The Honorable Mario Arana Sevilla  
Minister of Development, Industry and  
Commerce of Nicaragua  

Dear Minister Arana:

I have the honor to refer to Annex 12.5.1 (Cross-Border Supply) of the United States-Central America Free Trade Agreement (the “Agreement”) signed at __________, on _______, 2004.

During the negotiations regarding Annex 12.5.1 to the Agreement, the United States and Nicaragua came to the understanding that, for purposes of paragraph __ of Nicaragua’s Schedule to that Annex, Nicaragua may establish the following requirements, among others:

(a) that capital and reserves that foreign insurance companies assign to their branches must be effectively transferred and converted into domestic currency in conformity with Nicaraguan law;

(b) that the increases of capital and reserves that do not come from capitalization of other reserves will have the same treatment as initial capital and reserves;

(c) that in the transactions between a branch and its parent or other related companies, each shall be considered as independent entities;

(d) that the branch owners or shareholders meet the solvency and integrity requirements established in Nicaragua’s insurance legislation; and

(e) that branches of foreign insurance companies that operate in Nicaragua may transfer liquid profits only if they do not have an investment deficit in their technical reserves and risk patrimony, nor a deficit of risk patrimony.

I have the honor to propose that this letter and your letter of confirmation in reply shall constitute an agreement between our two Governments, to enter into force on the entry into force of the Agreement.

Sincerely,
This letter was negotiated during the course of the CAFTA negotiations and is related to the Agreement, but is not part of the CAFTA.

Robert B. Zoellick

[identical reply letter not included]