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Mar del Plata, Argentina, May 1963

REPORT OF THE THIRD SPECIAL SESSION OF THE
CENTRAL AMERICAN ECONOMIC CO-OPERATION COMMITTEE

(San Jose, Costa Rica, 23 to 31 July 1962)

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Introduction

SCOPE OF THE REPORT

The present report gives an account of the discussions of the third special session of the Central American Economic Co-operation Committee, held at San Jose, Costa Rica, from 23 to 31 July 1962.

Part One deals with the background of the session; Part Two gives particulars of the membership of the delegations and of the organization of work, and sums up the proceedings of the session and the conclusions reached; and Part Three reproduces the resolutions adopted. The instruments signed by the Governments of the Central American countries on the occasion of the third special session of the Committee are included in the form of annexes.

/Part One

Part One

BACKGROUND DATA

On signing the General Treaty on Central American Economic Integration in December 1960, the Governments of Guatemala, El Salvador, Honduras and Nicaragua left the instrument in question open for the accession of any Central American State not originally a party thereto. At the same time, under the terms of resolution 105 (CCE), they urged the Government of Costa Rica to accede at the earliest possible date to the General Treaty and to the other agreements signed by them on the same occasion and likewise left open for the inclusion of Costa Rica as a Contracting Party.

Sixteen months after the signing of these treaties and agreements, the Government of Costa Rica decided to accede to the General Treaty, the Agreement establishing the Central American Bank for Economic Integration and the Managua Protocol on tariff equalization. To this end, it carried out the preliminary research and studies necessary to settle -- in conformity with the procedures laid down in the above-mentioned agreements -- the specific points which had already been dealt with in relation to each of the signatory States and which still remained pending in Costa Rica's case.

In the General Treaty, the signatory States, while granting one another free-trade treatment in respect of most of the products originating in their respective territories, agreed to establish a regional common market and to take the necessary steps to bring it into full operation within a period of five years and to ensure that it functioned satisfactorily. Outstanding among these measures were the establishment of the Central American import tariff, in accordance with the terms of the relevant agreement previously signed, and the adoption of a Central American régime of fiscal incentives to industry. The studies carried out in 1961 and 1962 under the Economic Integration Programme were primarily directed towards the attainment of these two objectives.

/As regards

As regards tariff equalization, the work in question entailed three different sessions of the Central American Trade Sub-Committee. This was indispensable, first on account of the large number of tariff items on which duties had to be equalized; secondly because it was necessary to pursue, through equalization, a tariff policy calculated to promote the region's economic development; and thirdly owing to the increasing complexity of the tasks involved as the equalization process advanced.

Similarly, the drafting of a standard system of tax incentives to industrial development called for three different meetings of the ad hoc Working Group established under resolution 85 (CCE) of the Central American Economic Co-operation Committee.

The draft protocol to the Central American Agreement on the Equalization of Import Duties and Charges and the draft Central American Agreement on Tax Incentives to Industrial Development, submitted to the consideration of the Committee at its third special session, are the outcome of eighteen months' activities on the part of the Central American Trade Sub-Committee and the Working Group mentioned above, with advisory assistance from the ECLA secretariat and, since its establishment, from the secretariat of the General Treaty. The final texts of both drafts were prepared at the Consultative Meeting held at San Jose, Costa Rica, from 16 to 21 July 1962.

With the adoption of these two new agreements, the Central American Governments will have made substantial progress towards the fulfilment of two requisites for economic integration, which became more imperative than ever with the entry into force of the General Treaty as from June 1961. On the one hand, the system of incentives to the economic development of the area and to the expansion of trade among the Contracting Parties will have been perfected. On the other, new and important provisions will be established to ensure, as far as tariff policy and the tax exemption instrument is concerned, the elimination of possible sources of unfair competition within the area and the maintenance of a proper balance as between the development of the various countries.

/Part Two

Part Two

THIRD SPECIAL SESSION OF THE COMMITTEE

A. Membership, attendance and organization of work

The session was attended by delegations from Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama. Representatives of United Nations organs, of the Organization of American States (OAS) and of other international and Central American bodies were also present. The delegations were composed as follows:

(a) Delegations of member countries

Guatemala

Chairman of the delegation: Jorge L. Caballeros, Minister for Economic Affairs;

Representative of the President of the Republic: Julio Prado García Salas, Minister for Co-ordination of Central American Integration;

Members: Mario Efraín Hernández Maldonado; Hugo Ordoñez; Oscar Cobar Castillo; Gerardo Martínez Ramos; Luis F. López Valdizón; Carlos A. Steiger; Gilberto I. Corzo I; Oscar René Chiu Fuentes; Joaquín Colina Campollo; Mario Rey Rosa; Luis Antonio Díaz Vasconcelos; Gert Rosenthal;

El Salvador

Chairman of the delegation: Salvador Jáuregui, Minister for Economic Affairs;

Members: Víctor M. Cuéllar Ortiz; Juan Adalberto Menjivar; Ricardo Escoto; Ricardo Garza Arriaza; Alfonso Moisés-Beatriz; Abraham J. Siman;

Observer: José Mixco;

Honduras

Chairman of the delegation: Jorge Bueso Arias, Minister for Economic and Financial Affairs;

Members: Mario A. Rendón; Gautama Fonseca; Héctor Alfonso Pineda L.; José Vicente Díaz Reyes; Ricardo Perdomo;

Advisers: Moisés Herrera; Luis Adalberto Figueroa Ponce; Zacarías E. Bendeck;

/ Nicaragua

Nicaragua

Chairman of the delegation: Juan José Lugo Marengo, Minister for
Economic Affairs;

Members: Gustavo A. Guerrero; Jorge Armijo Mejía; Gustavo A. Fernández;
Manuel Castillo Jarquín; Carlos Gabuardi;

Costa Rica

Chairman of the delegation: Raúl Hess Estrada, Minister for Economic
and Financial Affairs;

Members: Rodrigo Soley; Fernando Fournier; Manuel Guevara; José Sancho;
Alvaro Sancho; Lino Vicarioli; Rigoberto Navarro Meléndez;
Francisco Terán Valls; Rodolfo Trejos Donaldson; Ronald Odio Hernández;
Trino Araya; Carlos Yglesias; Rafael Angel Arguedas; Alvaro Jiménez;

(b) Delegation of Panama

Chairman of the delegation: Jorge Ricardo Riba;

Members: Germán Rodríguez Jr.; Guillermo Chapman; Rodrigo Nuñez;

(c) Permanent Secretariat of the General Treaty on
Central American Economic Integration (SIECA)

Pedro Abelardo Delgado; Alberto Fuentes Mohr; Mauricio Baca Muñoz;
Abraham Bennaton Ramos; Amilcar Martínez Arguera;

(d) Observers

(i) International agencies

International Labour Organisation (ILO)

Livio A. Costa

United Nations Food and Agriculture
Organization (FAO)

Angelo De Tuddo

Madan Mohan Babbar

Antonio Gargurevich

International Monetary Fund (IMF)

Jorge A. Montealegre

Sergio Nicolau

International Bank for Reconstruction
and Development (IBRD)

Fawzi Habib

Organization of American States (OAS)

Alvaro Magaña

/Inter-American

Inter-American Development Bank (IDB)	Juan Angel Núñez Aguilar Laureano Rodrigo Arturo Morales Flores Rodrigo Botero
Panel of Development Experts of the Alliance for Progress (CEDAP)	Manuel Noriega Morales
(ii) <u>Central American agencies</u>	
Organization of Central American States (OCAS)	Marco Tulio Zeledón Guillermo Dávila C. Demetrio Gallegos Victor Manuel Nieto Garay Jorge Porras Zúñiga
Advanced School of Public Adminis- tration for Central America (ESAPAC)	José Galván Escobedo
Central American Research Institute for Industry (ICAITI)	Otto J. Stern Mario Dalponte
Central American Bank for Economic Integration (BCIE)	Enrique Delgado

The session was also attended, on behalf of the Technical Assistance Board, by the Regional Representative for Central America, Luis María Ramírez Boettner; and on behalf of the United Nations Information Centre for Central America, by Franklin E. Kozik.

The secretariat was represented by the Director of ECLA's Mexico Office, Cristóbal Lara Beautell, and by Carlos Manuel Castillo, Deputy Director; Porfirio Morera Batres, of the Bureau of Technical Assistance Operations (BTAO); Alvaro de la Ossa, José Tomás Zepeda and Enrique Díez-Canedo.

Raúl Hess Estrada, Chairman of the Delegation of Costa Rica, was elected Chairman of the session, and Jorge Bueso Arias, Chairman of the delegation of Honduras, was elected Rapporteur.

The proceedings of the Committee were conducted in plenary meetings. For the study of certain aspects of the draft agreements to be considered by the third special session, working groups were constituted comprising representatives of all delegations.

/B. Agenda

B. Agenda

The Committee considered the Provisional Agenda (E/CN.12/CCE/254) drawn up by the secretariat and adopted it in its original form, the sole exception being that under item 5 a new heading was incorporated to include discussion of Costa Rica's accession to the Managua Protocol on equalization of import duties and charges.

In connexion with agenda item 7 (place and date of the eighth regular session), the delegation of Nicaragua expressed the view that the Committee should take that opportunity of considering for signature a first protocol to the Agreement on the Régime for Central American Integration Industries, incorporating such industrial projects as might be ready in time for the next regular session, even if there were countries that for one reason or another did not submit projects for integration industries.

The delegation of Nicaragua likewise requested that the third special session then in progress should discuss the possibilities for a joint Central American policy vis-à-vis the Coffee Agreement that was being prepared at United Nations Headquarters. The Committee decided not to include this item on the agenda. It was considered at a special session of the Central American Economic Council held on 28 July.

It was decided that at a session of the Economic Co-operation Committee in the near future attention should be devoted to the following points put forward by the delegation of Guatemala:

- (a) Formulation of a Central American code of industrial standards;
- (b) Establishment of a Central American tourist industry sub-committee and of a regional tourist institute;
- (c) Trade relations between Mexico and Central America and, in general, between Central America and the Latin American Free-Trade Association;
- (d) Application of the decimal metric system;
- (e) Study of wages in the Central American countries.

Again at the request of Guatemala, it was decided that the Ministers for Economic Affairs should consider the participation of the Central American Economic Council in the work of reorganization of OCAS, in so far as its economic aspects were concerned.

