excessive time, demurrage, or delays while in transit of the Canal; therefore, it shall not accept claims resulting from the following events or circumstances:

1. Landslides or other natural causes.
2. Construction or maintenance work in the Canal, its equipment, or installations.
3. Obstruction arising from accidents.
4. Time required for admeasurement of vessels.
5. Vessel traffic congestion.
6. Time required for investigation of any accident, provided it is conducted within a 24-hour period from the time of occurrence.

In no case shall the Authority be responsible for damages arising from any other

cause not specified in this Law.

**Article 68.** Notwithstanding the provisions of item 6 of the preceding article, the Authority shall allow awards for demurrage or delays in the transit of the Canal in the concurrence of the following circumstances:

1. If the investigation of the accident exceeds 24 hours.
2. If the accident is attributable to the fault or negligence of an Authority employee in the performance of his official duties.

In any case, the compensation to be paid by the Authority shall be limited in proportion to the extent that the employee's actions caused or contributed to cause the accident.

**Article 69.** The Authority, by mutual agreement, commitment, or transaction, or otherwise, may determine the awards for damages pursuant to the provisions of this section. Acceptance by a claimant of the amount awarded shall be deemed to be in full settlement of such claim.

**Article 70.** A claimant who is dissatisfied with the determination of responsibility and damages to which this section refers, and who disagrees with the corresponding arrangement made by the Authority, may bring an action in the Panama Maritime Courts, which have jurisdiction throughout the Republic, and exclusive competence to hear it. The period to file this action shall be of one year from the notification to the claimant, or his duly authorized representative, of the final determination on the award made by the Authority, as provided by Regulation.

**Article 71.** No action, lawsuit, or claim shall proceed against the Authority or an employee for the reasons contemplated in this section which do not conform to the provisions of same.

**Article 72.** The Panama Maritime Courts, which have jurisdiction throughout the Republic, shall have exclusive and exclusionary jurisdiction over any other national or foreign court of justice to hear all claims, actions, or lawsuits that arise from the events listed in this section without detriment to the intervention by the First Section of the Supreme Court of Justice as a court of appeals.

**Article 73.** Any award for damages payable by the Authority in accordance with the provisions of this section shall be payable with funds allotted by the Authority for these purposes, pursuant to the Law and the Regulations.

**Article 74.** No action may be filed for damages under this section unless the following conditions are met prior to the departure from the Canal of the vessel involved:

1. That an investigation of the accident and the injury caused has been completed according to a procedure that shall include a hearing by the Board of Inspectors of the Authority, as provided in this Law and the Regulation.
2. That the basis for the claim has been laid before the Authority.

### **Section Three**

## Tolls for use of the Canal and Rates for Services

**Article 75.** Tolls shall be set at rates estimated to cover the costs of operation and modernization of the Canal, and will include at least:

1. The costs of operating the Canal, including depreciation costs, support for water resources protection, working capital, and the required reserves.
2. Payments to the National Treasury, as stipulated in the National Constitution and this Law, estimated according to the bases established in the regulation for this purpose.
3. Capital for plant replacement, expansion, improvements, and modernization of the Canal.
4. Interest on the assessed value of the Canal.
5. Losses carried over from previous years.

The tolls and rates established by the Authority shall take into consideration the conditions of safe, uninterrupted, efficient, competitive, and profitable Canal service.

**Article 76.** Neither the Government nor the Authority may authorize exemption from the payment of tolls, fees, or tariffs for Canal services. Notwithstanding, vessels exempted by virtue of international treaties in effect, ratified by the Republic of Panama, shall not pay tolls for transiting the Canal.

**Article 77.** All Canal users subject to tolls, fees, and tariffs shall make the payment in cash, in the legal currency of the Republic of Panama or the currency established by the Authority before the service requested is rendered, in an amount equivalent to the cost of the service.

The above-mentioned payment may be substituted by a surety posted by a bank that meets the requirements of the Authority for such purpose.

**Article 78.** The Authority may require, as a previous condition for transit, that vessels clearly establish the financial responsibility and guarantees for payment of a reasonable and adequate amount, consistent with the rules of international practice, to cover any damages that may result from their transit through the Canal.

