

WORLD TRADE ORGANIZATION

RESTRICTED

G/SCM/W/461

3 September 2001

(01-4190)

**Committee on Subsidies and
Countervailing Measures**

Original: Spanish

IMPLEMENTATION-RELATED ISSUES REFERRED TO THE COMMITTEE AT THE REQUEST OF THE CHAIRMAN OF THE GENERAL COUNCIL ON 31 JULY 2001

Communication from El Salvador

The following communication, dated 31 August 2001, has been received from the Permanent Mission of El Salvador.

Please find attached a proposal from El Salvador on economic and social development programmes for circulation at the informal meeting of the Committee on Subsidies and Countervailing Measures on 11 September, in the context of the new implementation issues referred to the Committee by the General Council, and specifically the proposal by Jamaica.

Economic and social development programmes

- Trade liberalization and investment attraction are major factors in bolstering sustainable democracy by ensuring more and better development opportunities in terms of employment, health, education and security of the population.
- As a major contributing factor to this end, developing countries have established economic and social development programmes aimed at reducing the problems of poverty by providing better employment opportunities and hence ensuring greater prosperity and welfare for their people.
- These programmes are carried out through various schemes, such as Free Zones.
- Under these programmes, developing countries establish incentives to attract productive investment into their territory, as a major, vital factor for attaining their objectives.
- The incentives provided under these programmes include exemption from payment of internal taxes in their territory, as a way of attracting investment which would otherwise be unlikely to take place there.
- Developing countries do not have the resources to spend on subsidizing exports or to be able to support their production sectors through WTO-compatible internal aids, and therefore the only way they can encourage investment is by forgoing the levying of domestic taxes, in order

to be able to reduce poverty and overcome the lack of opportunities for the economically disadvantaged sections of the population.

- These programmes enable them to open up new and greater employment opportunities for their people, especially the poorer sectors, who can thereby obtain the incomes enabling them to raise their living standards and gain better access to health and education. In particular, these programmes make a great contribution to opening up opportunities for women, who are often the family head, and constitute the majority of the employees resulting from the investment under these programmes.
- The employment opportunities generated by these programmes contribute enormously to improving and bolstering a growing climate of security of the population and to stemming migration towards developed countries in search of employment opportunities.
- Altogether, these programmes have become one of the most important tools which developing countries can use to transfer real benefits to their people and ensure a climate of opportunity for income, health, education and security.
- Clearly, the function served by these programmes, far from being trade-related, is to provide greater economic and social well-being for the population, which is one of the loftiest, as well as the most just and legitimate, of aspirations.
- The important multilateral trading system established under the WTO must ensure that all countries, and particularly the developing and least-developed countries, can obtain real benefits for their people through trade and investment; it must never become a system that restricts or prohibits its members, and least of all the developing or least-developed countries, from being able to implement and maintain economic and social development programmes of the kind described above.
- These programmes must be reviewed from the standpoint of their vital positive economic and SOCIAL impact on the population of developing countries and not as schemes affecting international trade.

Proposal

Pursuant to Article IX, paragraph 2, of the Marrakesh Agreement Establishing the World Trade Organization, it is recommended that the General Council or the Ministerial Conference should adopt the following interpretation:

ECONOMIC AND SOCIAL DEVELOPMENT PROGRAMMES ADOPTED BY DEVELOPING AND LEAST-DEVELOPED COUNTRIES ARE VITALLY IMPORTANT TOOLS FOR THEM TO ATTAIN THEIR LOFTY, LEGITIMATE AND JUST OBJECTIVES OF ENSURING GREATER WELL-BEING FOR THEIR PEOPLES, BY ATTRACTING INVESTMENT WHICH FOSTERS THE GENERATION OF GREATER EMPLOYMENT OPPORTUNITIES, THEREBY OBTAINING HIGHER INCOMES FOR THEIR CITIZENS, IMPROVING ACCESS TO HEALTH AND EDUCATION AND BOLSTERING THEIR SECURITY.

THE INCENTIVES CONTAINED IN THESE ECONOMIC AND SOCIAL DEVELOPMENT PROGRAMMES, EXEMPTING INVESTORS COVERED BY SUCH PROGRAMMES FROM PAYMENT OF INTERNAL TAXES, WHICH ARE ONE OF THE MAJOR ELEMENTS FOR ATTRACTING SUCH INVESTMENT, SHALL NOT BE

CONSTRUED TO BE EXPORT SUBSIDIES WITHIN THE MEANING OF THE AGREEMENT ON SUBSIDIES AND COUNTERVAILING MEASURES, PROVIDED THAT:

- 1. THEY ARE PART OF AN ECONOMIC AND SOCIAL DEVELOPMENT PROGRAMME IMPLEMENTED BY A DEVELOPING OR LEAST-DEVELOPED COUNTRY;**
 - 2. SUCH PROGRAMMES ARE IN FORCE ON 31 DECEMBER 2001;**
 - 3. THESE INCENTIVES ARE NOT INCREASED BEYOND THE LEVELS OF EXEMPTION CONTAINED IN THE PROGRAMMES ON 31 DECEMBER 2001;**
 - 4. THE PROGRAMMES ARE NOTIFIED TO THE TRADE AND DEVELOPMENT COMMITTEE.**
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