/The agenda

The agenda adopted, with the single addition indicated above, was as follows:

1. Opening addresses
2. Election of Chairman and Rapporteur
3. Consideration and adoption of agenda
4. Accession of Costa Rica to the Central American Common Market
 - (a) Accession of Costa Rica to the General Treaty on Central American Economic Integration and to the Agreement establishing the Central American Bank for Economic Integration
 - (b) Adoption of measures for negotiation of the schedules of goods which will be subject under the General Treaty to special interim régimes exempting them from free trade between Costa Rica and the other member countries

Documents:

Nota de la secretaría sobre la Tercera Reunión Extraordinaria del Comité de Cooperación Económica del Istmo Centroamericano (E/CN.12/CCE/255)

Nota conjunta de la secretaría de la CEPAL y de la Secretaría Permanente del Tratado General de Integración Económica Centroamericana, sobre la adhesión de Costa Rica al mercado común centroamericano (E/CN.12/CCE/256)

Instruments of Accession of Costa Rica to the General Treaty on Central American Economic Integration and to the Agreement establishing the Central American Bank for Economic Integration (E/CN.12/657; E/CN.12/CCE/258/Rev.1)

Reference documents:

General Treaty on Central American Economic Integration (E/CN.12/552)

Agreement establishing the Central American Bank for Economic Integration (E/CN.12/552)

Report of the seventh session of the Central American Economic Co-operation Committee (E/CN.12/552)

5. Tariff equalization
 - (a) Accession of Costa Rica to the Managua Protocol on tariff equalization
 - (b) Consideration of the draft protocol to the Central American Agreement on Equalization of Import Duties and Charges

/Documents:

Documents:

Nota de la secretaría sobre la Tercera Reunión Extraordinaria del Comité de Cooperación Económica del Istmo Centroamericano (E/CN.12/CCE/255)

Informe de la Reunión de Consulta celebrada por los Gobiernos Centroamericanos del 16 al 21 de julio de 1962 (E/CN.12/CCE/253/Rev.1)

Draft protocol to the Central American Agreement on Equalization of Import Duties and Charges (E/CN.12/657; E/CN.12/CCE/258/Rev.1)

Informe de la Décima Reunión del Sub-Comité de Comercio Centroamericano (E/CN.12/CCE/234)

Informe de la Undécima Reunión del Sub-Comité de Comercio Centroamericano (E/CN.12/CCE/239)

Informe de la Duodécima Reunión del Sub-Comité de Comercio Centroamericano (E/CN.12/CCE/247)

Reference documents:

Central American Agreement on Equalization of Import Duties and Charges (E/CN.12/533)

Protocol to the Central American Agreement on Equalization of Import Duties and Charges (E/CN.12/552)

6. Equalization of tax incentives to industrial development

- (a) Consideration of the draft Central American Agreement on Tax Incentives to Industrial Development

Documents:

Nota de la secretaría sobre la Tercera Reunión Extraordinaria del Comité de Cooperación Económica del Istmo Centroamericano (E/CN.12/CCE/255)

Informe de la Reunión de Consulta celebrada por los Gobiernos Centroamericanos del 16 al 21 de julio 1962 (E/CN.12/CCE/253/Rev.1)

Draft Central American agreement on tax incentives to industrial development (E/CN.12/657; E/CN.12/CCE/258/Rev.1)

Informes de las reuniones celebradas por el Grupo de Trabajo sobre Equiparación de Incentivos Fiscales al Desarrollo Industrial (E/CN.12/CCE/238/Rev.1; E/CN.12/CCE/244/Rev.1; and E/CN.12/CCE/249/Rev.1)

Reference documents:

Notas de la secretarías sobre la equiparación de incentivos fiscales al desarrollo industrial (E/CN.12/CCE/237 and E/CN.12/CCE/243)

Leyes de Fomento Industrial de Centroamérica (E/CN.12/CCE/235; TAO/LAT/29)

7. Place and date of the eighth session
8. Consideration and adoption of the report of the Rapporteur
9. Closing meeting

C. Account of proceedings

1. Accession of Costa Rica to the
Central American Common Market

(a) General Treaty and Central American Bank for Economic Integration

During the session to which the present report relates, Costa Rica acceded to the instruments establishing the Central American Common Market to which it had not originally been a party. At the opening meeting, the Government of Costa Rica signed instruments of accession to the General Treaty on Central American Economic Integration and to the Agreement establishing the Central American Bank for Economic Integration.^{1/} In addition, as a result of the proceedings of the Committee, it acceded to the Protocol on tariff equalization signed at Managua by the other four Central American countries. Costa Rica thus becomes a party to all the Central American agreements on economic integration, since it had previously signed the Multilateral Treaty on Free-Trade and Central American Economic Integration; The Central American Agreement on Equalization of Import Duties and Charges; the Agreement on the Régime for Central American Integration Industries; and other pacts concluded by the Central American countries.

The instruments signed at the third special session by Costa Rica, which signify its membership of the common market, include the necessary commitments to negotiate with the other Central American countries the schedules of goods subject to the special interim régimes exempting them from total free-trade treatment as referred to in article IV of the General Treaty. The Government of Costa Rica thus undertakes to begin the relevant negotiations with the other Contracting States and to pursue them uninterruptedly until the requisite protocol has been signed between them. Both instruments - that of Costa Rica's accession to the General Treaty and the supplementary protocol to be signed by the five Governments - will enter into force as from the date on which the latter comes into effect.

^{1/} See annex A.

The instrument whereby Costa Rica accedes to the Central American Bank for Economic Integration will enter into force on the date when the relevant instrument of ratification is deposited by Costa Rica.

His Excellency, the President of the Republic of Costa Rica, Mr. Francisco J. Orlich, was present at the act of accession; he pointed out that his Government was thus honouring its pledge to Costa Rica to see that the country continued to participate fully in the regional economic integration programme.

The Government of Costa Rica, through the Minister for Economic and Financial Affairs, stressed the need for the progress of economic integration to be furthered by more and more flexible and efficacious mechanisms, and for the cultivation of an increasingly Central American rather than a merely national approach to the region's development problems.

On behalf of the other delegations, the Minister for Economic Affairs of the Republic of Nicaragua, as Chairman of the Committee, stressed the vital importance of the solemn act with which the third special session of the Committee had been inaugurated.

(b) Special trade régimes

Complete accession of Costa Rica to the Managua treaties entails the determination of the interim régimes of exemption from free-trade treatment contemplated in article IV of the General Treaty, as between Costa Rica and each of the other Contracting Parties. These régimes are negotiated bilaterally by pairs of countries and are endorsed at the multilateral level. The Committee decided to expedite the process of completing Costa Rica's accession as rapidly as possible. To this end, during the third special session negotiations were begun, and schedules of the goods which would be subject to the régimes in question were exchanged, on the understanding that these negotiations would subsequently be pursued until, by October 1962, a multilateral agreement was established on the goods to which the interim régimes are to be applied. The Committee also decided that the relevant draft protocol should be submitted to the Governments and, if appropriate, signed by them, at a special session to be held during

/the second

the second half of October 1962. The foregoing decisions found expression in resolution 109 (CCE), "Accession of Costa Rica to the Central American Common Market".

(c) Accession of Costa Rica to the Managua Protocol on tariff equalization

During the third special session the Government of Costa Rica informed the Committee of its decision to accede as soon as possible to the Protocol on tariff equalization signed at Managua by the Governments of Guatemala, Honduras, El Salvador, Nicaragua. The intention of the Government of Costa Rica was to adopt in their entirety the uniform levels previously agreed upon by the Contracting Parties, as well as each and all of the provisions of the above-mentioned Protocol. It was necessary to establish for Costa Rica, with reference to the progressive equalization of duties, the initial tariffs and the tariffs applicable in each year of the interim period. To this end, the requisite negotiations were conducted in the course of the third special session. The tariff items for which immediate equalization had been agreed upon by the other countries but which Costa Rica wished to adopt progressively were also negotiated. As a result of the proceedings, the Committee decided to recommend to the Governments for their signature the protocol formulated in the course of the session. In all, Costa Rica adopted for progressive equalization nineteen of those tariff items in respect of which immediate equalization had previously been decided on. At the same time, seventeen of the items for which progressive equalization had been agreed upon by the other Contracting Parties were adopted for immediate equalization by Costa Rica. The interim periods for Costa Rica will also begin on the same date as was established by the other Contracting States in the Managua Protocol.

The protocol formulated by the Committee appears as annex B to the present report. In this connexion, resolution 110 (CCE) - "Accession of Costa Rica to the Managua Protocol on tariff equalization" - was adopted.

2. Tariff equalization

The background documents available for the study of this agenda item included the report of the Consultative Meeting, the draft protocol which it had formulated and the schedules negotiated since the tenth session of the Trade Sub-Committee, as well as the ECIA secretariat studies on goods requiring additional background data before equalization was attempted.

/The Committee

The Committee considered 632 tariff items, for 603 of which standard tariff levels were agreed upon. Of these, 524 were adopted for immediate equalization and 79 for equalization on a progressive basis.

The Protocol to the Agreement on tariff equalization formulated by the Committee at the present third special session - the "San Jose Protocol" - and recommended by it to the Governments for their signature, contains, in addition to the usual general provisions, a chapter comprising special clauses relating to milk products, another on unfair trade practices and a third on amendments to the Managua Protocol.

In the chapter on milk products, a system of import quotas for powdered milk is established. These quotas are determined in such a way as to ensure that Central American production plus the sum total of imports will completely satisfy the existing demand for powdered milk in the market of each of the Contracting States. The amount of the quotas is fixed in relation to commercial consumption in each country. Imports of goods intended for aid and welfare programmes outside the sphere of commercial consumption are excluded from this quota system. Consequently, Governments will be able to import or to authorize the importation of powdered milk for non-commercial purposes without any regard for whatever quota may have been fixed for each individual country. The quotas are of a non-cumulative character and must be taken up within the periods for which they are authorized. Provision is made for adjustment procedures to cope with production shortages and to safeguard consumer interests. With this last end in view, the Committee decided to include in the agreement a clause stipulating that the Executive Council should continue to establish import quotas even when Central America's own output became sufficient to cover all the requirements of the regional market. These quotas were not to exceed 15 per cent of each country's commercial consumption of powdered milk.

The Committee considered the measures that would be required to control unfair trade practices in respect of goods whose importation from outside the area was prejudicial to the interests of Central American production. Special attention was devoted to the question of goods imported at prices
/lower than

lower than their normal value, and to export subsidies. It was decided that, in the above-mentioned cases, the Executive Council would give a ruling in accordance with the principles and definitions established in the General Treaty on Economic Integration. If unfair practices were shown to exist, the Executive Council itself would fix the appropriate penalties, and its decisions would be binding on all member countries.

The chapter on amendments in respect of the tariff items agreed upon in the Managua Protocol comprises only a change in the progressive system applicable to three tariff items and in the level agreed upon for one of these.

The delegation of Nicaragua pointed out that the machinery, equipment and capital goods tariffs had been equalized at relatively low levels. In its opinion, higher duties than those agreed upon should be assigned to capital equipment in the Central American common tariff. This would provide the Central American area as a whole with a valuable instrument for the subsequent formulation of a Central American trade policy vis-a-vis other countries or groups of countries at a higher level of development.

The delegation of Costa Rica requested that the present report should place on record its decision to propose, at the earliest opportunity, the renegotiation of the standard duties that had been decided upon in the Agreement on Equalization of Import Duties and Charges, signed at San José, Costa Rica, in 1959, in respect of the following tariff items:

- 081-09-01 Animal feeds mixed with chemical and biological products such as bone meal, dried blood, etc.
- 081-09-02 Food wastes and prepared animal feeds, n.e.s.
- 099-09-03 Yeasts and leavens of all kinds, in any form, except those for pharmaceutical use and enzymes.

Similarly, the delegation of Costa Rica requested that note be taken of its inability to raise the initial tariff for cement on the present occasion, for want of sufficient background data on which to base its decision, but offered to increase it in the future should such a step prove feasible when the necessary studies and research had been carried out.

/During the

During the discussion of equalization problems, several delegations pointed out that sufficiently flexible procedures for altering the standard duties when it became essential did not yet exist, and would have to be devised.

