EL SALVADOR

TRADE SUMMARY

The U.S. goods trade surplus with El Salvador was $197 million in 2009, a decrease of $37 million from 2008. U.S. goods exports in 2009 were $2.0 billion, down 18.0 percent from the previous year. Corresponding U.S. imports from El Salvador were $1.8 billion, down 18.2 percent. El Salvador is currently the 55th largest export market for U.S. goods.

The stock of U.S. foreign direct investment (FDI) in El Salvador was $3.2 billion in 2008 (latest data available), up from $1.6 billion in 2007.

IMPORT POLICIES

Free Trade Agreement

On August 5, 2004, the United States signed the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR or Agreement) with five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) and the Dominican Republic (the Parties). Under the Agreement, the Parties are significantly liberalizing trade in goods and services. The CAFTA-DR also includes important disciplines relating to: customs administration and trade facilitation; technical barriers to trade; government procurement; investment; telecommunications; electronic commerce; intellectual property rights; transparency; and labor and environmental protection.

The Agreement entered into force for the United States, El Salvador, Guatemala, Honduras, and Nicaragua in 2006 and for the Dominican Republic in 2007. The CAFTA-DR entered into force for Costa Rica on January 1, 2009.

In 2008, the Parties implemented amendments to several textile-related provisions of the CAFTA-DR, including, in particular, changing the rules of origin to require the use of U.S. or regional pocket bag fabric in originating apparel. The Parties also implemented a reciprocal textile inputs sourcing rule with Mexico. Under this rule, Mexico provides duty-free treatment on certain apparel goods produced in a Central American country or the Dominican Republic with U.S. inputs, and the United States provides reciprocal duty-free treatment under the CAFTA-DR on certain apparel goods produced in a Central American country or the Dominican Republic with Mexican inputs. These changes further strengthen and integrate regional textile and apparel manufacturing and create new economic opportunities in the United States and the region.

Tariffs

As a member of the Central American Common Market, El Salvador applies a harmonized external tariff on most items at a maximum of 15 percent with some exceptions.

However, under the CAFTA-DR, about 80 percent of U.S. industrial and consumer goods now enter El Salvador duty-free, with the remaining tariffs phased out by 2015. Nearly all textile and apparel goods that meet the Agreement's rules of origin now enter El Salvador duty-free and quota-free, creating economic opportunities for U.S. and regional fiber, yarn, fabric, and apparel manufacturing companies.

Under the CAFTA-DR, more than half of U.S. agricultural exports now enter El Salvador duty-free. El Salvador will eliminate its remaining tariffs on nearly all agricultural products by 2020 (2023 for rice and chicken leg quarters and 2025 for dairy products). For certain agricultural products, tariff-rate quotas (TRQs) will permit some immediate duty-free access for specified quantities during the tariff phase out period, with the duty-free amount expanding during that period. El Salvador will liberalize trade in white corn through expansion of a TRQ, rather than by tariff reductions.

Nontariff Measures

Under the CAFTA-DR, El Salvador committed to improve transparency and efficiency in administering customs procedures, including the CAFTA-DR rules of origin. El Salvador also committed to ensuring greater procedural certainty and fairness in the administration of these procedures, and all the CAFTA-DR countries agreed to share information to combat illegal transshipment of goods. In addition, El Salvador has negotiated agreements with express delivery companies to allow for faster handling of their packages, but the Salvadoran customs administration and U.S. express delivery companies disagree on whether the agreements have been implemented. In particular, U.S. express delivery companies have raised concerns regarding customs clearance delays, acceptance of electronic documents, duty-free treatment of minimum value merchandise, and the submission of a single manifest covering all goods contained in an express delivery shipment.

In 2009, El Salvador amended its law regulating the production and sale of alcoholic beverages. These amendments would apply a new *ad valorem* tax (initially set at five percent) on domestic products and imports as well as increase existing taxes that are applied by percentage of alcohol by volume. This tax structure appears to apply a lower rate per percentage of alcohol on alcoholic beverages that are typically produced locally (*e.g.*, *aguardiente*) than on alcoholic beverages that are imported (*e.g.*, whiskey and gin). The U.S. Government has raised concerns with the new legislation with the government of El Salvador and continues to work with that government in an effort to address those concerns.

EXPORT SUBSIDIES

El Salvador provides a 6 percent tax rebate on exports shipped outside Central America if the goods have undergone a transformation process that adds at least 30 percent to the original value. In late 2009, the government announced plans to phase out the rebate by June 2010. Firms operating in free trade zones enjoy a 10 year exemption from income tax as well as duty-free privileges.

Under the CAFTA-DR, El Salvador may not adopt new duty waivers or expand existing duty waivers that are conditioned on the fulfillment of a performance requirement (*e.g.*, the export of a given level or percentage of goods). However, under the CAFTA-DR, El Salvador was permitted to maintain such measures through 2009, provided that it maintained the measures in accordance with its obligations under the WTO Agreement on Subsidies and Countervailing Measures. The U.S. Government is working with the government of El Salvador in an effort to ensure it implements its CAFTA-DR obligation.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

The CAFTA-DR provides for improved standards for the protection and enforcement of a broad range of IPR, including protections for patents, trademarks, undisclosed test and other data submitted to obtain marketing approval for pharmaceuticals and agricultural chemicals, and digital copyrighted products such as software, music, text, and videos; and further deterrence of piracy and counterfeiting.

To implement its CAFTA-DR IPR obligations, El Salvador undertook legislative reforms providing for stronger IPR protection and enforcement. Despite these efforts, the piracy of optical media, both music and video, in El Salvador remains a concern. Optical media imported from the United States into El Salvador are being used as duplication masters for unauthorized copies of copyrighted works. The United States has expressed concern to the Salvadoran government about inadequate enforcement of cable broadcast rights and the competitive disadvantage it places on legitimate providers of this service. The United States will continue to monitor El Salvador's implementation of its IPR obligations under the CAFTA-DR.

SERVICES BARRIERS

Under the CAFTA-DR, El Salvador granted U.S. services suppliers substantial access to its services market, including financial services. El Salvador maintains a few barriers to services trade. Foreign investors are limited to 49 percent of equity ownership in free reception television and AM/FM radio broadcasting. Notaries must be Salvadoran citizens.

Since July 2008, El Salvador has imposed a $0.04 per minute tax on international telephone calls that terminate in El Salvador. Some telephone traffic from other Central American countries is exempt under an existing regional telecommunications agreement. The tax must be paid within the first 10 business days of the beginning of the month subsequent to the month in which the calls were terminated. U.S. telecommunications operators have raised concerns that the increased cost of terminating calls into El Salvador will result in an increase in long distance rates, which will negatively impact U.S. consumers.

INVESTMENT BARRIERS

There are few formal investment barriers in El Salvador, except as noted in the services section above. However, the United States has expressed concerns regarding the impact of duplicative regulations and seemingly arbitrary regulatory decision making processes and how these impact U.S. electric energy investments in El Salvador.

OTHER BARRIERS

Some U.S. firms and citizens have found corruption in government, including in the judiciary, to be a significant concern and a constraint to successful investment in El Salvador. The general perception is that government agencies and the judicial system are weak and subject to outside influence. Administrative and judicial decision making appear at times to be inconsistent, non-transparent, and very time consuming.