In the case of a government-owned or government-operated vessel, or for which the government of a country has accepted responsibility, it shall suffice to guarantee such financial responsibility by means of a certification by the respective country stating that it shall comply with its obligations, in accordance with International Law, to pay any damages arising from actions or omissions of such ships during their passage through the Canal.

The exception set forth in the previous paragraph will not be applicable when the vessel, property of a State or operated by the same, is engaged in maritime trade.

**Article 79.** The Authority shall give interested parties an opportunity to participate in the consultation processes for the purpose of revising tolls and admeasurement rules by submitting, in writing, data, opinions, or arguments, and participating in a public hearing to be held at least 30 days after the date of publication of a notice in the official publication of the Authority in which said hearing is called.

**Article 80.** The fees and rates established for the rendering of other services will take into consideration at least the corresponding cost of such services, as determined by the Regulations.

## **Chapter V**

### **Personnel Administration and Labor Relations**

**Article 81.** The Canal Authority is subject to a special employment regime based on a merit system, and shall adopt a General Employment Plan that shall maintain, as a minimum, employment conditions and rights similar to those existing on December 31, 1999. Consequently, the officials, the workers in positions of trust, the workers, and the unions of the Panama Canal Authority shall not be subject to the provisions of the Labor Code, the Administrative Code, nor any regulatory or legal codes that establish salaries, bonuses, jurisdictions, or procedures, except those expressly provided in this Law.

Permanent workers, and those workers who must retire under special provisions in 1999, whose positions are determined to be necessary in accordance with applicable rules, shall be guaranteed employment with benefits and conditions equal to the benefits they have on that date, pursuant to the National Constitution and this Law.

The Authority shall establish in the Regulations the exceptions to the special employment regime applicable to officials.

## **Section One**

### **Personnel Administration**

**Article 82.** The special employment regime of the Authority is based on the principles of merit and equal opportunity. There shall be no discrimination by reason of sex, race, age, religion, marital status, political ideology, or physical handicap. Sexual harassment practices are prohibited. The procedures to investigate and apply sanctions for these practices shall be regulated.

**Article 83.** To ensure a highly qualified labor force based on merit, the designated Office within the Authority will receive applications, determine the qualifications, and test the abilities of those aspiring to positions in the Authority. The Regulations shall establish the organization and policies of the office charged with admitting and testing applicants.

**Article 84.** An independent administrative mechanism shall be established so that workers in positions of trust, workers, or applicants may individually or collectively file complaints concerning cases of discrimination, so that these may be investigated objectively and the necessary corrective action be implemented. No reprisals may be taken against a worker, a worker in a position of trust, or an applicant for filing such claims.

**Article 85.** For the purpose of promoting the capability, stability, and productivity of the work force required for the efficient operation of the Canal, the Authority shall guarantee:

1. Employment, transfers, and promotions shall be governed by merit competition based

- on the education, qualifications, skills, and experience of the workers or applicants.
2. Position classification according to the complexity of duties and responsibility of the position and compensation determined by wage scales in accordance with said classification in a manner to implement the principle of equal pay for substantially equal work.
  3. A vacation and leave regime, leave, work hours, compensation for vacations, leave, overtime, work on Sundays and holidays, night shifts, work under environmentally difficult, severe, or hazardous conditions similar to that existing on December 31, 1999.
  4. Performance evaluation programs, incentive awards for outstanding performance, bonuses, and any other productivity-promoting incentive.
  5. Permanent and continuing personnel training and development programs which shall provide education and specialized training to increase productivity, enhance skills, and worker achievement in benefit of the Authority. The Authority shall also provide the necessary training upon introduction of new methods or technologies in the workplace for a better worker and collective performance.
  6. Occupational health, on-the-job injury prevention, and industrial safety programs adequate to meet the needs of employees.
  7. Special physical and psychological rehabilitation and assistance programs.
  8. Payments of compensation and for a permanent reduction in force that results in the termination of the labor relationship, as well as payment for wages lost or unearned because of layoffs or unjustified termination.
  9. A special placement program for workers in positions of trust and workers who have been laid off or downgraded as a result of a reduction in force or who may have been injured on the job or suffered an illness, as well as a program for hiring the disabled.
  10. A freedom of information system, privacy of information, and protection to whistle-blowers of abuse of authority, actions against the property of the Authority, or any other dishonest or unlawful action that in the judgment of the workers and workers in positions of trust must be reported.
  11. A system for filing grievances and the right to appeal personnel actions in detriment of workers in positions of trust and others excluded from bargaining units or for those matters excluded from negotiation in the collective bargaining unit. This system shall be efficient, flexible, fair, economical, and simple, and it may include alternate dispute-resolution mechanisms, pursuant to this Law and the Regulations.