As a result of the negotiations conducted during the present third special session, the Central American common tariff is virtually complete. Briefly, between the signing of the basic equalization agreement and the date of the session, 1,220 tariff items, representing 95 per cent of the total tariff, were equalized. Only in respect of 56 tariff items is equalization still pending. In the San José Protocol the Central American Governments undertake to equalize these not later than one year from the date of entry into force of the instrument in question. Most of the items outstanding are those in respect of which equalization presents the greatest difficulties, and will call for detailed technical and economic studies whereby standard duties that will meet these difficulties can be determined. The items still pending include electric light bulbs, which the Committee discussed at length without reaching agreement on the tariff level that might be established. The delegation of El Salvador said that the industry in question was important for the development of Central America, and suggested that the Central American Governments should establish special provisions defining the trade régime applicable to its products during the initial phase of its development, as well as measures conducive to the gradual manufacture in Central America of parts which to begin with would have to be imported.

The protocol on equalization formulated during this third session is reproduced as annex C of the present report. In this connexion, resolution 111 (CCE) was adopted: "Protocol to the Agreement on Equalization of Import Duties and Charges" ("San José Protocol").

3. Tax incentives to industrial development

In considering this item the Committee had before it the reports of the three meetings of the Working Group on the subject, and the conclusions of the Consultative Meeting. The Committee devoted special attention to the chapters of the Treaty referring to regional co-ordination in the application of the Treaty, and to the provisions aimed at introducing /consistency into

consistency into the benefits enjoyed by industrial enterprises under national legislation on development, both as regards the legislation of the various countries, and in relation to the benefits accorded by the Treaty.

With respect to the first point, the Committee agreed that the description and classification of industries should be made on a completely Central American basis within a period of not more than seven years from the date of entry into force of the Agreement. The Agreement also includes special provisions to deal with the difficulties that may arise for industrial enterprises during the interval before the Agreement on Tax Incentives to Industrial Development can be applied on a fully regional basis.

The Committee decided that enterprises that came under national development legislation would continue to enjoy the benefits they derived from such legislation, except as regards customs exemptions on building materials. In any case, such enterprises might ask to be reclassified in accordance with the Agreement.

The enterprises that did not opt for reclassification, and which should be classified in group C, would continue to enjoy the benefits conferred by national legislation, except for dispensations from payment of duty on imports of building materials. Since exportation of their products within the Common Market might place other enterprises producing the same goods at a disadvantage if they were receiving a lower rate of benefits, it was provided that such exports would be considered as subsidized, and therefore subject to the provisions of article XI of the General Treaty.

Furthermore, the Agreement drawn up involves two important criteria for scaling the exemptions granted in the light, firstly, of the manpower employed by the industrial enterprises, and secondly, of the principle of a balanced economic development as between the countries that belong to the Central American Common Market. In view of the importance for the Central American economies of absorbing manpower, it is laid down in the Agreement that enterprises that meet the requirements for group B can receive the maximum exemptions, granted to group A, and be classified as

/belonging to

belonging to the latter, if they employ a labour force whose cost represents a large proportion of the total cost of production; this percentage to be determined by the permanent secretariat of the General Treaty on the basis of studies on the subject requested by the Central American Research Institute for Industry (ICATTI).

As regards the second point, account was taken of the fact that the various Central American countries differ with respect to the facilities that can be provided for new industrial investment. When the Committee discussed this point, the view prevailed that the principle of balanced economic development, that had been part of the integration programme from the outset, should be introduced somewhere in the Agreement. For this purpose a special provisional article was added, enabling Honduras and Nicaragua to extend the period of certain exemptions for industries in groups A and B. When this point was discussed it was pointed out that the best method of redressing the imbalance in the development of the various countries was a regional economic development plan.

A number of alternatives and implications were considered with respect to the reimbursement of taxes paid on imports of raw materials, containers and semi-processed goods used in the production of articles for export outside Central America. It was decided to include in the Agreement a provision of a general nature, applicable to products of both classified and unclassified enterprises, to allow member States to make such reimbursements without this being regarded as infringing the equality of benefits aimed at. The Committee unanimously agreed that to adopt this provision would not prejudice, in either sense, the interpretation of the articles of the General Treaty relating to export subsidies and to unfair trade practices within the Central American region.

With respect to the chapter of the Agreement providing that the Contracting Parties shall sign a special protocol relating to assembly industries, the delegation of Costa Rica asked that the report should mention the Committee's view that the tax incentives granted to assembly plants before the entry into force of the Agreement, under national legislation, would remain in force and not be affected by the provisions

/of the

of the last paragraph of the seventh provisional article with respect to article 47, the Committee considered that the regulations referring to the Agreement on Tax Incentives should be agreed on a multilateral basis and adopted by each of the Contracting Parties in accordance with their individual legal and constitutional rules. The delegation of Honduras intimated that in its view the regulations should be the subject of a separate protocol signed by the Contracting Parties to the Agreement.

The delegation of Guatemala requested that its proposal be recorded to include in the Agreement an allocation of 2 per cent of the exempted duties for the purpose of providing financial support to national centres of industrial production. The proposal was not adopted.

Exemptions applicable to enterprises producing pharmaceutical products and medicines were regarded as a special case. The Committee examined a draft provision intended to exempt such enterprises, whether already existing or established at a later date, for a period of ten years, from the payment of duties on raw materials, machinery and equipment, semi-processed goods and fuels. The Committee decided not to act on this proposal, on the grounds that it did not have sufficient information on which to base a decision.

However, the economic and social importance of the activity in question was recognized, and it was agreed to include in the Agreement an undertaking by the Contracting Parties to sign a protocol on the subject, to be considered at the Committee's next session. For this purpose the Ministers of Economic Affairs, in their capacity as the Executive Board of ICAITI, recommended that that body should undertake the technical studies required for drafting such a protocol.

In concluding its examination of the Agreement of Tax Incentives, the Committee decided to recommend to Governments that between the date of the signing of the Agreement and the date of its entry into force, they should endeavour, in granting tax benefits under their national legislation, to bring these benefits into line with the terms of the Agreement, especially as regards the amount and period of the exemptions.

/The text

The text as drafted by the Committee includes tax benefits that are broader than those contained in the Draft Agreement. When this point was discussed, various representatives expressed the view that such benefits should lead to lower prices to the consumer, and to higher wages in the industries receiving the benefits.

The Agreement as drafted by the Committee appears as annex D of the present report. The following resolutions were adopted on the subject: 112 (CCE), "Central American Agreement on Tax Incentives"; 113 (CCE) "Granting of tax incentives under national legislation", and 114 (CCE) "Tax incentives to the manufacture of pharmaceutical products and medicines".

4. Restrictions on trade

With a view to ensuring normal competition in the Common Market, and avoiding practices in restraint of international trade between the various countries, the Committee considered a number of ways of preventing practices arrangements or agreements on the part of industrial or commercial enterprises tending to distort or restrict the free trade that the Central American States have accorded one another.

The Committee attached the greatest importance to finding effective means of preventing such practices, but considered that it was essential that the necessary economic studies and research should be carried out first. For this purpose they agreed to ask the permanent secretariat of the General Treaty and the ECLA secretariat to undertake the studies in question and to prepare a draft protocol to the General Treaty on this subject.

On this question the Committee adopted resolution 115 (CCE), "Restrictions on inter-Central American trade".

5. Other business

The Government of the Dominican Republic sent the Committee a message expressing its great interest in the work of the present session, and in the process of Central American integration, and its wish for closer economic ties with the other countries of the region. The Committee welcomed the message, and expressed its sympathy with the Dominican Republic's desire for closer ties.

/In concluding

In concluding the work of the session, the Committee stated that if the technical and economic studies relating to integration industry projects were concluded in time, they would be considered at the Committee's eighth session, with a view to preparing a protocol to the Agreement on the Régime for Central American Integration Industries. For this purpose it asked the permanent secretariat of the General Treaty to proceed with the necessary procedures and studies, and asked the assistance of the ECLA secretariat in preparing the relevant protocol or protocols.

6. Date and place of the next session

It was decided to hold the eighth regular session of the Committee at San Salvador during the last quarter of 1962. In this connexion the Committee adopted resolution 116 (CCE), "Date and place of the next session".

7. Votes of thanks

The Committee expressed its deep gratitude to the Government of Costa Rica for the facilities and assistance made available for the session, to the Chairman of the Committee for his efficient conduct of the proceedings, and to the Rapporteur for the report he had presented. The Committee passed a special vote of confidence and thanks in appreciation of the contribution and valuable assistance given by the secretariat of ECLA in the work done at the session, and throughout the process of Central American integration. It also expressed its gratitude for the work done by the permanent secretariat of the General Treaty. Lastly, it extended its thanks to the Advanced School of Public Administration for Central America (ESAPAC) for the facilities provided for the session.

Part Three

RESOLUTIONS ADOPTED

Contents

- Accession of Costa Rica to the Central American Common Market
(resolution 109 (CCE))
- Accession of Costa Rica to the Managua Protocol on tariff equalization
(resolution 110 (CCE))
- Protocol to the Agreement on Equalization of Import Duties and Charges
(San José Protocol) (resolution 111 (CCE))
- Central American Agreement on Tax Incentives
(resolution 112 (CCE))
- Granting of tax incentives under national legislation
(resolution 113 (CCE))
- Tax incentives to the manufacture of pharmaceutical products and medicines
(resolution 114 (CCE))
- Restrictions on inter-Central American trade
(resolution 115 (CCE))
- Place and date of the next session
(resolution 116 (CCE))

/ACCESSION OF

ACCESSION OF COSTA RICA TO THE CENTRAL AMERICAN COMMON MARKET

109 (CCE) Resolution adopted on 30 July 1962
(E/CN.12/CCE/259)

The Central American Economic Co-operation Committee,

Considering that the Republic of Costa Rica, by virtue of the instruments signed by its Government on 23 July 1962, is a party to the General Treaty on Central American Economic Integration and a member of the Central American Bank for Economic Integration;

Taking into account the instrument of accession of Costa Rica to the Protocol to the Central American Agreement on Equalization of Import Duties and Charges signed at Managua on 13 December 1960, and recommended in resolution 110 (CCE) for signature by Governments;

Congratulates the Government of the Republic of Costa Rica on its supremely significant and historic decision to accede to the treaties establishing the Common Market, and expresses its deep satisfaction that by this means the scope of the area's economic integration movement is enlarged to include the whole of Central America;

Declares its firm intention to embark forthwith upon the studies required in connexion with the accession of Costa Rica to the General Treaty, and to complete them within the shortest possible space of time; and

Decides:

1. To initiate, in the course of the third special session, the necessary bilateral negotiations for the purpose of drawing up the schedules of goods which will be subject to interim régimes of exemption from free-trade treatment, between Costa Rica and each of the other Contracting States and to pursue these negotiations uninterruptedly until the schedules are established at the multilateral level in a protocol to be submitted to the Central American Governments for their consideration and signature;

2. To recommend to Governments that during the first week of October 1962 a consultative meeting of government officials conduct the first multilateral negotiation of the schedules of goods subject to interim régimes of exemption from free-trade treatment between Costa Rica and each of the other Central American countries, so that the protocol in which these régimes are to be established may be signed by the five Governments during the second fortnight in October 1962.

