

WORLD TRADE ORGANIZATION

G/SCM/N/38/SLV/Suppl.1
G/SCM/N/48/SLV/Suppl.1
G/SCM/N/60/SLV/Suppl.1
G/SCM/N/71/SLV/Suppl.1
15 March 2002
(02-1366)

Committee on Subsidies and
Countervailing Measures

Original: Spanish

SUBSIDIES

New and Full Notification Pursuant to Article XVI:1 of the
GATT 1994 and Article 25 of the SCM Agreement

EL SALVADOR

Addendum

The following communication, dated 27 February 2002, has been received from the Permanent Mission of El Salvador.

In connection with our request for an extension of the transition period under the procedure established in document G/SCM/39 for El Salvador's programme of free-trade zones and inward processing warehouses, attached please find the notification pertaining to the aforesaid programme, pursuant to Item 1(b) of the document in question.

Pursuant to the Decision on Implementation-Related Issues and Concerns set forth in document WT/MIN/01/17, paragraph 10.6, and in document G/SCM/39, the Government of the Republic of El Salvador, in accordance with Item 1(b) of document G/SCM/39, is pleased to provide you with the initial notification following up our communication submitted to the WTO Committee on Subsidies and Countervailing Measures on 19 December 2001 and circulated as document G/SCM/N/74/SLV.

1. Description

Incentives for firms operating in free-trade zones or in inward-processing warehouses.

2. Period covered by the notification

1995-2001.

3. Policy objective and/or purpose of the subsidy

To promote increased greater job opportunities through investment incentives for firms engaging in exports of goods and services, with the aim of achieving sustainable economic growth.

4. Background and authority for the subsidy (including identification of the legislation under which it is granted)

A. BACKGROUND

The damage to the domestic infrastructure resulting from the armed conflict in El Salvador during the 1980s and early 1990s severely impacted production sectors, investment and export development. As a result of this situation, it was not possible to use the development programme described in this notification. Following the signing of the Peace Accords in 1992, however, EL Salvador began to benefit from the programme, which facilitated job creation—a prerequisite for alleviating poverty and overcoming the constraints that created such serious difficulties for the general public during the 1980s.

The earthquakes that hit El Salvador in 2001 were responsible for heavy job losses, particularly for the economically disadvantaged segment of the population, thereby increasing the need for jobs. According to a report from ECLAC, total losses amounted to US\$1,603 million, i.e. 12 per cent of GDP and 55 per cent of exports in 2000. In the aftermath of the catastrophe, El Salvador is faced with the need to improve the welfare of its people, and especially those most severely affected by the earthquakes. In creating opportunities to maintain and raise employment levels—and by extension, the welfare of the Salvadoran people—the benefits deriving from the programme are therefore essential for the country's economic and social development.

By the end of 2001, the number of people directly employed by firms benefiting under the Law on Export Processing Zones and Marketing exceeded 81,000. As a result, numerous households can now enjoy a secure source of income, employment opportunities, access to social security, education, health and a pension plan, etc. Furthermore, the activities in question helped create 164,000 jobs as an indirect result of the programme, thus generating a total volume of 245,000 new jobs, accounting for over 10 per cent of the labour force in El Salvador. It should be noted that approximately 90 per cent of the jobs created through this programme are held by women, a large percentage of whom are heads of household, thus giving these women the opportunity to improve the economic welfare of their families while giving them greater access to health, education and social security.

Exports from the in-bond assembly industry (*maquila*) amounted to US\$1,651 million, constituting El Salvador's principal export product to third markets.

246 firms benefited under the Law, of which 52 percent were foreign companies and the rest were domestic companies.

B. LEGISLATION

The Law on Export Development, approved pursuant to Legislative Decree No. 81 of 5 September 1974, published in the Official Journal (No. 180, Vol. 244) of 27 September 1974; abolished pursuant to the Law on the Free-Trade Zone and Bonded Warehouse Regime, approved pursuant to Legislative Decree No. 461 of 15 March 1990, published in the Official Journal (No. 88, Vol. 307) of 18 April 1990; and abolished pursuant to the Law on Export Processing Zones and Marketing, approved pursuant to Legislative Decree No. 405 of 3 September 1998, published in the Official Journal (No. 176, Vol. 340) of 23 September 1998 and as amended by Legislative Decree No. 464 of 22 October 1998, published in the Official Journal (No. 215, Vol. 341) of 18 November 1998.