**Article 86.** If Panamanians and foreigners apply for positions in the Authority, Panamanian citizens shall have preference over foreigners so as not to diminish the working conditions and standard of living of the nationals. A foreigner may be hired in place of a national, with prior authorization by the Administrator, only in those positions where recruitment is difficult, as long as the means have been exhausted trying to find a qualified Panamanian. If only foreigners apply, preference will be given to those married to Panamanian citizens or who have been residing continually in the Republic of Panama for ten years.

**Article 87.** The principle of job stability is guaranteed to the workers in positions of trust and other workers of the Authority. The labor relationship may only be terminated by

resignation, retirement, or removal for a just cause, death, or reduction-in-force.

**Article 88.** Officials, workers in positions of trust, and workers of the Panama Canal Authority may not conduct partisan propaganda and membership drives on the premises of the Authority, nor use the influence of their positions to serve the interests of any given candidate in the election process, or of the organizations that nominate them. The Regulation shall establish the appropriate sanctions for those who violate this prohibition.

**Article 89.** Officials, workers in positions of trust, and workers of the Authority shall comply with this Law and the Regulations; and, similarly, the Authority is obliged to maintain order and discipline on the job. The corresponding sanctions will be applied to all workers who deviate from or fail to comply with the standards of conduct or performance required by the Law or the Regulations.

**Article 90.** Penalties shall be classified as disciplinary measures and adverse actions, and said classification will depend on the seriousness of the offense incurred and the degree of responsibility of the violator. The Regulations shall establish a schedule of offenses and sanctions and a statute of limitations, as well as minimum and maximum sanctions for each offense incurred. The Authority shall apply disciplinary measures progressively, allowing the worker to correct his conduct, except in the case of a serious offense that warrants dismissal.

Sanctions shall be applied without prejudice to any civil or criminal liability that may accrue to the offender arising from the action itself.

**Article 91.** The Authority shall establish a code of conduct applicable to all officials, workers, and workers in positions of trust. Said code shall address, at a minimum, the following issues:

1. Misuse of official property of the Authority.
2. Unofficial activities.
3. Use of office to obtain personal gain.
4. Real and apparent conflict of interest.
5. Gifts and presents from private sources and among workers.
6. Obligatory disclosure of personal financial status of officials, workers, and workers in positions of trust who are subject to this provision.
7. Restrictions on certain activities that may be carried out by former workers, workers formerly in positions of trust, officials, and members of the Board of Directors of the Authority.
8. Nepotism.
9. Any other inappropriate conduct by officials, workers, workers in positions of trust, and members of the Board of Directors of the Authority.

All Authority officials, workers, and workers in positions of trust must be given mandatory training concerning the Code of Ethics and any changes made thereto.

**Article 92.** To ensure that the international public service for which the Panama Canal was created is not affected, its operation may not be interrupted, neither fully nor partially, nor impaired in any way. Strikes, slowdowns, and any other unjustified work

stoppages are prohibited. If any such actions occur, the Administration of the Authority shall proceed to adopt the necessary measures to immediately restore the service and shall apply the sanctions established in the Law and the Regulations, including that of dismissal.

**Article 93.** The only mandatory days off for national holidays or memorial days are those provided by law or issued cabinet decrees. On mandatory holidays, an effective work force shall be ensured with the number of workers required for uninterrupted operation of the Canal.

## **Section Two** Labor Relations

**Article 94.** Labor-management relations in the Authority shall be governed by the provisions of this Section, the Regulations, and collective bargaining agreements. The provisions of this Section must be interpreted in a manner consistent with the requirements of an effective and efficient Authority as the steward of this service.