/ACCESSION OF

ACCESSION OF COSTA RICA TO THE MANAGUA PROTOCOL ON TARIFF EQUALIZATION

110 (CCE) Resolution adopted on 30 July 1962
(E/CN.12/CCE/250)

The Central American Economic Co-operation Committee,

Considering:

(a) that the Protocol to the Central American Agreement on Equalization of import Duties and Charges, signed at Managua on 13 December 1960, is open for the accession of any Central American State which is a Party to the aforesaid Agreement;

(b) that Costa Rica signed the above-mentioned Agreement relating to tariff equalization on 1 September 1959,

(c) that during the current third special session the Committee has discussed and agreed upon the procedures for putting its accession into effect;

Decides to recommend to Governments that on the occasion of this third special session of the Central American Economic Co-operation Committee, the representatives of the Contracting States, invested with full powers to that end, proceed to sign, in the City of San José, Costa Rica, the instrument of accession of Costa Rica to the Managua Protocol on tariff equalization.

/PROTOCOL TO

PROTOCOL TO THE AGREEMENT ON EQUALIZATION OF IMPORT DUTIES
AND CHARGES ("SAN JOSE PROTOCOL")

111 (CCE) Resolution adopted on 30 July 1962
(E/CN.12/CCE/261)

The Central American Economic Co-operation Committee,

Considering:

- (a) that by virtue of article I of the Central American Agreement on Equalization of Import Duties and Charges and article II of the General Treaty on Central American Economic Integration, the Central American States undertook to set up a uniform import tariff consistent with the integration and economic development of Central America;
- (b) that the free-trade régime established in the General Treaty on Central American Economic Integration has been in force since June 1961;
- (c) that it is necessary to complete the constitution of the common market and thus promote the development of Central America and the expansion of inter-Central American trade;

Bearing in mind the proceedings of the Central American Trade Subcommittee at its tenth, eleventh and twelfth sessions, and the findings of the Consultative Meeting which preceded the present session;

Decides to recommend to the Governments that on the occasion of the current third special session of the Central American Economic Co-operation Committee, the representatives of the Contracting States invested with full powers to that end, sign, in the City of San José, Costa Rica, the Protocol to the Central America Agreement on Equalization of Import Duties and Charges (the "San José Protocol").

/CENTRAL AMERICAN

CENTRAL AMERICAN AGREEMENT ON TAX INCENTIVES

112 (CCE) Resolution adopted on 30 July 1962
(E/CN.12/CCE/262)

The Central American Economic Co-operation Committee

Considering that, given the conditions existing in a common market such as that of Central America, it is essential to ensure equality of tax benefits to encourage industrial growth, in accordance with the concept of balanced economic development, so as to ensure industrial investment with due regard to the real economic situation of the various countries;

Bearing in mind the achievements of the Working Group set up by the Committee in resolution 85 (CCE) to tackle this problem, and the findings of the Consultative Meeting, as well as the text of the relevant draft formulated in compliance with article XIX of the General Treaty on Central American Economic Integration,

Decides to recommend to Governments that, on the occasion of this current third special session of the Central American Economic Co-operation Committee, their representatives, invested with full powers to that end, sign in the City of San José, Costa Rica, the Central American Agreement on Tax Incentives to Industrial Development emanating from the present session.

/GRANTING OF

GRANTING OF TAX INCENTIVES UNDER NATIONAL LEGISLATION

113 (CCE) Resolution adopted on 30 July 1962
(E/CN.12/CCE/263)

The Central American Economic Co-operation Committee,

Bearing in mind the Central American Agreement on Tax Incentives to Industrial Development, which resolution 112 (CCE) recommends Governments to sign,

Considering that the basic objectives of the Agreement in question are the establishment of equality between the Contracting States in respect of the tax benefits to be granted in the future to the manufacturing industries, and the co-ordination and reconciliation among them of the situation as regards the benefits already granted under national legislation on industrial development;

Decides to recommend to the Governments that until the Central American Agreement on Tax Incentives enters into force, they should endeavour, in applying their national legislation, to conform to the provisions of the said Agreement, especially as regards the amount and period of the benefits granted.

/TAX INCENTIVES

TAX INCENTIVES TO THE MANUFACTURE OF PHARMACEUTICAL
PRODUCTS AND MEDICINES

114 (CCE) Resolution adopted on 30 July 1962
(E/CN.12/CCE/264)

The Central Economic Co-operation Committee,

Considering:

(a) That it is in the interests of Central America to establish industries for the manufacture of pharmaceutical products and medicines, on a sound economic basis which will ensure for their production a high value added;

(b) That this would make it possible to supply the Central American common market in reasonable conditions of quality and price, to raise the level of skill of the labour force of the member countries and, in time, to make more use of the region's natural resources;

(c) That in the Central American Agreement on Tax Incentives to Industrial Development the Contracting States have undertaken to sign a protocol specifying the regime of tax incentives that shall be applicable to enterprises manufacturing pharmaceutical products and medicines;

Decides:

1. To request the Central American Research Institute for Industry (ICAITI) to undertake the necessary technical studies and indicate the various items that should be included in a protocol setting forth the régime and procedures for tax incentives applicable in the member countries to enterprises manufacturing pharmaceutical products and medicines.

2. To study the draft protocol in question, at the Committee's eighth session, in the light of the technical studies carried out by ICAITI, with a view to its signature by the Governments on that occasion.

/RESTRICTIONS ON

RESTRICTIONS ON INTER-CENTRAL AMERICAN TRADE

115 (CCE) Resolution adopted on 30 July 1962
(E/CN.12/CCE/265)

The Central American Economic Co-operation Committee,

Considering that practices, arrangements or agreements among commercial or industrial enterprises tending to restrict competition or limit trade among the Central American countries are contrary to the purposes pursued in the Economic Integration Programme;

Decides to request the permanent secretariat of the General Treaty and the secretariat of ECLA to undertake the necessary studies and research for the formulation of a draft protocol to the General Treaty defining the situations that constitute practices in restraint of competition, recommending the penalties and measures applicable in such cases, and indicating other provisions on the subject that could be adopted at the regional level.

/PLACE AND

PLACE AND DATE OF THE NEXT SESSION

116 (CCE) Resolution adopted on 30 July 1962
(E/CN.12/CCE/266)

The Central American Economic Co-operation Committee

Decides to thank the Government of El Salvador for its invitation to hold the Committee's eighth session, which is to take place during the last quarter of 1962, in the City of San Salvador, and to ask the ECLA secretariat, in consultation with the Governments, to set the date of the session.

/Annex A

Annex A

INSTRUMENTS OF ACCESSION OF COSTA RICA TO THE GENERAL TREATY
ON CENTRAL AMERICAN ECONOMIC INTEGRATION AND TO THE
AGREEMENT ESTABLISHING THE CENTRAL AMERICAN BANK
FOR ECONOMIC INTEGRATION

ACCESSION OF COSTA RICA TO THE GENERAL TREATY ON
CENTRAL AMERICAN ECONOMIC INTEGRATION

The Government of the Republic of Costa Rica,

Believing that the economic integration of the Central American countries constitutes the most efficacious means of promoting the future development of the area as a whole and of each individual country, and of raising the standard of living of their peoples,

Considering that Costa Rica has participated along with the other Central American Governments in the activities that have been pursued since 1951 with a view to the achievement of economic integration, and to this end has signed the Multilateral Treaty on Free Trade and Central American Economic Integration, the Agreement on the Régime for Central American Integration Industries and the Central American Agreement on Equalization of Import Duties and Charges;

Bearing in mind that under the terms of its article XXXIII, the General Treaty on Central American Economic Integration remains open for the accession of any Central American State not originally a party thereto;

Has decided as follows:

Article I

The Government of Costa Rica accedes, by means of the present Instrument, to the General Treaty on Central American Economic Integration, signed on 13 December 1960 by the Government of Guatemala, El Salvador, Honduras and Nicaragua.

Article II

The Government of Costa Rica and the other contracting States shall establish by mutual accord the schedules of goods which will be subject to the special interim régimes of exemption from free-trade treatment referred to in article IV of the General Treaty.

/Article III

Article III

In compliance with the provisions of article II above, the Government of Costa Rica shall initiate the relevant negotiations with the other States parties to the General Treaty, and shall pursue them uninterruptedly until the necessary protocol has been signed in conjunction with those States establishing, in respect of Costa Rica, the schedules of goods, by pairs of countries, which are to be incorporated in annex A of the General Treaty, together with the trade régime applicable to such goods.

Article IV

This instrument shall be submitted for ratification in conformity with the pertinent constitutional and legal regulations in force in Costa Rica. When the corresponding instrument of ratification has been deposited with the General Secretariat of the Organization of Central American States, the present Instrument shall enter into force on the same date as the protocol referred to in article III above.

In witness whereof, the Minister for Economic and Financial Affairs of the Republic of Costa Rica, invested with full powers, signs the present Instrument in the City of San José, capital of the Republic of Costa Rica, this twenty-third day of the month of July nineteen hundred and sixty-two.

For the Government of Costa Rica:

Raúl Hess Estrada
Minister for Economic and Financial Affairs

/ACCESSION OF

ACCESSION OF COSTA RICA TO THE AGREEMENT ESTABLISHING THE
CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

The Government of the Republic of Costa Rica,
Bearing in mind that the Agreement establishing the Central American Bank
for Economic Integration remains open, under the terms of its
article 35, for the accession of the Republic of Costa Rica,
Has decided as follows:

Article I

The Government of Costa Rica accedes to the Agreement establishing
the Central American Bank for Economic Integration, signed by the
Governments of Guatemala, El Salvador, Honduras and Nicaragua, on
13 December 1960.

Article II

The present Instrument shall be submitted for ratification in
conformity with the constitutional and legal regulations in force in
Costa Rica, and shall enter into force on the date of deposit of the
pertinent instrument of ratification with the General Secretariat of
the Organization of American States.

In witness whereof, the Minister for Economic and Financial Affairs of
the Republic of Costa Rica, invested with full powers, signs the
present Instrument in the City of San José, capital of the
Republic of Costa Rica, this twenty-third day of the month of
July nineteen hundred and sixty-two.

For the Government of Costa Rica:

Raúl Hess Estrada
Minister for Economic and Financial Affairs

/Annex B

1. The first part of the paper discusses the importance of the study of the history of the United States. It is argued that the study of the history of the United States is essential for a full understanding of the country and its people. The author points out that the history of the United States is a complex and multifaceted one, and that it is important to study it from a variety of perspectives. The author also points out that the study of the history of the United States is important for the development of a sense of national identity and pride.

2. The second part of the paper discusses the role of the federal government in the development of the United States. It is argued that the federal government has played a central role in the development of the United States, and that it has been responsible for many of the major achievements of the country. The author points out that the federal government has been responsible for the establishment of the Constitution, the creation of the federal courts, and the development of the federal bureaucracy. The author also points out that the federal government has been responsible for the development of the federal reserve system, the federal income tax, and the federal highway system.

3. The third part of the paper discusses the role of the states in the development of the United States. It is argued that the states have played a central role in the development of the United States, and that they have been responsible for many of the major achievements of the country. The author points out that the states have been responsible for the establishment of the state constitutions, the creation of the state courts, and the development of the state bureaucracies. The author also points out that the states have been responsible for the development of the state police forces, the state education systems, and the state health care systems.

4. The fourth part of the paper discusses the role of the local governments in the development of the United States. It is argued that the local governments have played a central role in the development of the United States, and that they have been responsible for many of the major achievements of the country. The author points out that the local governments have been responsible for the establishment of the local police forces, the local fire departments, and the local public works departments. The author also points out that the local governments have been responsible for the development of the local education systems, the local health care systems, and the local social service systems.

