

Maquila in Paraguay

In July, 2000, by Decree N°9585 was regulated the Law N°1064/97 of “The Maquila Export Industry”, with the purpose to promote the establishment of maquiladoras’ operations, which are totally or partially dedicated to manufacture tangible or intangible products for export, by combining goods or services of foreign origin imported under temporary admission, and adding the incorporation of domestic workforce and other national resources, whose production shall be destined to foreign export markets.

This activity is performed under the Maquila Contract, signed between a company domiciled in the national territory (Maquiladora) and another domiciled abroad (Head Company).

Currently, there are more than 179 companies authorized to operate under the Maquila regime, which employ approximately 17,000 workers. It is estimated that in the current year the exports under the Maquila regime will exceed USD 700,000,000.00 FOB value, which means a growth of eight (8) % in relation to the figures corresponding to the previous year.

Main features of Maquila regime.

Who can obtain the benefits of this Law?	<ul style="list-style-type: none">• Any person, physical or legal, national or foreigner , domiciled in the country and legally qualified to carry out an act of commerce, can request the approval of maquila program for export.
Where can be installed?	<ul style="list-style-type: none">• In any part of the national territory, with the only limitation given by the national, departamental and municipal programs of the urban and environmental development.
Under what figure?	<ul style="list-style-type: none">• In any of the forms established in the Law: Stock Company (S.A.), Limited partnership, Limited Liability (S.R.L), branches of foreign companies or Individual Company of Limited Responsibility.

Requirements about the owners	<ul style="list-style-type: none"> • Can be 100% foreign capital, 100% national, joint ventures. Law N°117/91 on "Investment" secure and guarantee the same treatment to national and foreign investment.
How regulate the environmental aspect?	<ul style="list-style-type: none"> • Everything about the environment aspects are referred to law, regulations and ordinances that regulated the same.
How regulate the labor aspect?	<ul style="list-style-type: none"> • Everything about this aspect is referred to Paraguay Labor Law and to the Labor Procedural Code.

Process.

- a. Inscription: any physical and legal person shall be enlisted at the Executive Secretariat of the CNIME- National Council for Maquila Industry.
- b. Maquila Program: The interested party shall submit the Maquila Program to CNIME. The Maquila Program contains the description and characteristics of the manufacturing process of the goods or services, details program of imports, production, exports, employment generation, percentage of value added, percentage of loss and wastage, period of time the program shall cover and other data that may be established in the pertinent regulations (the model of the program is provided by the SE- CNIME). All the aforementioned shall be accompanied by the Letter of Intent in the case of not having yet the Maquila Contract.
- c. Approval by the CNIME (National Council of the Export Maquila Industry): the CNIME proceeds to evaluate the program and issue a preliminary opinion. Then, they inform to the Ministry of Industry and Commerce and Ministry of Finance in order for them to grant their approval for the execution of the "Maquila Program" by a bi-ministerial Resolution.
- d. Bi-ministerial Resolution: subject to prior approval by the CNIME and the presentation of the other legal requirements, the Bi-ministerial Resolution is prepared, which is signed by the Ministry of Industry and Commerce and of Finance.
- e. Presentation of Maquila Contract: from the delivery of the Bi-ministerial Resolution, the Maquiladora shall have a term of 120 days to present the Maquila Contract entered between the Maquiladora and the foreign Head Company; this presentation being an essential requirement to start the operations contemplated in the Program.
- f. Start the operations: After fulfilling all the requirements, the Maquiladora starts the operations of Maquila with the supervision by CNIME.

Maquila operations.

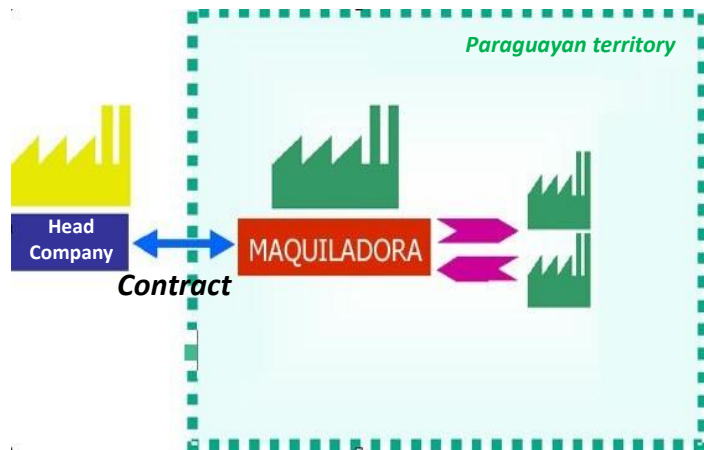
Maquila: Under a contract signed with the foreign head company, industrial processes or services, totally or partially of good tangibles or intangibles imported temporarily, allocating their products to export. The "Contract" is between two persons, physical or legal.