**Article 95.** Workers who are members or who are eligible for membership in a bargaining unit shall have the right to do the following:

1. To freely establish or join labor unions or participate or refrain from participating in them, and, in all instances, to be protected in the exercise of their right.
2. To act on behalf of a labor union as its representative and, in this capacity, present the views of the labor union before appropriate forums.
3. To engage in collective bargaining concerning issues that are subject to negotiation through representatives chosen by the workers pursuant to this section.
4. To request the presence of the corresponding exclusive representative in any investigation by a representative of the Authority which the worker has reason to believe may result in disciplinary action against him or her.
5. To seek to resolve conflicts with the administration of the Authority following applicable procedures established in this Law, the Regulations, or collective bargaining agreements.
6. To be represented by their exclusive representative, whether or not they are members of the union.

**Article 96.** All workers who are members of a bargaining unit shall have the right to have their union dues deducted from their salaries, regularly and periodically, as members of the corresponding union for their bargaining unit. The Authority shall make such deductions, which must be authorized in writing by each worker, free of cost to the union or to the employee. Such authorizations may not be revoked for a period of one year.

**Article 97.** An exclusive representative shall have the right to:

1. Represent the workers of a bargaining unit and be protected in the exercise of this right.
2. Negotiate collective bargaining agreements concerning issues subject to negotiation,

that include all workers of a bargaining unit.

3. Represent the interests of all workers of a bargaining unit, whether or not they are members of the union.
4. Submit and process grievances on their own behalf or that of any worker of a bargaining unit following the applicable negotiated grievance procedures established by this Law, the Regulations, and the corresponding collective bargaining agreement.
5. Be present during the formal procedures of any grievance submitted by the worker on his own.
6. Participate in any formal meetings between the administration of the Authority and the workers with respect to any grievance or matter concerning employment conditions.
7. Submit to arbitration any conflict they consider has not been resolved satisfactorily through negotiated grievance procedures.
8. Participate in the development and revision of any regulations that may affect working conditions and which are subject to approval by the Board of Directors of the Authority in accordance with the National Constitution.

**Provisional Paragraph:** The bargaining units and their exclusive representatives recognized on December 31, 1999, may continue to perform as such under the Authority for up to 12 months, counted from December 31, 1999, while their recognition and certification are processed by the Board of Labor Relations.

**Article 98.** Labor unions shall have the right to maintain their affiliation with international labor organizations.

**Article 99.** Workers may be granted representational time to carry out their authorized representational duties, provided this activity is carried out during the time the worker was scheduled to work. The purpose of granting representational time is to avoid loss of salaries or benefits by the worker to which he would have a right if he were not carrying out his duties as a representative. Representational time may not be authorized for recruitment, officer elections, or dues collection activities, nor for other internal union business.

**Article 100.** The administration of the Authority shall have the right to:

1. Determine the mission, budget, organization, number of workers, and internal security practices of the Authority.
2. Hire, assign, direct, dismiss, and retain workers of the Authority; suspend, remove, reduce in grade or pay, or take other disciplinary actions against workers.
3. Assign work, make decisions with respect to contracting out, and determine the personnel needed for the activities related to the operation of the Canal.
4. Select, for hiring and promotion purposes, those candidates who have been duly evaluated and certified as the best qualified, from lists or other appropriate sources, as established in the Regulations.
5. Undertake the necessary actions to carry out the mission of the Authority during an emergency.

**Article 101.** The obligation of the Authority, as well as that of any exclusive

representative, to negotiate in good faith shall be defined and developed in the Regulations and shall include, as a minimum, the requirement that the parties to the negotiations be represented by workers expressly empowered to enter into agreements that are binding on the parties they represent, not precluding that neither party may be compelled or obliged to accept or to agree to a proposal or to make any concession.

The Authority management, upon request, shall provide the exclusive representative with the pertinent data on the subjects discussed within the scope of the collective negotiation according to the Regulations, as long as the provision of said data is allowable under this Law.