5. The fifth part of the paper discusses the role of the private sector in the development of the United States. It is argued that the private sector has played a central role in the development of the United States, and that it has been responsible for many of the major achievements of the country. The author points out that the private sector has been responsible for the development of the American economy, the creation of the American middle class, and the development of the American culture. The author also points out that the private sector has been responsible for the development of the American scientific and technological revolution, the American space program, and the American environmental movement.

6. The sixth part of the paper discusses the role of the foreign countries in the development of the United States. It is argued that the foreign countries have played a central role in the development of the United States, and that they have been responsible for many of the major achievements of the country. The author points out that the foreign countries have been responsible for the development of the American foreign policy, the creation of the American military, and the development of the American diplomatic system. The author also points out that the foreign countries have been responsible for the development of the American trade system, the American immigration system, and the American cultural exchange program.

7. The seventh part of the paper discusses the role of the future in the development of the United States. It is argued that the future is a bright one for the United States, and that the country has the potential to achieve even greater achievements in the years ahead. The author points out that the United States has a strong and dynamic economy, a highly educated and skilled workforce, and a rich and diverse culture. The author also points out that the United States has a strong and effective government, a highly developed legal system, and a highly respected judiciary.

Annex B

PROTOCOL OF ACCESSION OF COSTA RICA TO THE PROTOCOL
ON EQUALIZATION OF IMPORT DUTIES AND CHARGES
SIGNED AT MANAGUA ON 13 DECEMBER 1960

PROTOCOL OF ACCESSION OF COSTA RICA TO THE PROTOCOL
ON EQUALIZATION OF IMPORT DUTIES AND CHARGES
SIGNED AT MANAGUA ON 13 DECEMBER 1960

The Governments of the Republics of Guatemala, El Salvador, Honduras,
Nicaragua and Costa Rica,

Bearing in mind that the Government of the Republic of Costa Rica is a
party to the Central American Agreement on Equalization of Import
Duties and Charges,

Considering that the Protocol to the Central American Agreement on
Equalization of Import Duties and Charges signed at Managua on
13 December 1960 remains open to accession by any Central American
State that is a party to the Agreement aforesaid, as established
in article VIII of the above-mentioned Protocol,

Have decided to sign the present Protocol, and for that purpose have
appointed as their respective plenipotentiaries:

His Excellency The President of the Republic of Guatemala:
Jorge L. Caballeros, Minister for Economic Affairs, and
Julio Prado García Salas, Minister for Co-ordinating Central American
Integration

His Excellency The President of the Republic of El Salvador:
Salvador Jáuregui, Minister for Economic Affairs;

His Excellency The President of the Republic of Honduras:
Juan Bueso Arias, Minister for Economic and Financial Affairs;

His Excellency The President of the Republic of Nicaragua:
Juan José Lugo Marengo, Minister for Economic Affairs, and
Gustavo A. Guerrero, Deputy Minister for Economic Affairs;

His Excellency The President of the Republic of Costa Rica:
Raúl Hess Estrada, Minister for Economic and Financial Affairs;

who, having exchanged their respective full powers, found in good and due
form, have agreed as follows:

Article I

Costa Rica, as a Contracting Party to the present instrument, adopts
all the provisions contained in the Protocol to the Central American Agreement
on Equalization of Import Duties and Charges and the annexes thereto, signed
at Managua on 13 December 1960, by Guatemala, El Salvador, Honduras and
Nicaragua, and hereinafter called the Managua Protocol, in conformity with
the terms of the following articles.

Article II

Costa Rica adopts forthwith the tariffs and tariff nomenclature specified in Schedule A of the Managua Protocol, except in respect of those items which will be adopted by Costa Rica for progressive equalization, in accordance with the provisions of annex 1 attached to the present instrument and forming an integral part thereof.

Article III

Costa Rica adopts the standard duties specified in the Managua Protocol, Schedule B, column I, and the tariff nomenclature established therein.

Article IV

The initial tariffs for Costa Rica shown in annex 2 are added to the Managua Protocol, Schedule B, column III.

Article V

The tariffs applicable by Costa Rica during the interim period, which are given in annex 3, are added to Schedule B of the Managua Protocol as annex 5.

Article VI

This Protocol shall be submitted for ratification in each State in conformity with their respective constitutional or legal procedures.

The instruments of ratification shall be deposited with the General Secretariat of the Organization of Central American States. The Protocol shall enter into force, for the first three countries to deposit the instrument of ratification, eight days after the date of deposit of the third such instrument and, for countries acceding thereafter, on the date of deposit of their respective instruments of ratification.

/Article VII

Article VII

The General Secretariat of the Organization of Central American States shall be the depositary of the present Protocol, and shall send authenticated copies thereof to the Ministry of Foreign Affairs of each of the Contracting States, and to the permanent secretariat of the General Treaty, notifying them likewise of the deposit of each of the pertinent instruments of ratification. Upon the entry into force of the Protocol, it shall also transmit an authenticated copy thereof to the United Nations Secretariat, for registration purposes, in conformity with article 102 of the Charter of the United Nations.

Article VIII

The duration of the present Protocol shall be contingent upon that of the Central American Agreement on Equalization of Import Duties and Charges.

In witness whereof, the respective plenipotentiaries sign the present Protocol in the City of San José, capital of the Republic of Costa Rica, this thirty-first day of July nineteen hundred and sixty-two.

For the Government of Guatemala:

Jorge L. Caballeros
Minister for Economic Affairs

Julio Prado García Salas
Minister for Co-ordinating Central
American Integration

For the Government of El Salvador:

Salvador Jáuregui
Minister for Economic Affairs

For the Government of Honduras:

Jorge Bueso Arias
Minister for Economic and
Financial Affairs

/For the

For the Government of Nicaragua:

Juan José Lugo Marengo
Minister for Economic Affairs

Gustavo A. Guerrero
Deputy-Minister for Economic Affairs

For the Government of Costa Rica:

Raúl Hess Estrada
Minister for Economic and
Financial Affairs

Note: Annexes 1, 2 and 3 to the present Protocol are for strictly limited distribution.

/Annex C

Annex C

PROTOCOL TO THE CENTRAL AMERICAN AGREEMENT ON EQUALIZATION
OF IMPORT DUTIES AND CHARGES

PROTOCOL TO THE CENTRAL AMERICAN AGREEMENT ON EQUALIZATION
OF IMPORT DUTIES AND CHARGES

The Governments of the Republics of Guatemala, El Salvador, Honduras,
Nicaragua and Costa Rica,

By virtue of the commitments assumed under article I of the Central American Agreement on Equalization of Import Duties and Charges, signed at San José, Costa Rica, on 1 September 1959; under article II of the General Treaty on Central American Economic Integration, signed at Managua on 13 December 1960; and under the first Provisional Article of the Protocol to the Central American Agreement on Equalization of Import Duties and Charges, signed at Managua on that same date, Bearing in mind that on 4 June 1961, of the General Treaty on Central American Economic Integration entered into force and the Central American Free-Trade Area was established,

Considering that it is a matter of urgency to complete the constitution of the uniform import tariff, in order to bring the Central American common market into full operation,

Have decided to sign the present Protocol to the Central American Agreement on Equalization of Import Duties and Charges, and for that purpose have appointed as their respective plenipotentiaries:

His Excellency The President of the Republic of Guatemala:
Jorge L. Caballeros, Minister for Economic Affairs, and
Julio Prado García Salas, Minister for Co-ordinating Central American Integration;

His Excellency The President of the Republic of El Salvador:
Salvador Jáuregui, Minister for Economic Affairs;

His Excellency The President of the Republic of Honduras:
Jorge Bueso Arias, Minister for Economic and Financial Affairs;

His Excellency The President of the Republic of Nicaragua:
Juan José Lugo Marenco, Minister for Economic Affairs, and
Gustavo A. Guerrero, Deputy-Minister for Economic Affairs;

His Excellency The President of the Republic of Costa Rica:
Raúl Hess Estrada, Minister for Economic and Financial Affairs;

who, having exchanged their respective full powers, found to be in good and due form, have agreed as follows:

/Chapter I

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Chapter I

EQUALIZATION OF IMPORT DUTIES AND CHARGES

Article I

The Contracting States agree, in conformity with article IX of the Central American Agreement on Equalization of Import Duties and Charges, to expand, through the present Protocol, Schedules A and B of the said Agreement.

Article II

The Contracting Parties adopt forthwith the tariffs and tariff nomenclature specified in the appended Schedule A, which forms an integral part of the present Protocol.

Article III

In conformity with the interim system of progressive tariff equalization established in article XIV of the Central American Agreement on the Equalization of Import Duties and Charges, the Contracting Parties agree to adopt, for the goods included in Schedule B of the present Protocol, the standard duties given in column I of the said Schedule, each Party conforming to the time-limit (column II), to the initial tariffs (column III) and to the tariff nomenclature established therein.

In annexes 1 to 5 of Schedule B, the tariffs applicable by each of the Contracting Parties during each year of the interim period are set forth.

Schedule B and its annexes 1 to 5 form an integral part of the present Protocol.

/Chapter II

Chapter II

SPECIAL PROVISIONS RELATING TO MILK PRODUCTS

Article IV

Powdered milk produced in any of the Contracting States shall enjoy in all of them the régime of immediate free-trade treatment established in the General Treaty on Central American Economic Integration, and shall therefore be exempt from import and export duties and all other taxes, dues and surcharges levied on imports and exports among all the Contracting States.

Article V

The Contracting States agree to establish a system of import quotas applicable to powdered milk from third countries as described in tariff items 022-02-01-01, 022-02-01-02 and 022-02-02-01 of Schedule B of the present Protocol. The Executive Council shall determine the quotas in such a way as to ensure that Central American production plus the amount of authorized imports of the product in question will completely satisfy the existing demand for powdered milk in the market of each of the Contracting States.

When Central America's own output becomes sufficient to cover market demand in its entirety, the Executive Council shall, to safeguard consumer interests and encourage competition in the milk products market, continue to establish import quotas. These quotas may not exceed fifteen per cent of each country's total commercial consumption of powdered milk.

It shall rest with each Government to decide whether it will or will not permit the whole or part of the quotas established by the Council to be actually imported.

/Article VI

Article VI

The Executive Council of the General Treaty on Central American Economic Integration shall establish annually the amount of the quotas referred to in article V above. The quotas established for the first year shall begin to be applied ninety days after the date of entry into force of the present Protocol.

Every six months the Council shall revise the quotas in the light of the trends followed by production, consumption and other determinants of supply and of the market situation. Similarly, it shall be entitled to make whatever adjustments of the annual quotas are necessary to offset production deficiencies or any other factor jeopardizing or likely to jeopardize the supply of the market of the Contracting States.

Article VII

The import quotas fixed by the Executive Council shall be applicable only within the period for which they were established, and shall not be carried over to subsequent periods.

Article VIII

Where the Executive Council has not fixed the quotas for a specific financial year, the Governments shall authorize imports commensurate with the quota established for the preceding financial year. Once the Council has determined the quota in question, the Governments shall be entitled to authorize only such quantities as are required to make up the new quota.

Article IX

The Governments shall neither effect imports of powdered milk from third countries nor authorize its importation for commercial purposes in excess of the quotas established for each of the Contracting States under the terms of the present chapter. The said imports shall be subject to the uniform Central American duties agreed upon in the present Protocol.

