

# WORLD TRADE ORGANIZATION

RESTRICTED

**G/SCM/Q2/HND/2**

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**Committee on Subsidies and Countervailing Measures**

Original: Spanish

## SUBSIDIES

### Replies of HONDURAS to Questions from the EUROPEAN COMMUNITIES<sup>1</sup> Regarding Honduras' New and Full Notification<sup>2</sup>

The following communication, dated 30 July 1996, has been received from the Permanent Mission of Honduras.

In relation to the questions by the European Community in the context of the review of incentive schemes applied by Honduras, the Government of Honduras submits herewith its replies, in accordance with Article 25.9 of the Agreement on Subsidies and Countervailing Measures.

#### **(a) Could Honduras explain why these programmes were not notified to the WTO?**

As a member of the World Trade Organization (WTO), Honduras has been amending its economic policy to adapt it as far as possible to the rules imposed by the WTO Agreements. Regarding the special case of incentives under the Temporary Import Regime (RIT), Industrial Processing Zones for Export Trade (ZIP) and Free Zones (ZL), Honduras wishes to point out that these incentive programmes were already in force before it acceded to the 1947 General Agreement and during the accession process in 1994 Honduras explained the economic policy objectives pursued by such schemes, as well as their scope; see documents L/7028, L/7160/Rev.1 and L/7299.

In addition, taking into account the initial reviews, as well as the provisions of Article 25.6 of the Agreement on Subsidies and Countervailing Measures, Honduras notified that it did not apply any subsidies within the meaning of Article 1.1 nor any specific subsidies within the meaning of Article 2 and that it therefore considered no subsidies subject to notification requirements were applied. Nevertheless, following the reviews of some other Member countries, the Government of Honduras considers that certain situations need to be elucidated and, as a developing country with a per capita income of less than US\$1,000, it is making great efforts to undertake an in-depth analysis of these programmes in order to see whether subsidies that are not in conformity with the Agreement on Subsidies and Countervailing Measures are applied. If this proves to be the case, the relevant notification will be made. Honduras would like to draw attention, however, to the provisions of Article 25.7 of the aforementioned Agreement, which state that the notification of a measure does not prejudice either its legal status under GATT 1994 or under the Agreement on Subsidies and Countervailing Measures, its effects or the nature of the measure itself.

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<sup>1</sup>G/SCM/Q2/HND/1.

<sup>2</sup>G/ADP/N/1/HND/2-G/SCM/N/1/HND/2.

**(b) Could Honduras supply notification under Article 25, using the standard format?**

As mentioned in the reply to the previous question, when Honduras has concluded its legal examination of the incentives granted under these programmes, it will fulfil its commitments under Article 25 of the Agreement on Subsidies and Countervailing Measures, in conformity with the model questionnaire for notifications indicated in document G/SCM/6.

**(c) Could Honduras clarify what the criteria for eligibility are and how projects are selected for Government subsidies?**

For information purposes, the Government of Honduras explains below the requirements concerning applications for RIT, ZIP and ZL:

Temporary Import Regime (RIT)

Pursuant to domestic legislation, enterprises wishing to benefit from a Temporary Import Regime (RIT) must submit an application to the Ministry of the Economy and Trade, containing the following information:

- Name, registered name or designation, national tax registration, nationality, domicile, full address, telephone number and other general information on the applicant and his legal representative;
- designation of the person applying for the RIT;
- the machinery and equipment which it is proposed to import under the RIT, showing the tariff heading and their role in the production process;
- description of the products to be exported, showing their volume and value, together with an estimate of the volume and value over the next three (3) years, indicating the major markets for the exports;
- percentage of imported goods or inputs to be used in the production process; estimated percentage of wastage and losses; description of the goods to be processed under complementarity and/or subcontracting arrangements;
- timetable for making and exporting the products with the imported inputs;
- number of workers to be employed, giving an estimate of the annual wages and salaries and social benefits for the first three (3) years of operation;
- estimate of the annual net revenue in foreign currency to be earned by the enterprise's exports over the first three (3) years of operation;
- where appropriate, an indication of the raw materials of domestic origin to be used by the enterprise;
- brief description of the production process;
- special request for the granting of an importer's and/or exporter's licence;

- any other information which the Ministry of the Economy and Trade requires in order to decide upon the application.

After receiving the application, the Ministry of the Economy and Trade undertakes an economic analysis of the enterprise showing the benefits to be obtained by Honduras in the following areas:

- Creation of new jobs, showing the number and type of jobs, the annual wages and salaries to be paid by the enterprise;
- generation of value added;
- net foreign currency earnings;
- training of the workforce.

#### Industrial Processing Zones for Export Trade (ZIP)

In the case of Industrial Processing Zones for Export Trade (ZIPs), we wish to clarify that the benefits accruing to an enterprise under the ZIP regime are the result of the purchase or leasing agreement, whatever its title or contractual form, between the enterprise concerned and the company operating the ZIP. Requests to operate a ZIP are submitted to the Ministry of the Economy and Trade.

The following is required in order to operate a ZIP:

- Establishment as a public limited company with fixed capital, underwritten and paid up in an amount not less than L 2,000,000 (US\$165,289.26 at the exchange rate of L 12.10 to US\$1.00);
- the sole purpose of the company must be to exploit the ZIP;
- proof that the property required for the purposes of the ZIP is available;
- proof that the technical and financial resources for promotion, supply of services and development of the necessary infrastructure are available in order to create a minimum of 5,000 new jobs over a period of five (5) years.

An application to operate a ZIP must contain the following information:

- The draft public deed, articles and statutes;
- the financial and administrative structure and estimates of the enterprise's performance over ten (10) years;
- an economic study justifying the setting up of the ZIP;
- plans of the Zone and proposed installations, showing the relevant capacity and specifications.

In addition, the Ministry of the Economy and Trade must ensure that:

- The public interest and the general and local circumstances justify the authorization to establish a Zone;

- the financial, organizational, management and administrative bases constitute a reasonable guarantee of the security of the State's fiscal interests;
- the capacity is available to provide the users of the ZIP with the services they require for the industrial processing of exports, including promotion and employment of labour; and
- the proposed installations provide satisfactory guarantees of fiscal control.

Free Zones (ZL)

Natural or legal persons wishing to become established in the Free Zone must obtain an authorization from the Administrative Institution in order to carry out any or all of the operations allowed.

**(d) With respect to the support for export activity programmes, could Honduras provide the timetable how these subsidies will be phased out?**

With regard to the commitment to abolish export subsidies, Honduras will take advantage of the special periods provided for developing countries in Article 27.4. Nevertheless, in the particular case of the Temporary Admission Regime, exemption from corporate tax was abolished by Decree No. 135-94 as from 1994 for all new enterprises that took advantage of this regime as from that date.