

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

RESTRICTED
L/7426/Add.1
20 April 1994
Limited Distribution

(94-0705)

Original: Spanish

WORKING PARTY ON THE ACCESSION OF PANAMA

**Questions and Replies to the Memorandum on
Foreign Trade Regime (L/7426)**

Addendum

The following replies have been submitted by the representative of Panama in response to questions by contracting parties.

**Questions and Replies Concerning the Foreign Trade Regime
of the Republic of Panama**

1.

R. Of the 48 tariff headings mentioned in the Memorandum as having duties equal to or higher than 90 per cent, some (two headings) have had the tariffs reduced, while others (nine headings) which had lower duty rates, but were subject to import quotas have been tariffed by abolishing the quota and establishing a tariff. For this reason there are currently 56 such headings.

For the previous and current lists, please refer to Tables Nos. 6 and 7 of Annex A.

2.

R. The progress made with the review of import tariffs can be described in terms of the results of the recommendations of the Industrial Policy Commission:

The tariff reductions recommended by the Industrial Policy Commission involved establishing an equivalence between the specific tariff and its ad valorem counterpart at levels of 60 and 90 per cent for the industrial and agro-industrial sectors respectively. Subsequently, the same Commission recommended to the Cabinet Council specific tariffs equivalent to 40 per cent and 50 per cent ad valorem for the industrial and agro-industrial sectors respectively. The headings forming part of the Reduction Programme are listed in Table No. 9 of Annex A.

So far, the Industrial Policy Commission has made no other recommendation concerning tariff reductions. Nevertheless, there is a Tariff Review Committee set up at a technical level by Decree No. 10 of 23 April 1991 which is reviewing the remaining mixed tariffs at levels below 40 per cent and 50 per cent with a view, in some cases, to eliminating the specific duty and, in others, to establishing ad valorem tariffs of 20 per cent or less for products not produced in Panama. This proposal will later be submitted to the Cabinet Council by the Minister of Trade and Industry.

The Technical Sub-Commission of the Economic Council which reviewed tariffs in the agriculture sector has submitted its study. The recommendations of this Commission led to the elimination of import quotas, prior authorizations and licences and other quantitative restrictions and to the modification

of the tariffs for: potatoes, onions, beans (Vigna), kidney beans, lentils, vetches, peas, dwarf beans, maize, sorghum, chicken and meat of swine.

The present government intends to continue this process of reducing non-tariff barriers.

There is no definite date for the decisions which may result from the import tariff review.

3.

R. In accordance with its programme for restructuring the economy and opening up trade, the Government of Panama has initiated a review process intended to lead to the tariffication of certain products currently subject to import quotas.

A clear example of this policy is the adoption of Decree No. 51 of 22 September 1993, with its amendments, and Decree No. 55 of 13 October 1993, with its amendments, for the purpose of eliminating import quotas, prior authorizations or licences and other quantitative restrictions and adjusting the tariffs on the following products:

- | | | |
|----------------|---------------|-----------------|
| - Potatoes | - Onions | - Beans (Vigna) |
| - Kidney beans | - Lentils | - Vetches |
| - Peas | - Dwarf beans | - Maize |
| - Sorghum | - Chicken | - Meat of swine |

Under Decree No. 43 of 20 November 1991, Panama eliminated all quantitative restrictions on imports and exports of the following products:

- Garlic;
- Celery;
- Lettuce;
- Headed cabbage;
- Carrots;
- Beet;
- And other similar vegetables, fresh or chilled;
- Whether or not cooked, preserved by freezing or in brine, or dehydrated.

4.

R. (a) The Statement that "the primary purpose of special tariff treatment is to stimulate domestic production of goods of national interest" refers to all the industrial and agricultural production encouraged by the State under the old import substitution policy, which in principle was aimed at promoting non-traditional production.

As for the definition of special tariff treatment, it means total or partial exemption from the import tax in force, granted under a special law.

- (b) The foodstuffs in Chapters 1-24 of the import tariff of the Republic of Panama may be subject to special tariff treatment in the following cases:
- If they are used as a raw material by domestic industry and are not produced domestically in sufficient quality and quantity, they may be imported against payment of only 3 per cent of the c.i.f. value, in accordance with the provisions of Law 3 of 20 March 1986.