Head Company

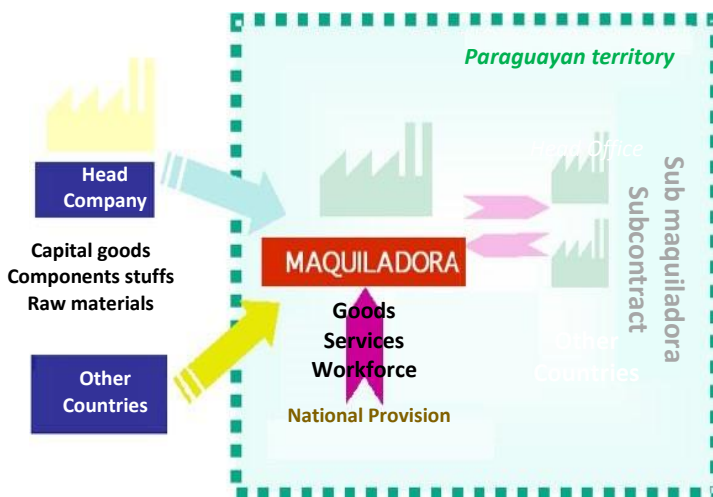
Contractor residing abroad.

Maquiladora

Contracted, domiciled in any part of the Paraguayan territory.



The Maquiladora can subcontract another company (sub maquiladora) to make processes contemplated in the program of Maquila object of the Contract.

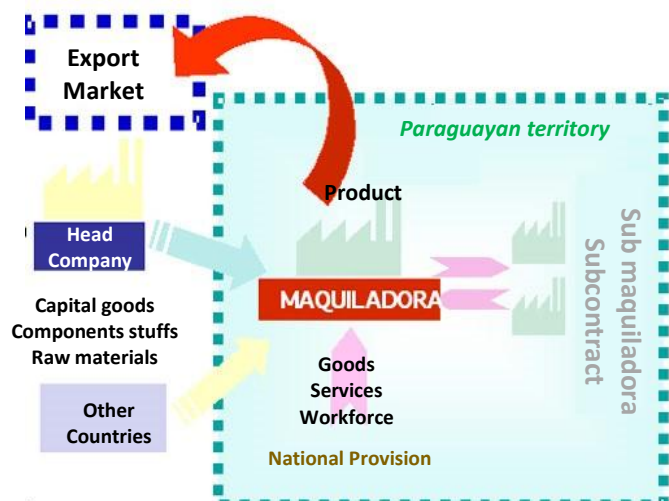


The Head Company provides to the Maquiladora the required capital goods, raw material or components stuffs, directly or via other countries. These good enter into the country under temporary admission regime, and during the time established in the program [six (6) months, extendable to one (1) year] with suspension of the payment of customs duties and taxes, prior consolidation that guarantees the amounts eventually applicable.

The Maquiladora can also contract goods, services, workforce and others in the Paraguayan territory or import from other countries on account and order of the head company.

The products resulting from the Maquila service are returned to the Head Company or sent to export market on account and order of the Head Company; it can be temporarily exported for the completion of complementary processes abroad as well.

The sub products and wastes can be re-exported, destroyed, or nationalized for later donation or sale in the local market. The nationalization implies the payment of all tax temporarily suspended.



Benefits

- **Customs Aspects.**

Temporary Import with suspension in the payment of customs tariffs.

The Maquiladoras will operate under the figure "Temporary Admission", that allows the entry into the country of capital goods, raw materials and components stuffs, with temporary suspension in the payment of tariffs and taxes, prior consolidation in form of: mortgage guarantee, bank pledge, deposit of cash money, insurance policy or warrant.

- **Tax Aspects.**

Sole tax of one (1) %.

In substitution of any other tax, a sole tax of one (1) % is applied to:

- a. The amount of Added Value in national territory (invoiced to Head Company for the Maquila service by the Maquiladora), or
 - b. Invoice FOB amount, in the case that the maquiladora issues an invoice for the total price of the product to final customer/consumer, on account and order of the Head Company.
- What means Value Added in National Territory? Are the sums of: Goods and services acquired/contracted in the country to comply with the Maquila and sub-Maquila production.

The contracted services include:

- Electricity, water, telephone, other similar services;
- The services of independent professionals;
- Cost of financing of the operating capital of the factory;
- Insurance of industrial plant, raw materials and finished products;
- Depreciation of machinery, if the owner is the Maquiladora;
- Rent or lease paid, real state, plan of equipment, etc.;
- Other contracted services not detailed above;
- Salaries paid in the country, including social contributions.

VAT Recovery.

Regarding the Value Added Tax, the Maquiladora will be constituted as withholding agent (60%) and will recover the VAT withheld and deposited in a maximum term of 10 days.

Tax exemption.

- The maquiladoras are totally exempt from any other national, departmental or municipal tax, with the exception of the sole tax of one (1) %.
- For sales in the local market (maximum ten (10) % of the previous year's production, with prior authorization of the CNIME), all tariffs and taxes that were suspended must be paid.
- The same is required for the nationalization of sub products, products and waste.