5. Form of the subsidy (i.e. grant, loan, tax concession, etc.)

Because El Salvador is a developing country, it lacks the resources necessary to provide direct assistance to investors wishing to embark upon domestic operations. As the purpose of this programme was to promote economic and social progress, El Salvador is using a mechanism based on foregone government revenue, which is to be offset by increased job creation for Salvadorans.

As for the form of the incentives, the latter are provided to:

Users establishing operations in free-trade zones or outside such zones in inward processing warehouses, entailing the following benefits and incentives:

- (a) Exemption from import duties on machinery, equipment, tools, spare parts and accessories, utensils and other items necessary for carrying out the activity benefiting from incentives.
- (b) Exemption from import duty on raw materials, parts, pieces, components or elements, semifinished products, intermediate products, packaging, labels, packing, samples and patterns required for carrying out the activities that benefit from incentives. Under the abovementioned treatment, it is also possible to import machinery, apparatus, equipment, and any other items intended for repairs by the beneficiaries, including those exported products that are being reimported on a drawback basis;
- (c) Exemption from import duty on lubricants, catalysts, reagents, fuels, and any other substances or materials required for the firm's production activities;
- (d) Total exemption from income tax for the period during which the firm engages in operations in El Salvador, reckoned as from the tax year during which the beneficiary firm commences operations;
- (e) Total exemption from municipal taxes on the firm's assets and wealth for the period during which it conducts business in El Salvador, beginning from the time when the firm's operations get under way;

- (f) Total exemption from real estate transfer tax on purchases of real estate for use in the activities benefiting from the incentives.

6. To whom and how the subsidy is provided (whether to producers, to exporters, or others; through what mechanism; whether a fixed or fluctuating amount per unit; if the latter, how determined).

The benefits or incentives will accrue to those individuals or legal entities, whether domestic or foreign, that are the owners of firms which they develop, administer, or establish in free-trade zones or outside thereof, provided such firms are engaged in:

- (i) The production, assembly or "maquila", manufacturing, processing, transformation, or marketing of goods and services;
- (ii) the provision of services related to international trade, such as the collection, packaging or repackaging, re-export, cargo consolidation, distribution of merchandise, and other related or supplemental activities.

The subsidy is provided through exemption from duty, income tax and municipal taxes as specified in Item 5 above.

7. Subsidy per unit, or in cases where this is not possible, the total amount or the annual amount budgeted for that subsidy (indicating, if possible, the average subsidy per unit for the preceding year). Where provision of per unit subsidy information (for the year covered by the notification, the previous year, or both) is not possible, a full explanation.

Given the nature and scope of the programme, no statistical data are available reflecting the amount of incentives per unit.

8. Duration of the subsidy and/or any other time-limits attached to it, including date of inception/commencement.

It will be in line with the international obligations undertaken by El Salvador, and in particular the SCM Agreement.

9. Statistical data permitting an assessment of the trade effects of the subsidy. The specific nature and scope of such data is left to the judgement of the notifying Member. To the extent possible, relevant and/or determinable, however, it is desirable that such information include statistics of production, consumption, imports and exports of the subsidized product(s) or sector(s).

COMPARATIVE TABLE
(in millions of dollars)

SCHEME	1998	1999	2000
(a) World exports	5,429,400	5,594,300	Not available
(b) Salvadoran exports	2,446.1	2,497.5	2,950.5
(c) b / a	0.045%	0.044%	Not available
(d) Salvadoran net maquila exports	339.1	378.7	456.3
(e) d / a	0.0062%	0.0067%	Not available

Source: International Monetary Fund, Central Reserve Bank, Ministry of Economy.