

Maquila regime in Paraguay

Decree N°9585 was issued on July, 2000 in order to regulate Law N°1064/97 on “The Maquila Industry of Export”, a law that has the purpose of promoting the establishment and regulating the operations of maquiladora companies that are totally or partially engaged to tangible or intangible productive processes, combining goods or services of foreign origin imported temporarily with local workforce and other national resources, destining their production to export.

The aforementioned activities are performed under a maquila contract signed between a company domiciled in the national territory (maquiladora company) and another domiciled abroad (headquarters).

Currently, there are 115 companies authorized to operate under the maquila regime, which employs approximately 12,000 workers. It is estimated that in the current year the exports under the maquila regime will exceed USD 300,000,000.00 FOB value, which means a growth of 10 % in comparison to the numbers corresponding to the previous year.

Among the companies that are operating under the maquila regime in Paraguay, it is necessary to emphasize the presence of the Japanese multinationals YAZAKI Corporation and SUMIDENSO Corporation, both companies of great importance that are producing WIRE HARNESS (electric wired system for car) for export, mainly to Brazil, by incorporating subsidiaries in Paraguay (YAZAKI PARAGUAY S.R.L and SUMIDENSO PARAGUAY S.R.L).

Main features of Maquila regime.

Who can obtain the benefits of this Law?	<ul style="list-style-type: none">• Any person, natural or legal, national or foreigner that is domiciled in the country and legally qualified to carry out commercial activities, can request the approval of a maquila program.
Where can the company be established?	<ul style="list-style-type: none">• In any part of the national territory, with the limitations given by the national, departmental and municipal programs for urban development and environmental matters.
Under which corporate type?	<ul style="list-style-type: none">• In any of the corporate types provided by law: Joint-Stock Company (S.A.), Limited Liability Company (S.R.L), branches of foreign companies, etc.

Requirements regarding ownership	<ul style="list-style-type: none"> • Maquiladora companies' capital can be 100% foreign, 100% national or even joint ventures. Law N°117/91 "On Investments" offers the same guarantees to national and foreign investments.
How are the environmental matters regulated?	<ul style="list-style-type: none"> • Environmental matters are governed by the respective law, regulations and ordinances.
How are labor matters regulated?	<ul style="list-style-type: none"> • Labor matters are regulated by the Labor Code and Labor Procedural Code.

Process.

- a. Inscription: of the natural or legal person at the Executive Secretariat of the National Council of Maquila Industry for Export (the "CNIME").
- b. Submit the maquila program: this program contains the description and characteristics of the service or the industrial process, information on imports, production, exports, generation of employment, added value, percentage of wastage, period of time the program will cover and other information that may be required according to the pertinent regulations (the model of the program is provided by the Executive Secretariat of the CNIME). This program must be accompanied by a Letter of Intent in case a maquila contract has not yet been signed.
- c. Approval by the CNIME: the CNIME will evaluate the program, issue a preliminary opinion recommending the approval of the maquila program to the Ministry of Industry and Commerce and the Ministry of Finance so they can grant their approval of the maquila program by a bi-ministerial resolution.
- d. Issuance of Bi-ministerial Resolution: the bi-ministerial resolution, which is signed by the Ministry of Industry and Commerce and the Ministry of Finance, is issued previous approval of the maquila program by the CNIME and after the completion of all the pertinent legal requirements.
- e. Presentation of the Maquila Contract: after the issuing of the Bi-ministerial Resolution, the maquila company will have a term of 120 days to submit the maquila contract to the CNIME. Submitting the maquila contract is an essential requirement to start the operations contemplated in the maquila program.
- f. Start of operations: once all the requirements are fulfilled, the maquila company will start its operations of maquila under the supervision by the CNIME.

Maquila operations.

Maquila: industrial processes or services, carried out under a contract concluded with a foreign head office, utilizing tangibles or intangibles imported temporarily and destined to export to the international market.

The maquila contract is between two persons, natural or legal:

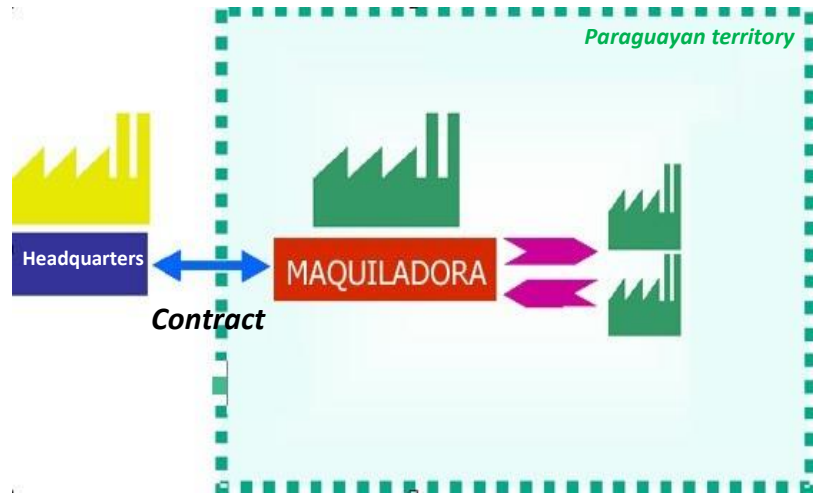
Headquarters

Contractor domiciled abroad.