/Article X

Article X

The Executive Council shall submit to each Government for its approval the adoption of import regulations in respect of other types of processed milk from third countries, when it deems this necessary in order to safeguard consumer interests and Central American production and supplies.

Article XI

The Governments shall furnish the Permanent Secretariat of the General Treaty on Central American Economic Integration with all the data required for compliance with the provisions of the present chapter, including those relating to duty-free imports of processed milk.

Chapter III

PROVISIONS RELATING TO UNFAIR TRADE PRACTICES

Article XII

The Contracting Parties shall in respect of goods from outside the area, adopt such measures as may be necessary to control trade practices which are or may be prejudicial to the interests of Central American production, especially with regard to the importation of goods at a price lower than their normal value, or to export subsidies.

Article XIII

When any of the Contracting States deems it necessary for multilateral measures to be adopted, it shall submit to the consideration of the Executive Council any situation which, in its opinion, constitutes evidence of unfair trade practices. The Council shall give a ruling in accordance with the relevant definitions and criteria established in the General Treaty on Central American Economic Integration with respect to inter-Central American trade.

/Article XIV

Article XIV

Should the practices referred to in the present chapter be found to exist, a fine of one hundred dollars per gross kilogramme and one hundred per cent ad valorem shall be imposed, by virtue of a decision on the part of the Executive Council, on the recipient of the goods or shipments concerned, without prejudice to the adoption of any other measure decided upon by the Council. The decision of the Council shall be binding on all five Contracting States. This sanction shall be applied by the Governments of the country where the imports were effected and by that of any other Central American country where the same goods are imported. It shall remain applicable as long as the situation or trade practice in which it originated subsists, and shall be suspended by the decision of the Executive Council.

Chapter IV

AMENDMENTS TO THE SCHEDULES ANNEXED TO THE MANAGUA PROTOCOL
ON TARIFF EQUALIZATION

Article XV

In conformity with article XII of the Central American Agreement on Equalization of Import Duties and Charges, the Contracting States agree to amend Schedules A and B and the corresponding annexes to the Protocol to the said Agreement, signed at Managua on 13 December 1960, in respect of the items indicated in the annex to the present Protocol, which forms an integral part thereof. The interim period for the tariff items included in the said annex will continue to be reckoned as from the date of entry into force of the Managua Protocol on tariff equalization.

/Chapter V

Chapter V

FINAL PROVISIONS

Article XVI

This Protocol shall be submitted for ratification by each State, in conformity with the respective constitutional or legal procedures.

The instruments of ratification shall be deposited with the General Secretariat of the Organization of Central American States. The Protocol shall enter into force for the first three countries to deposit the instrument of ratification on the date of deposit of the third such instrument, and for countries acceding thereafter, on the date of deposit of their respective instruments of ratification.

Article XVII

The General Secretariat of the Organization of Central American States shall be the depositary of the present Protocol, of which it shall send certified copies to the Ministries of Foreign Affairs of each of the Contracting States, notifying them likewise of the deposit of each of the pertinent instruments of ratification. Upon the entry into force of the Protocol it shall also transmit a certified copy to the United Nations Secretariat for registration purposes, in conformity with article 102 of the United Nations Charter.

Article XVIII

The duration of the present Protocol shall be contingent upon that of the Central American Agreement on Equalization of Import Duties and Charges.

/Article XIX

Article XIX

The Contracting Parties agree to sign, not later than one year from the date of entry into force of the present instrument, such additional protocols as may be needed for the adoption of uniform import duties and charges in respect of tariff items not yet equalized as between the Contracting States.

Article XX

The Contracting Parties agree to sign, not later than one year from the date of entry into force of the present instrument, an agreement on uniform tariff legislation designed to guarantee the proper application of the Central American import tariff.

In witness whereof, the respective plenipotentiaries sign the present Protocol in the City of San José, capital of the Republic of Costa Rica, this thirty-first day of the month of July, nineteen hundred and sixty-two.

For the Government of Guatemala:

Jorge L. Caballeros
Minister for Economic Affairs

Julio Prado García Salas
Minister for Co-ordinating
Central American Integration

For the Government of El Salvador:

Salvador Jáuregui
Minister for Economic Affairs

For the Government of Honduras:

Jorge Bueso Arias
Minister for Economic and
Financial Affairs

/For the

For the Government of Nicaragua:

Juan José Lugo Marengo
Minister for Economic Affairs

Gustavo A. Guerrero
Deputy-Minister for Economic Affairs

For the Government of Costa Rica:

Raúl Hess Estrada
Minister for Economic and
Financial Affairs

Note: Schedules A and B of this Protocol are for strictly limited distribution.

/Annex D

Annex D

CENTRAL AMERICAN AGREEMENT ON TAX INCENTIVES TO
INDUSTRIAL DEVELOPMENT

CENTRAL AMERICAN AGREEMENT ON TAX INCENTIVES TO
INDUSTRIAL DEVELOPMENT

The Governments of the Republics of Guatemala, El Salvador, Honduras,
Nicaragua and Costa Rica,

For the purpose of jointly providing a stimulus to the industrial development
of Central America in order to improve the living conditions and
welfare of their peoples;

Considering that industrialization contributes substantially to the
fulfilment of this aim and ensures a better use of the human and
material resources of their countries;

Being convinced of the need to standardize provisions on tax incentives
to industrial development, and to co-ordinate their application as
between member countries;

In compliance with article XIX of the General Treaty on Central American
Economic Integration, signed at Managua, Nicaragua, on 13 December 1960;
Have decided to sign the present Agreement, and for that purpose have
appointed as their respective plenipotentiaries:

His Excellency the President of the Republic of Guatemala:
Mr. Jorge L. Caballeros, Minister for Economic Affairs, and
Mr. Julio Prado García Salas, Minister for Co-ordinating Central
American Integration;

His Excellency the President of the Republic of El Salvador:
Mr. Salvador Jáuregui, Minister for Economic Affairs;

His Excellency the President of the Republic of Honduras:
Mr. Jorge Bueso Arias, Minister for Economic and Financial Affairs;

His Excellency the President of the Republic of Nicaragua:
Mr. Juan José Lugo Marengo, Minister for Economic Affairs, and
Mr. Gustavo A. Guerrero, Deputy-Minister for Economic Affairs;

His Excellency the President of the Republic of Costa Rica:
Mr. Raúl Hess Estrada, Minister for Economic and Financial Affairs

who, having exchanged their respective full powers, found to be in good
and due form, have agreed as follows:

/Chapter I

Chapter I

PURPOSES OF THE AGREEMENT

Article 1

The Contracting States agree to establish a uniform Central American régime of tax incentives to industrial development, in accordance with the requirements of Central American integration and balanced economic development, and with the following provisions.

Chapter II

FIELD OF APPLICATION

Article 2

The régime referred to in the previous article shall apply to the establishment or expansion of manufacturing industries contributing effectively to the economic development of Central America.

Article 3

The Contracting States shall not grant to manufacturing industries any tax benefits differing in nature, amount or period of application from those provided for in this Agreement. Any exemptions granted in respect of municipal or local taxes are excepted from this provision.

The Contracting States shall not grant tax benefits to productive activities not covered by article 2 above, with the exception of the following industries, that may be governed by national legislation or regulations:

- (a) Extraction of ores
- (b) Extraction of petroleum and natural gas
- (c) Forestry and the extraction of timber
- (d) Fish farming, whaling and allied activities, and fishing
- (e) Service industries and activities
- (f) Agricultural activities

/(g) Low-cost

- (g) Low-cost housing construction. Only in this case can there be dispensation from payment of import duties, with respect to building materials, when there are no Central American substitutes suitable as to quality, quantity and price.

The exceptions to which the above list refers shall not cover the regular processing of the materials so produced, which shall be governed by the provisions of the present Agreement.

Chapter III

SCHEDULING OF ENTERPRISES

Article 4

The tax incentives régime established in this Agreement shall be applicable to any enterprise whose industrial plant can, by the use of modern and efficient manufacturing methods for the processing of raw materials and semi-finished goods, produce articles that are necessary for the development of other productive activities or to meet the basic needs of the population, or that can replace articles imported on a substantial scale or increase the volume of exports.

Evaluation of the contribution of such plants to economic development shall also have regard to whether the value added by the industrial process is substantial in absolute or percentage terms, whether the plant contributes to a better use of national or regional raw materials or semi-finished goods, and whether, in general, it increases the use of the natural, human or capital resources of Central America.

Chapter IV

CLASSIFICATION OF ENTERPRISES

Article 5

The enterprises that fulfil the conditions listed in chapter III shall be classified as belonging to one of the following groups A, B or C.

Group A shall include those enterprises that:

- (a) Produce industrial raw materials or capital goods, or
/(b) Produce

(b) Produce consumer goods, containers or semi-finished goods, provided that at least 50 per cent of the total value of the raw materials, containers or semi-finished goods used are of Central American origin.

Group B shall include those enterprises that fulfil the following three conditions:

- (1) They produce consumer articles, containers or semi-finished goods;
- (2) They result in substantial net improvements in the balance of payments and a high added value in the industrial process, and
- (3) The raw materials, containers and semi-finished goods that they use are either wholly, or in a high proportion, in terms of value, of non-Central American origin.

Group C includes those enterprises that:

- (a) Do not fulfil the conditions indicated for groups A and B, or
- (b) Merely assemble, pack, package, cut or dilute products, or
- (c) Belong to the industries specifically listed in annex 1 to this Agreement.

For the purpose of applying the present article the definitions set forth in annex 2 to this Agreement shall be used. For the purpose of classifying enterprises in group A, sub-paragraph (a), reference shall be made to the schedule of capital goods and industrial raw materials to be prepared for this purpose by the Executive Council of the General Treaty on Central American Economic Integration, within not more than thirty days from the date of entry into force of the present Agreement.

Article 6

Subject to a favourable technical decision by the permanent secretariat of the General Treaty, based on such studies on the subject as may be requested by the Central American Research Institute for Industry, the national administrative authority concerned may classify in group A enterprises that meet the requirements for group B and which, while using efficient industrial processes, employ direct labour whose cost represents a high proportion of the total cost of production.

The general procedure established in article 29 of the present Agreement shall apply equally to any classification orders or decrees that the national administrative authority concerned may issue on the basis of the present article.

/Article 7

Article 7

Industrial enterprises in groups A and B shall be classified either as new or as existing industries.

Industries shall be classified as new if they manufacture articles that:

- (a) Are not produced in the country, or
- (b) Are produced in the country by primitive production methods, provided that the new plant fulfils the following two conditions:
 - i) It meets a large part of the unsatisfied demand of the domestic market, and
 - ii) It introduces radically different technical manufacturing processes that change the structure of the existing industry and bring about increased productivity and lower costs.

It shall be incumbent upon the authorities responsible for the application of the Agreement in each country, in determining whether an enterprise meets the requirements listed in sub-paragraph (b), to request and take cognizance of a favourable technical decision by the permanent secretariat of the General Treaty, before classifying any such enterprise as a new industry.

All industries not covered by sub-paragraphs (a) and (b) above shall be classified as existing industries.

Chapter V

TAX BENEFITS

Article 8

The tax benefits that shall be granted in accordance with this Agreement are:

I. Total or partial exemption from customs duties and other related charges, including consular dues but not charges for specific services, levied on the importation of the articles listed below, when such articles are essential for the establishment or operation of the enterprises and no suitable Central American substitutes are available:

/(a) Machinery

- (a) Machinery and equipment;
- (b) Raw materials, semi-finished goods and containers;
- (c) Fuels required strictly for the industrial process, except petrol.