**Article 102.** Negotiations between Authority management and any exclusive representative, provided they are not in conflict with this Law and the Regulations, shall deal with the following matters:

1. Those that affect the employment conditions of the workers of a bargaining unit, except those related to position classification and those expressly established by this Law or are a result of same.
2. The procedures used to implement the decisions of the administration of the Authority, pursuant to Article 100 of this Law, as well as the adequate measures applied to the worker who is adversely affected by such decisions, unless such decisions have only a slight impact on the working conditions.
3. The number, type, and grade of the workers who may be assigned to an organizational unit, project, or work schedule; the technology and the means and methods used to accomplish a job. The obligation to negotiate these matters shall be subject to the application of an interest-based method of negotiation and not the adversarial positions of the parties. This interest-based method shall be established by the Regulations. The interests of the parties should necessarily promote the objective of improving quality and productivity, service to the user, operational efficiency of the Canal, and quality of the work environment.

**Article 103.** With the purpose of improving the operation of the Authority, the administration of the Authority and the unions, with the participation of exclusive representatives, may work jointly as partners to improve their labor relationship, identify problems, and find solutions.

**Article 104.** Each collective bargaining agreement shall have a grievance procedure, including arbitration and alternate dispute resolution techniques, which shall be binding for both parties. This procedure shall constitute the exclusive administrative mechanism for the resolution of disputes.

**Article 105.** The following matters are excluded from the grievance procedure to which the preceding article refers:

1. Prohibited political activities pursuant to Article 88 of this Law.
2. Retirement, life and medical insurance.
3. Tests, certifications, and personnel appointments.
4. Classification of any position that does not result in a grade or salary reduction.
5. Those excluded from collective bargaining agreements by mutual agreement.

**Article 106.** Arbitration is the final administrative recourse in disputes and shall be governed by the provisions of this Law, the Regulations, and the collective bargaining agreements. If arbitration is sought, the decision shall be binding.

For the purposes of this Section, only the Authority or the exclusive representative may invoke arbitration.

The cost of arbitration shall be divided equally between the Authority and the corresponding labor organization.

**Article 107.** Notwithstanding the provisions of Article 106, arbitration decisions may be appealed before the Third Section of the Supreme Court of Justice within 30 work days from the notification of the corresponding decision. Said appeal shall stay the effect of the arbitration decision, but such appeal may proceed only when based upon an erroneous interpretation of the Law or the Regulations, because of manifest partiality of the arbitrator, or noncompliance of due process in the course of the arbitration.

**Article 108.** For the purposes of this Section, the following shall be considered unfair labor practices on the part of the Authority:

1. To interfere with, restrain, or coerce a worker in the exercise of any rights to which he is entitled under the provisions of this Section.
2. To encourage or discourage membership of any worker in a labor organization, by discriminating against him in relation to appointments, job security, promotions, or other employment conditions.
3. To sponsor, control, or otherwise assist a union, except that, upon request by same, the Authority provides the usual services and facilities, as long as such services and facilities are also offered to other unions under the same conditions.
4. To discipline or otherwise discriminate against a worker because the worker has filed a complaint, an affidavit or a petition, or has given information or rendered testimony as established in this Section.
5. To fail or refuse to consult or negotiate in good faith with a union, as required by this Section.
6. To fail to cooperate with the procedures and decisions to resolve negotiation impasses.
7. To enforce any rule or regulation that is in conflict with the applicable collective bargaining agreement, if it was in effect prior to the date that such rule or regulation was issued.
8. To fail or refuse to comply with any provisions of this Section.

**Article 109.** For the purposes of this Chapter, the following shall be considered unfair labor practices by a union:

1. To interfere with, restrict, or coerce a worker in the exercise of any right under this Section.
2. To cause, or attempt to cause, the Authority to discriminate against a worker in the exercise of any right to which he is entitled under the provisions of this Section.
3. To coerce, discipline, fine, or attempt to coerce a member of the labor union in punishment or reprisal, or for the purpose of hindering or impeding the performance of his duties or his productivity or from complying with his duties on the job.