Maquiladora company

The contracted party domiciled in any part of the Paraguayan territory.

The maquiladora company may subcontract another company (sub maquiladora company) to carry out certain processes contemplated in the maquila program object of the Contract.

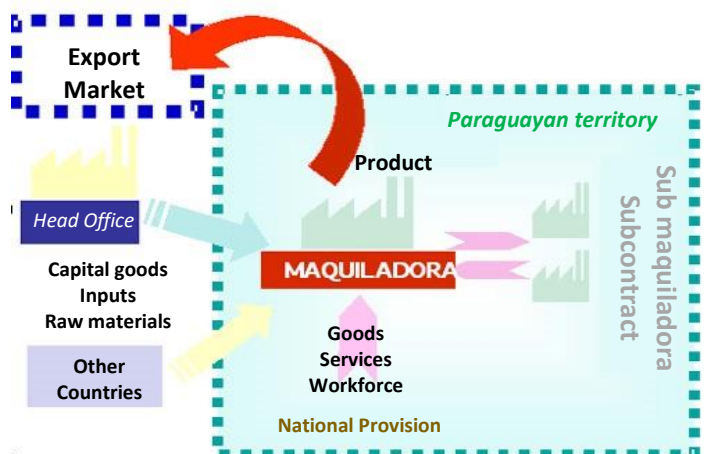


The headquarters provide to the maquiladora company capital goods, raw material, supplies, directly or via other countries. These goods enter in the country temporarily, during the term set in the maquila program (6 months, extendable to one 1 year) with suspension of payment of taxes, prior provision of a guarantee for the amount of taxes that may eventually be applicable.

The maquiladora company can also obtain goods, services, workforce etc. in the Paraguayan territory or import them, on account and order of the headquarters.

The products resulting from the maquila service are returned to the headquarters or exported to the international market on account and order of the headquarters or, as part of the maquila program, it can be temporarily exported for the completion of complementary processes abroad.

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



Benefits

✓ **Customs Tariffs.**

Temporary import with suspension of payment of customs tariffs

The maquiladora companies operate under the "Temporary Admission" system which allows them to import capital goods, raw materials and supplies with temporary suspension of the payment of customs tariffs and taxes prior provision of a guarantee in the form of: mortgage, pledge, cash, insurance policy or warrant.

✓ **Other Taxes.**

Single tax of one percent (1%)

In substitution of any other tax, a single tax of one percent (1 %) is levied on:

- a. the added value in national territory (invoice issued by the maquila company to the headquarters for the maquila services), or
- b. the total value of the product, in case the maquiladora company issues an invoice to the final customer for the total value, on behalf and by order of the headquarters.

What is the added value in national territory?

Is the sum of:

- Goods acquired in the country to comply with the maquila and sub-maquila contract. "Goods acquired in the country" means goods purchased locally or permanently imported by the maquiladora company or sub-maquiladora company; and
- Services contracted for the same purpose. These services include:
 - ✓ Electricity, water, telephone and other similar services;
 - ✓ The services of independent professionals;
 - ✓ Financing of the working capital of the factory;
 - ✓ Insurance of the industrial plant, raw materials and finished products;
 - ✓ Depreciation of machinery, if the owner is the maquiladora company;
 - ✓ Rent or lease of real state, factory, equipment, etc.;
 - ✓ Other services not detailed above;
 - ✓ Salaries paid in the country, including social contributions.

VAT Recovery.

The maquiladora companies are constituted as withholding agents of VAT (60%). The deposited and withheld VAT can be recovered within a maximum term of 10 days from the request made by the maquiladora company for this purpose.

Tax exemption.

With the exception of the single tax of one (1) %, maquiladora companies are exempted from all national, departmental and/or municipal taxes. However, sales in the local market (maximum ten (10) % of the previous year's production, with prior authorization of the CNIME) are subject to payment of all the suspended tariffs and taxes.

Payment of suspended taxes and tariffs is also required in case of nationalization of by-products, products and wastes.