No such dispensation shall be granted in respect of this item to an industrial enterprise for its transport operations, or for the generation of its own power when there is an adequate supply provided by public utility plants.

II. Exemption, for the enterprise and the shareholders, from both income and profits taxes on earnings from the scheduled activities. The exemption shall not be granted when the said enterprises or shareholders are subject in other countries to taxes that would make the exemption inoperative.

III. Exemption from taxes payable on assets and net worth by the enterprise or by its owners or shareholders in relation to the scheduled activities.

Article 9

Any enterprise classified in accordance with this Agreement shall have the right, as long as the Agreement remains in force, to deduct, from its profits subject to taxes on income or profits, the total amount of reinvestments in machinery or equipment likely to increase the productivity or productive capacity of the enterprise and the industrial branch in question in the Central American region. The amount reinvested in each year shall be deducted only from the profits earned during the same year in the specified activities.

Article 10

Reimbursement by any member State of the amount of duties and charges paid on imports of raw materials, semi-finished goods and containers used in the production of goods exported to countries outside Central America shall be regarded as consistent with the terms of this Agreement.

Chapter VI

GRANT OF BENEFITS

Article 11

The enterprises classified in group A as new industries shall receive the following benefits:

- (a) Total exemption from customs duties and other related charges, including consular fees, on imports of machinery and equipment, for ten years;
- (b) Exemption from customs duties and other related charges, including consular fees, on imports of raw materials, semi-finished goods and containers, as follows: one hundred per cent exemption for the first five years; sixty per cent for the next five years, and forty per cent for the next two years;
- (c) Total exemption from customs duties and other related charges, including consular fees, for five years, on imports of fuels required strictly for the industrial process, except petrol;
- (d) Total exemption from taxes on income and profits for eight years; and
- (e) Total exemption from taxes on assets and net worth for ten years.

Article 12

The enterprises classified in group A as existing industries shall receive the following benefits:

- (a) Total exemption from customs duties and other related charges, including consular fees, on imports of machinery and equipment, for six years;
- (b) Total exemption from taxes on income and profits for two years, and
- (c) Total exemption from taxes on assets and net worth, for four years.

/Article 13

Article 13

The enterprises classified in group B as new industries shall receive the following benefits:

- (a) Total exemption from customs duties and other related charges, including consular fees, on imports of machinery and equipment, for eight years;
- (b) Exemption from customs duties and other related charges, including consular fees, on imports of raw materials, semi-finished goods and containers, as follows: one hundred per cent for the first three years, and fifty per cent for the next two years;
- (c) Exemption from customs duties and other related charges, including consular fees, on imports of fuels required strictly for the industrial process, except petrol, as follows: one hundred per cent for the first three years, and fifty per cent for the next two years;
- (d) Total exemption from taxes on income and profits for six years, and
- (e) Total exemption from taxes on assets and net worth for six years.

Article 14

The enterprises classified in group B as existing industries shall be totally exempted from customs duties and other related charges, including consular fees, on machinery and equipment for a period of five years.

Article 15

The enterprises classified in group C shall be totally exempted from custom duties and other related charges, including consular fees, on imports of machinery and equipment, for a period of three years.

Article 16

Scheduled enterprises producing industrial raw materials or capital goods, that during the period for which benefits are granted to them use Central American raw materials at a level representing at least fifty per cent of the total value of their raw materials, or attain this level

/during the

during the period, shall enjoy the benefit of the total exemption from taxes referred to in sub-paragraphs (d) and (e) of article 11 and (b) and (c) of article 12 of the present Agreement, for an additional period of two years.

Article 17

Scheduled enterprises proposing to install plants in an industry in which other enterprises in the same country are enjoying tax benefits applicable to new industries under this Agreement shall have the right to the same benefits in exchange for fulfilment of the same undertakings and commitments, but only for the period that remains before the first benefits granted are due to terminate.

Once the period referred to in the preceding paragraph has expired, if this is less than the period for existing industry, the said enterprises shall receive the benefits accorded to existing industries, but only for the time that remains before the completion of the concession period that applies to these industries, in accordance with the classification order or decree.

Article 18

The period of exemption for the tax on income or profits shall be reckoned from the tax year when the scheduled enterprise begins production, or, if production has already begun, from the tax year when the classification order or decree enters into force.

The first year of the period of exemption from taxes on assets and net worth shall be that during which the classification order or decree is published.

Article 19

The period of dispensation from payment of customs duties and other related charges shall be reckoned, for machinery and equipment, from the date when the first importation of any of these goods is effected.

/The period

The period of the customs exemptions for raw materials, semi-finished goods, containers and fuels shall be reckoned from the date when the first importation of any of these goods is effected.

After submitting a request, and before the entry into force of the classification order or decree, the Contracting States may allow imports of products subject to customs exemptions, provided that those concerned guarantee, by means of a security or deposit, the amount of the import duties and charges to which they are liable.

Article 20

Scheduled enterprises proposing to invest in expansion of their industrial plant shall receive customs exemptions on imports of machinery and equipment, and exemption from taxes on assets and net worth, in both cases for the amounts and periods specified for the classification group that applies to them. The exemption from taxes on assets and net worth however, shall apply only to the additional investment.

Chapter VII

CO-ORDINATION

Article 21

The States parties to this Agreement undertake to apply it on the basis of co-ordination between them, and to take the necessary measures to ensure that the grant of dispensation from import duties and charges and exemption from taxes will not lead to competitive inequalities calculated to hamper or distort the process of inter-Central American trade based on economic integration.

Article 22

This Agreement shall be applied at the national level by the competent administrative authority.

/Article 23

Article 23

In conformity with article XIX of the General Treaty on Central American Economic Integration, the Executive Council shall be the body responsible for co-ordinating the application of this Agreement at the regional level. In fulfilling this function it shall study and resolve any difficulty or conflict between the Contracting Parties to which the application of the Agreement may give rise .

Article 24

The application of this Agreement, as regards the scheduling and classification of industries, shall be placed on a wholly Central American basis not later than seven full years after the entry into force of the present Agreement.

When the classification of an enterprise has been made on a wholly Central American basis in conformity with this article, the Governments of the Contracting States may not apply the provisions of article 25 of this Agreement.

Article 25

During the first seven years of validity of the present Agreement, the enterprises that propose to engage in industries that exist in one or more of the countries, but not in others, may be classified in the countries where they do not exist as new industries at the national level, and granted the benefits applicable to such industries and to the classification they are given in the three groups referred to in article 5 of this Agreement.

Article 26

Dispensations from import duties and charges applying to raw materials, semi-finished goods and containers granted to any enterprise in any of the member States under this Agreement or under national legislation, and affecting the existing competitive situation in the Central American common market, may be granted, either wholly or in part, in the other countries

/to any

to any enterprise producing the same articles, for the period that remains before such dispensations terminate, provided that at the same time all of the following conditions are fulfilled:

(a) That amount of the import duties on the raw materials, semi-finished goods and containers used represents a proportion of the total cost of production corresponding exactly to the change in the competitive situation; and

(b) That a favourable decision is taken by the Executive Council of the General Treaty, establishing that dispensations with respect to raw materials, semi-finished goods and containers shall be granted to plants established in other countries so as to restore, or tend to restore, the competitive situation that should exist in the common market.

The decision of the Council shall be taken at the request of the Government or Governments concerned and on the basis of cost data relating to a given period of actual production and not of estimates contained in production plans. The decision shall be valid as regards the State or States requesting it. If it is favourable, the granting of the privileges shall be optional.

Article 27

Once a request for the development of an industrial investment project submitted in one country by any enterprise has been rejected by the national administrative authority concerned, and once this rejection has been confirmed by the Executive Council, no enterprise shall be scheduled or classified in any of the other member States with respect to the same investment project.

Article 28

If a Contracting State considers that an enterprise has been classified in one of the other countries in a group other than that to which it should belong in accordance with the present Agreement, the State in question may submit the case to the Executive Council within a period of three months from the date of publication of the classification order or decree. The Executive Council shall determine what classification group should apply to the enterprise and shall communicate its decision to the national administrative authority concerned. The latter shall be required to make the appropriate changes in the terms of the said order or decree.

Chapter VIII

PROCEDURES

Article 29

Requests for coverage under this Agreement shall be submitted to the national administrative authority concerned and shall contain at least the information listed below:

- (a) Name, address and nationality of the applicant and, when the applicant is a corporation, the name of the manager, the type of corporation and, where applicable, the names of the members of the board of directors;
- (b) Amount and composition of the capital, its origin, investment plans and proposed production capacity;
- (c) Location of the plant;
- (d) Description of the products;
- (e) Dates on which it is proposed that the installation of the plant shall begin and end, and production shall begin;
- (f) The raw materials, semi-finished goods, containers, machinery and equipment that the enterprise proposes to import during the first five years, with or without special dispensations, and estimated consumption of such raw materials per unit of output; and
- (g) Classification requested.

Article 30

In addition to the data set forth in the preceding article, the applicant shall submit to the national administrative authority a technical and economic study containing at least the following information:

- (a) The market conditions for the industry in question, especially as regards existing production capacity, current imports, and the effects of the additional production on the balance of payments;
- (b) Evidence of the adequacy of the investment for the type of industry and enterprise in question;

/(c) The manpower

- (c) The manpower that will be employed;
- (d) The raw materials that will be used, with an indication, if these are of foreign origin, of their source and the possibility of replacing them by Central American production, together with the value added in the industrial process;
- (e) Value, quality and category of the installations, machinery and equipment that will have to be used, and, in general, the efficiency of the manufacturing processes that will be employed;
- (f) The estimated uses, characteristics, costs and prices of the final product; and
- (g) The capacity of the enterprise to operate economically after the period of the benefits has expired.

Article 31

A summary of the application, containing the name of the applicant, or title of the firm, a list of the products, the type of industry and the classification requested, shall be published in the Official Gazette. On the basis of this publication, any natural or juridical person may oppose the classification and the granting of the benefits asked for, in the cases, and in accordance with the procedures, established in the regulations for the application of this Agreement and in national legislation.

Article 32

The national administrative authority shall make an evaluation of the project that is the subject of the application. The evaluation, the application and the technical and economic study shall be considered by a national advisory commission, which shall submit a decision to the national administrative authority, indicating the classification it considers appropriate for the applicant enterprise.

Article 33

The classification order or decree issued by the national administrative authority shall take effect when it has been accepted in writing by the applicant and published in the Official Gazette.

/Article 34

Article 34

The classification order or decree shall specify, among other information, the following:

- (a) The classification of the enterprise and the products it will manufacture;
- (b) The benefits granted, including the list of all the articles that may be imported with dispensation from customs duties and charges classified according to the appropriate NAUCA headings;
- (c) The dates of beginning and ending the installation of the plant;
- (d) The date by which production is to begin, which shall be not later than two years from the date of entry into force of the classification order or decree, but may be put back, because of exceptional circumstances, for a period of not more than three years; and
- (e) The other obligations of the enterprise.

Article 35

The permanent secretariat shall report monthly to the Governments on the requests submitted and on the classification orders and decrees issued. For this purpose, the various national administrative authorities concerned shall duly provide the secretariat with the necessary information, including that relating to requests that have been rejected, and shall also provide an annual report of a general nature on the application of the Agreement.