4. To discriminate against a worker concerning the terms or conditions for joining a union on the basis of race, color, religion, national origin, sex, age, political affiliation, marital status, or physical handicap.
5. To refuse to consult or negotiate in good faith with the administration of the Authority, as required by this Section.
6. To fail to cooperate with procedures and decisions to resolve negotiation impasses.
7. To call, or participate in, a strike, work stoppage, or slowdown, or picketing the Authority during a labor-management dispute.
8. To condone any of the activities described in item 7 of this Article by failing to take action to prevent or stop the activity.
9. Otherwise fail or refuse to comply with the provisions of this Section.

Notwithstanding the provisions of items 7 and 8 of this Article, picketing that does not interfere with the operations of the Authority shall not be considered an unfair labor practice.

**Article 110.** For the purposes of this Section, it shall be considered an unfair labor practice for an exclusive representative to refuse membership to any worker in the bargaining unit he represents, unless the worker:

1. Does not meet the occupational requirements normally required by the labor organization for membership.
2. Does not pay the dues that are required as a condition for joining and retaining membership.

The provisions of this Section shall not prevent a labor organization from imposing disciplinary actions in accordance with the procedures contemplated in its by-laws, provided they are consistent with the provisions of this Section.

**Article 111.** A Labor Relations Board is hereby created for the purpose of promoting cooperation and understanding in good labor-management relations and to resolve any labor-management disputes under its jurisdiction. The Labor Relations Board shall consist of five members, designated by the President of the Republic, from lists supplied by the administration of the Authority and the exclusive representatives.

The Labor Relations Board will make decisions with full autonomy and independence, and its decisions will be of mandatory compliance by the parties. The members of the Labor Relations Board will serve for a period of five years and may be reappointed.

The first designation will be for staggered terms so that the terms do not conclude at the same time. The Chairmanship of the Board will be held for a one-year period and shall rotate among the members of the Board.

**Article 112.** The Labor Relations Board will prepare its own budget and submit it for approval by the Board of Directors to become part of the general budget of the Authority, and will appoint the staff required for the fulfillment of its duties.

The Board will submit an annual report of its activities to the President of the Republic.

**Article 113.** The Labor Relations Board shall have exclusive jurisdiction in the exercise

of the following functions:

1. To issue its own regulations.
2. To resolve disputes on negotiability.
3. To resolve negotiation impasses.
4. To resolve charges of unfair labor practices.
5. To recognize, certify, and revoke certifications of the exclusive representatives; determine and certify appropriate bargaining units in accordance with the Regulations, as well as to revoke the recognition of any labor organization that violates the provisions of Article 92. The Labor Relations Board will grant exclusive representation to the labor organization elected as exclusive representative by secret ballot by a majority of the workers of that unit who cast lawful votes in an election.

**Article 114.** The Labor Relations Board shall promptly process any matter subject to its jurisdiction that is submitted for its consideration. In accordance with its regulations, it shall have discretionary power to recommend to the parties the procedures for the resolution of the matter or to resolve it by the means and procedures it deems appropriate.

The decisions of the Labor Relations Board may not be appealed, unless they are in conflict with this Law, in which case the appeal must be brought before the Administrative Disputes Section of the Supreme Court of Justice, whose decision shall be definitive and binding.

**Article 115.** To facilitate the performance of its duties, the Labor Relations Board may, at its discretion:

1. Appoint persons to establish the facts.
2. Appoint investigators, facilitators, mediators and arbitrators knowledgeable of the special employment regime that applies to the Authority, based on experience or training obtained thereto.
3. Hold hearings.
4. Administer oaths, take sworn statements, and issue subpoenas.
5. Order the Authority or a labor organization to cease and desist from future violations of the provisions of this Section and demand that corrective measures be taken in the case of noncompliance with said provisions.
6. Request that the pertinent court enforce any decision, temporary indemnity, or ban issued by the Labor Relations Board.

**Article 116.** The members of the Labor Relations Board may be suspended or removed from their positions by the President of the Republic for proven physical, mental, or administrative incompetence upon the recommendation of Authority management and the exclusive representatives.

The suspension or removal of the members of the Labor Relations Board may be carried out, notwithstanding any applicable penalty for criminal actions.