- If they are imported by the State for the use of its teaching institutions, in the same way as food donations received by the State, municipalities and local councils (Article 535(1) of the Fiscal Code).
- (c) According to Law 9 of 19 January 1989, micro and small-scale manufacturing enterprises are enterprises engaged in the manufacture and conversion of goods and the processing of materials and semi-finished products, including those of agricultural, animal husbandry, forest, marine and mining origin, provided that:
 1. Their assets and capital do not exceed 100,000 balboas;
 2. The value of their annual sales does not exceed 100,000 balboas.
 - 5.
- R. There is no predetermined list of "plants, seeds, animals and agro-chemical products designated as prohibited imports by the Ministry of Agricultural Development", since the restrictions on the entry of these products into Panama depend on the sanitary conditions in the country of origin and on whether or not the quarantine requirements have been met. These conditions are variable and the list of prohibitive products can also vary according to the country of origin.

The Agricultural Quarantine Department of the Ministry of Agricultural Development receives information from international organizations such as the Regional International Organization for Plant Protection and Animal Health (RIOPPAH) concerning epidemics and outbreaks of disease of animal or plant origin in various countries. Thus, the products denied entry are those which might carry some exotic disease, the spread of which could be extremely damaging to the country. An example is the prohibition on the importation of fresh or chilled meat of bovine animals and of cattle on the hoof from countries with outbreaks of foot-and-mouth disease.

In the case of agro-chemicals, there is a list of pesticides which have been found, at international level, to have high residues and have accordingly been prohibited from entering the country in order to protect public health and the eco-system. An example is the prohibition on DDT. For a complete list of prohibited pesticides see Table No. 10 in Annex A.

6.

R. The provisions determining the application of these quotas were not drafted with the General Agreement in mind. During the negotiations for accession to GATT they will have to be adapted to comply with the rules and practices accepted by the General Agreement and with other instruments under negotiation.

The criteria for allocating a quota - including for dairy products - are as follows:

- The level of unsatisfied demand on a product after taking into account potential domestic production. This is determined by means of annual studies of the items in deficit with account for the seasonal nature of production.
- The import needs of each enterprise in accordance with its market dynamics.
- The level of participation of the importing enterprises in the purchase of domestic production. Import levels vary in accordance with the participation of each enterprise in the purchase of domestic production.

7.

- R. (a) The comments in the memorandum on foreign trade regime relating to this point are derived from the legislation establishing the AMI, which dates from 1975. At the time it was envisaged that products subject to prior licensing, if not produced in the country, could be replaced by domestic products. Thus, these imports could damage domestic production and ultimately affect the tax revenue from these activities.

The reasons for setting up a prior licensing system for imports in 1975 were as follows:

- These products were possible substitutes for domestic production, or were included as products that might be produced domestically where it was hoped to encourage investment in that area. The possibility of domestic production being affected involved the Government's responsibility for safeguarding economic order in the face of the risk implied by this situation.
 - On the other hand, the prior licensing system enabled the collection of taxes from enterprises with products that could be substituted for the imports.
- (b) For a list of products subject to prior licensing please see Table No. 4 Annex A.
- (c) The period of validity of prior import licences is not fixed, but varies in accordance with the needs of the importing enterprises. Licences for products subject to prior licensing have been issued for periods extending from three months to one year.

8.

- R. Sanitary and phyto-sanitary restrictions are applied to agricultural products and products of agricultural origin that might constitute a risk for the spread of disease. These restrictions are controlled by the Quarantine Directorate of the Ministry of Agricultural Development.

9.

- R. For the Ministry of Foreign Affairs of the Republic of Panama a "friendly nation" is any nation that maintains diplomatic relations with Panama.

Despite the provision in the Fiscal Code relating to the certification of import documents by two "reputable businessmen", in practice this system is not applied because of the difficulty of implementing it.

There is no other form of certification of import documents.

10.

- R. The incentives provided by the Government of Panama for agricultural exports are: exemption from the tax on income derived from exports, a discount of up to 30 per cent on the electrical energy tariff, the issuing of a tax credit certificate for the exportation of non-traditional products and preferential interest rates on loans for sowing agricultural crops. The interested party must apply for these incentives.