Article 36

The tax benefits established in the present Agreement may be granted only to the persons or enterprises due to make the industrial investment, and not to mere intermediaries.

Such benefits may be transferred to other persons or enterprises, provided they meet the same requirements as the first beneficiaries.

Requests for transfer shall be submitted by those concerned to the competent national administrative authority, which shall duly process them.

Chapter IX

CONTROL

Article 37

The national administrative authority concerned shall maintain a periodic check on the fulfilment of the undertakings given by the enterprises classified in accordance with this Agreement. For this purpose, and in particular for the purpose of supervising the use of dispensations granted, the enterprises shall be required to provide all the information and data requested by the national administrative authority concerned, and to permit any inspection that may be necessary.

The information furnished by each enterprise shall be treated as confidential by the national Administrative authority concerned.

Chapter X

PENALTIES

Article 38

Any improper use of the articles imported duty free under this Agreement shall be sufficient grounds for imposing on the enterprise exempted from the duty a fine of three to ten times the total amount of the customs duties and other related charges not paid on the said articles, and/or for cancelling the classification order or decree, without prejudice to any further legal provisions in force in the country concerned.

Transfer or change of destination of any article imported subject to dispensation from customs duties and other related charges shall be permitted, provided that any such duties and charges from which the articles were exempted are paid.

/Subject to

Subject to prior permission from the national Administrative Authority concerned, such articles may also be transferred, without refund of the duties and other charges unpaid by reason of the import dispensations granted, if the transfer is made to a destination outside Central America or if the new recipient is authorized to import the same articles with a dispensation from duties.

When more than five years have elapsed since machinery or equipment was imported under a dispensation, it may be transferred or used for another purpose without restriction.

Article 39

The national administrative authority concerned shall repeal the classification order or decree if the enterprise fails to comply with the obligation to begin production within the period referred to in article 34, sub-paragraph (d), and the enterprise must pay the Treasury the total amount of any taxes from which it has been exempted.

Article 40

If the beneficiary fails to comply with any of its other obligations under this Agreement and under the classification order or decree, the national Administrative Authority concerned shall cancel such order or decree.

Article 41

It shall be regarded as an unfair trade practice to export from one Central American country to another any product whose cost has been reduced by reason of improper use of the tax benefits conceded or by reason of a classification order or decree that is not in accordance with the terms of this Agreement. Such practices shall be subject to the procedures and penalties established in chapter III of the General Treaty on Central American Economic Integration.

Chapter XI

PREFERENCE FOR CENTRAL AMERICAN PRODUCTS

Article 42

The Governments, autonomous or decentralized State institutions, municipalities and all public organs of the Contracting Parties shall give preference, in their purchasing, to products of Central American industry, provided that the price of such products is the same as, or lower than, that of imported products, and that their quality is comparable. For purposes of price comparison, fifty per cent of import duties, related charges and other costs of bringing goods into the country shall be regarded as part of the price of the non-Central American product, even where the body that purchases such articles is exempt from the payment of such duties, charges or costs.

Chapter XII

FINAL PROVISIONS

Article 43

This Agreement shall be submitted for ratification in each State in conformity with its respective constitutional or legislative procedures, and shall enter into force eight days following the date of deposit of the fifth instrument of ratification.

Article 44

The general secretariat of the Organization of Central American States shall act as depositary of the present Agreement and shall send a certified copy thereof to the Ministry of Foreign Affairs of each of the Contracting States, and to the permanent secretariat of the General Treaty, and shall also notify them immediately of the deposit of each instrument of ratification. When the Treaty enters into force, it shall

/also transmit

also transmit a certified copy thereof to the Secretary-General of the United Nations for the purposes of registration as set forth in Article 102 of the Charter of the United Nations.

Article 45

The duration of the present Agreement shall be determined by the duration of the General Treaty on Central American Integration.

Article 46

The present Agreement shall supersede any provisions contained in general or special legislation that may be in conflict therewith.

Article 47

The Contracting States shall adopt uniform regulations for the application of this Agreement within a period of not more than thirty days from the date of entry into force of the present instrument. These regulations shall be prepared by the Executive Council.

Chapter XIII

TRANSITIONAL CLAUSES

First transitional article

Enterprises subject to national legislation on industrial development shall continue to enjoy any tax benefits that may have been granted to them by such legislation, except as provided in the subsequent paragraphs of the present article. Furthermore, they may be granted benefits equal to the maximum benefits enjoyed by other enterprises producing the same articles, through national concessions granted in any other Central American country, but only for the time that remains before the concession of such benefits is due to terminate.

/Concessions for

Concessions for the importation of building materials, granted under national industrial development legislation, shall become null and void thirty days after the entry into force of this Agreement. Any dispensation from duties with respect to the importation of machinery and equipment, raw materials, semi-finished goods, containers and fuels that may have been granted under national legislation shall be subject to the provisions of article IX of the General Treaty on Central American Economic Integration.

Any concessions granted through general or specific national legislation for the development of the manufacturing industries to enterprises that have made no use of any of the benefits granted within a period of one year from the date of the classification order or decree, or six months from entry into force of this Agreement, whichever provides the longer period of grace, shall become null and void.

Second transitional article

Any enterprise that at the time when the present Agreement enters into force is enjoying tax exemptions under national legislation may ask to be reclassified in accordance with this Agreement within a period of six months. If it is reclassified it shall be granted the corresponding benefits, but the period for which these benefits are conferred shall be reduced by the amount of time for which the benefits conferred by the national legislation have been enjoyed.

Third transitional article

Any enterprise covered by national legislation and classifiable in group C under this Agreement, that is not reclassified in accordance with the previous article, and that exports its products to any Central American country, shall be regarded as benefiting from export subsidies. Consequently such exports shall be subject to the guaranty procedure and other provisions of article XI of the General Treaty, with the exception of the provisions of the fourth paragraph of that article.

Fourth transitional

Fourth transitional article

Governments may grant to any enterprise classifiable in accordance with this Agreement benefits equal to the maximum benefits that are being enjoyed, in their own country or in another Central American country, by enterprises producing the same articles by virtue of national concessions, as long as such concessions remain in force. Once such concessions have been terminated, the enterprise in question shall receive the benefits provided under this Agreement for the time required to complete the appropriate period.

Fifth transitional article

For the purpose of applying the principle of balanced economic development between the Central American countries, the Signatory States agree that the competent national administrative authority of the Republic of Honduras shall grant for two years, and the competent national administrative authority of the Republic of Nicaragua shall grant for one year, exemptions from taxes on income or profits, assets and net worth, in addition to the exemptions already applicable to them, to any enterprises that according to this Agreement are classified as belonging to new industries in groups A and B. These additional benefits shall be granted during the first ten years during which this Agreement is in force.

Sixth transitional article

The Contracting States shall sign a protocol to this Agreement stipulating the régime of tax incentives that shall be applicable to enterprises manufacturing pharmaceutical products and medicines. Until the said protocol enters into force, such enterprises shall be classified, and receive the appropriate benefits, in accordance with the terms of this Agreement.

Seventh transitional agreement

The Contracting States undertake to sign, within not more than one year from the date of entry into force of this instrument, an additional protocol to this Agreement establishing the régime of tax incentives applicable to assembly activities.

/The said

The said protocol shall specify, among other things:

- (a) The assembly activities to which the protocol may apply;
- (b) The system of tax incentives that shall apply to assembly enterprises, including, among other conditions, the definition and classification requirements, the amount and period of the tax benefits, and the methods of regional co-ordination;
- (c) The requirements and obligations to which assembly enterprises shall be subject as regards the production or use of parts of regional origin;
- (d) The trade régime to which the various assembled articles shall be subject within the Central American Common Market.

Until the entry into force of the said protocol, the assembly activities covered by this provision shall receive only dispensation from duties and charges for three years on imports of machinery and equipment, and everything established in the provisions of this Agreement shall apply to these activities.

Eighth transitional article

For the purpose of classifying the enterprises included in group A, sub-paragraph (a), of article 5 of this Agreement, and until the Executive Council of the General Treaty prepares the schedule of capital goods and industrial raw materials referred to in the last paragraph of that article, the Contracting Parties shall be guided solely by the definitions laid down in annex 2 to the present Agreement.

/In witness

In witness whereof the respective plenipotentiaries sign the present Agreement in the City of San Jose, capital of the Republic of Costa Rica, this thirty-first day of the month of July nineteen hundred and sixty-two.

For the Government of Guatemala:

Jorge L. Caballeros
Minister for Economic Affairs

Julio Prado García Salas
Minister for Co-ordinating Central
American Integration

For the Government of El Salvador:

Salvador Jáuregui
Minister for Economic Affairs

For the Government of Honduras:

Jorge Bueso Arias
Minister for Economic and
Financial Affairs

For the Government of Nicaragua:

Juan José Lugo Marengo
Minister for Economic Affairs

Gustavo A. Guerrero
Deputy Minister for Economic Affairs

For the Government of Costa Rica:

Raúl Hess Estrada
Minister for Economic and
Financial Affairs

Annex 1

LIST OF PRODUCTS OF INDUSTRIES CLASSIFIABLE IN GROUP C

For the purpose of the industrial classification referred to in article 5 of this Agreement, scheduled enterprises that are engaged in the manufacture of leather shoes, or in the cutting and making up of clothing, and enterprises that manufacture the products listed in this annex, shall be classified in group C.

Industry or activity producing:	Standard tariff nomenclature (NAUCA)
<u>1. Beverages</u>	
Mineral water	111-01-01
Aerated water, flavoured or unflavoured	111-01-02
Non-alcoholic beverages, n.e.s.	111-01-03
Fortified wines	112-01-02
Champagne	112-01-03
Other sparkling wines, n.e.s.	112-01-04
Other wines, including grape must, n.e.s.	112-01-05
Beer and other fermented cereal beverages	112-03-00
Aromatic bitter extracts (liquid), such as angostura and other bitters, and similar products	112-04-01
<u>2. Tobacco manufactures</u>	
Cigars and cheroots, manufactured with tobacco produced outside Central America	122-01-00
Cigarettes	122-02-00
Tobacco manufactured in other forms, n.e.s.	122-03-00

/3. Perfumery,

Industry or activity producing:

Standard tariff
nomenclature
(NAUCA)

3. Perfumery, cosmetics and other toilet
preparations (except soaps and dentifrices)

Perfumes	552-01-01
Lotions, eau de cologne and toilet water	552-01-02
Cosmetics	552-01-03
Prepared toilet powders	552-01-04
Hair dyes, hair tonics, hair creams, shampoos and other hair preparations	552-01-05
All other toilet preparations, n.e.s. including shaving creams, depilatories, etc.	552-01-07
Incense, fumigatory substances and other products for room perfuming, and room deodorants	552-01-08

/Annex 2

Annex 2

For the purpose of the provisions of article 5 of this Agreement, the terms below are defined as follows:

Industrial raw materials. Goods produced by the manufacturing industry from raw materials by means of an initial processing that has changed their nature or form and incorporated a high proportion of value added, and which are intended for use in further industrial processes.

For the purpose of classification in groups A and B with respect to the use of raw materials of regional origin, account shall be taken, in addition to the raw materials that appear in the list drawn up by the Executive Council in accordance with the above definition, of the components of such industrial raw materials and of primary commodities used in their production.

Capital goods. Goods used to process or transform other products, or provide a service of a productive nature, that are not consumed in a single production cycle.