**Article 117.** To comply with the provisions on arbitration pursuant to Articles 104 and 106 of this Law, arbitrators will act autonomously and independently of the Labor Relations Board. They shall be selected on the basis of their experience and background, as well as their knowledge of the special labor regime applicable to the Authority based

on their experience or training obtained thereto and will be subject to a rotation system. The Labor Relations Board will maintain lists of qualified arbitrators to furnish to the parties whenever either one invokes arbitration pursuant to Articles 104 and 106 of this Law.

## **Chapter VI** Canal Maintenance

**Article 118.** The Authority shall adopt the programs of maintenance, improvement, and replacement required for the safe, uninterrupted, efficient, and profitable operation of the Canal to ensure round-the-clock transit of vessels every day of the year, as well as for the rendering of services and the development of activities organized by the Authority.

**Article 119.** The programs referred to in the previous article shall be based on the following principles and criteria:

1. High-quality service provided to Canal users that will allow transit of vessels in the most secure, expeditious, and efficient manner possible.
2. To minimize interruptions in said traffic caused by equipment breakdown.
3. Policies and practices that may allow the adoption and execution of dynamic maintenance programs, subject to periodic adjustments, according to real needs.
4. Designation of the required frequency for short-, medium-, and long-term programs according to the nature of applicable techniques, as well as their review, evaluation, and modification.
5. Permanent supervision to optimize general maintenance by investing in modern equipment that will increase the confidence of users.
6. Tailoring said programs to the applicable standards of practice in this industry.
7. Analyses of the feasibility and effectiveness of programs.
8. The establishment of reserve funds for refurbishment of equipment and installations; capital funds for procurement and replacement of equipment; funds for construction or improvement of facilities or infrastructures; funds for maintenance in general; and funds for financing the aforementioned programs.
9. Establishment of independent programs of preventive maintenance, repair, refurbishment, improvements, upgrading, and replacement.
10. Attainment, through the aforementioned programs, of a safe, uninterrupted, efficient, and profitable operation of the various fixed and movable structures, systems, and equipment engaged in the operation of the Canal.
11. Contracting out for services and maintenance, whenever feasible from the point of view of operations, cost, and safety.
12. Other principles and criteria set forth in the regulations of the Authority.

## **Chapter VII** Environment and Canal Watershed

**Article 120.** Any regulation adopted by the Authority concerning water resources in the Canal watershed shall have, among others, the following purposes:

1. To manage the water resources for the operation of the Canal and the supply of water

for consumption by surrounding communities.

2. To safeguard the natural resources of the Canal watershed, especially in critical areas, for the purpose of preventing a reduction in the indispensable supply of water to which the above paragraph refers.

**Article 121.** The regulations adopted by the Authority shall consider, among other matters, the following:

1. The protection, conservation, and maintenance of the water resources of the Canal watershed in coordination with competent authorities.
2. The protection, conservation, maintenance, and improvement of the environment in Canal operations areas of compatibility and its system of lakes, in coordination with competent authorities.
3. The cleanup of Canal waters and coordination with competent authorities to protect the quality of the waters in the Canal Watershed.
4. The supervision of quantity and quality of water in the Canal watershed and its areas of impact.
5. The assessment of the environmental impact of any projects and activities that might significantly impact the environment in interdisciplinary consultation within the Authority, as well as measures relative to environmental protection in the Canal area and the Canal Watershed, taking into account the general provisions in force in Panama.
6. The routing of water through spillways to control flooding and pollution.
7. The maintenance of principal and auxiliary dams.
8. The regulating and damming of waters required for the operation of the Canal, as well as for consumption in surrounding communities.
9. The maintenance of an updated database on rainfall, spills, runoffs, and silting.
10. The coordination with State authorities having jurisdiction within the Canal watershed, including those to whom the law confers authority to issue prohibitions and penalties concerning the use of water resources.
11. The operation and modernization of the hydro-meteorological network within the Canal watershed.
12. The control of the spread of aquatic vegetation.
13. Prevention and control of oil spills and hazardous substances to protect the environment and maintain the ecological balance of the natural resources within the Canal watershed, as well as its buffer zones and protected areas.
14. The disposal of material dredged from the channel of the Canal, ports, and adjacent waters.

## **Chapter VIII**

### **Final Provisions**

**Article 122.** There shall be extracontractual responsibility for damages to the Authority, its workers, or assets in accordance with common law.

The statute of limitations for the Authority and its workers to claim compensation for damages referred to in the previous paragraph shall be two years. In the case of damages to the Authority, this term shall begin on the date the damages were

caused. In the case of damages to the workers, this term shall begin on the date the affected worker learned of said damages.

Should the criminal or administrative action for damages referred to in the previous paragraph be processed in due time, the statute of limitations on the legal action shall be effective on the date of the decision in the criminal action or administrative resolution, whichever the case may be.

For the civil claim to be allowed, it is not indispensable to subject it to the criminal jurisdiction of the courts.

**Article 123.** The Authority shall be domiciled in Panama City. The Authority may also maintain offices elsewhere in the Republic or in other countries for the sake of convenience.

**Article 124.** The Authority shall publish an official bulletin to announce the measures it has adopted. It shall include:

1. The Regulations.
2. The changes suggested for the tolls rates or the admeasurement system referenced in Article 9 of this Law.
3. The measures adopted by the Board of Directors or the Administrator.

**Article 125.** The Authority shall have all the powers, rights, and privileges granted to the State by procedural laws in any judicial action to which it is a party.

**Article 126.** In no case may a provisional stay be decreed through an administrative action filed with the court against any action of the Authority; nor is it lawful to suspend any action of the Authority appealed under the protection of Constitutional guarantees.

**Article 127.** Any violation of the provisions of this Law or its Regulations concerning the rules of navigational safety in the Canal shall be punished by the Authority with a fine of up to One Million Balboas (B/.1,000,000). In determining the amount of the fine, the following shall be taken into consideration:

1. Whether it is an individual or a legal entity.
2. The nature of the violation and the gravity of the offense.
3. Recidivism by the violator.
4. Any mitigating or aggravating circumstances under which the violation was incurred.

The Regulations shall determine the classification of the offenses and the appropriate procedure.

The fines referenced in the present article will be imposed without precluding the civil or criminal responsibilities that may arise from the penalized actions.

**Article 128.** An unpaid fine shall be assessed a surcharge of one percent (1%) for every 10 working days of late payment. The Authority may collect the unpaid fine and any accumulated surcharges through an executory proceeding.

## **Chapter IX**

### Temporary Provisions

**Article 129.** To achieve an effective control, the Authority, in coordination with the Panama Canal Commission, shall endeavor to obtain, prior to December 31, 1999, a general inventory of the assets of the latter, with follow-up and control mechanisms for its acquisitions and issues, so that as of the date of transfer of the Canal, said inventory agrees with the one submitted by the Panama Canal Commission to the Republic of Panama.

**Article 130.** The Executive Branch, through the Ministry of Finance and Treasury, shall transfer to the Authority property rights to all assets described in item 1 of Article 33 of this Law received with the transfer of the Canal at the values established by the corresponding transfer document.

**Article 131.** The Public Registry, at the request of the Authority, shall register all the lands and improvements built thereon which are used for the operation of the Canal to form one or several real estate properties registered in the name of said Authority.

**Article 132.** The State shall endow the Authority, or the agency in charge of the Canal transition, with the necessary funds for its operation during the transition period that will end on December 31, 1999; these funds may be reimbursed to the Central Government, pursuant to agreements between the Executive Branch and the Authority.

**Article 133.** The Authority shall recognize the validity of degrees, licenses, and professional credentials issued to its workers by its predecessor, the Panama Canal Commission.

**Article 134.** Whenever a conflict arises between this Law or the Regulations issued to implement it, and any law, legal ruling, or regulation or contract/law for a concession or of any other type in which the State is a party or a party in interest, either directly or through any of its agencies or institutions, other than the Authority, whether of a general or special nature, national or municipal, the organic Law of the Authority and its Regulations will take precedence.

## **Chapter X**

### Effective Date of the Law

**Article 135.** This Law shall become effective as of the date of its publication in the Official Gazette in every matter that does not contravene the provisions of the Panama Canal Treaty of 1977.