

A Primer on Exporting to Paraguay¹

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Introduction

Every year the U.S. Department of State publishes extensive Country Commercial Guides for a large number of countries. These guides provide a great deal of information useful to individuals interested in developing export markets either through direct exports or through direct foreign investment. This paper provides an abridged version of the Country Commercial Guide for Paraguay as well as supplemental information of direct relevance to agribusiness firms. It is hoped that the information contained in this report provides a useful starting point for individuals interested in exploring export or investment opportunities in Paraguay.

Note: County Commercial Guides are available for U.S. exporters from the National Trade Data Bank's CD-ROM or via the Internet. Please contact Stat-USA by telephone (1-800) STAT-USA for more information. Country Commercial Guides can be accessed via the World Wide Web at <http://www.stat-usa.gov>, <http://www.state.gov>, and <http://www.mac.doc.gov>. They can also be ordered as a hard copy or on diskette from the National Technical Information Service (NTIS) by telephone (1-800) 553-NTIS. American exporters seeking

general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by telephone (1-800) USA-TRADE; or by fax (202) 482-4473).

Economic and Political Overview

Paraguay continues to consolidate its democracy, although recession, political turmoil, and ineffective government have hindered this effort. Since the restoration of democracy in 1989, there have been several serious coup attempts, and three former presidents have faced prosecution for corruption. At the same time, the economy has stagnated while perceptions of crime have increased, leading to the sentiment that democracy is not working. Transparency International, in its most recent survey of perceptions of corruption around the world, found Paraguay to be the most corrupt country in Latin America and the third most corrupt in the world.

Paraguay's economy has been in a prolonged recession with minimal or negative growth since 1995. The GDP (Gross Domestic Product) increased only 0.5% in 1999 and decreased 0.4% in 2000. Although the economy grew 2.7% in 2001, this

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temporary spike was principally due to bumper crops of soybeans and corn, returning to negative growth in 2002, decreasing 2.3%. The agricultural sector represents about 27% of the economy and 90% of Paraguay's legitimate exports. A record crop of soybeans during 2003 led an increase in agricultural exports, but an outbreak of foot-and-mouth disease in the Chaco region in 2002 has caused substantial losses to Paraguay's meat industry. A significant portion of Paraguay's economy is black and gray market activities (e.g., smuggling both legitimate and illicit goods to and from neighboring countries). Such transactions are not completely captured in Central Bank statistics.

Paraguay's membership in MERCOSUR offers important opportunities for investment and growth. Efforts to improve poor infrastructure (especially in power transmission and distribution; basic telecommunications; road, port, and civil aviation systems; potable water; and sewage treatment) provide potential markets for U.S. goods and services. Paraguay's low cost inputs, low tax rates, and central location also make it an interesting prospect for assembly/distribution facilities for the 200 million-consumer MERCOSUR market.

The same infrastructure deficiencies that provide opportunities for U.S. companies to participate in improvements also undermine Paraguay's ability to attract investment in other areas. Institutional deficiencies, such as inadequate enforcement of intellectual property rights (IPR), are also disincentives to foreign investment. Judicial and legislative efforts have been made to address these issues, however, and some progress can be seen in enforcement of the laws. Widespread institutionalized corruption is a significant barrier to investment.

A devaluation of the Brazilian real, which resulted in lower cost imports to Paraguay, coupled with an ongoing recession and minimal increases in utility prices, held inflation to 5.4% in 1999. Inflation in 2001 was 8.4%, slightly lower than the 8.6% registered in 2000. However, in 2002, inflation jumped to 14.6%. Inflation rates were lower in 2003, with a few periods of deflation caused by a weak dollar and concurrent appreciation of the guarani.

Cotton production has been inconsistent, while soybean production generally has been increasing. The 2003 soybean harvest reached a record level of 4.3 million tons, up from 3.5 million tons in 2002. The 2002 cotton harvest remained at about the same level as in 2001, at 290,000 tons. Beef exports suffered from an outbreak of foot-and-mouth disease in 2002, which caused Paraguay to lose its major markets, in particular Chile. Currently, Paraguay is not certified to export meat products to the United States. Other export crops (e.g., wheat, manioc root, and corn) represent only a small portion of total agricultural exports. Agro-industrial investments in processing of citrus fruit, grains, and manioc could spur additional growth.

The principal areas for potential growth in the near future reflect Paraguay's immediate need to improve its infrastructure and to become more competitive within MERCOSUR. Initiatives in energy, telecommunications, and road construction offer important opportunities. Some U.S. fast-food franchises have experienced limited growth. Paraguay offers an interesting alternative for assembly operations, with attractive investment incentives (tax breaks, duty free import of capital goods, unlimited repatriation of capital) and the lowest factor costs (especially energy) in the region.

Marketing U.S. Products and Services

There are a number of factors that should be considered in exporting products to Paraguay. This section provides a brief overview of many critical factors that must be considered.

Establishing a Business

The government of Paraguay allows foreign companies to establish branches or subsidiaries. A legally authorized representative must head the branch office, and voting board members must have Paraguayan residency. The documents listed below must be authenticated by a notary public and the Paraguayan consul in the country of the head office, and must be filed and recorded at the *Registro Publico de Comercio* with the Ministry of Industry and Commerce in Asuncion. Within 10 days of completing this step, the same documents must be

registered with the Inspection Department of the Vice Ministry of Taxation in the Ministry of Finance:

- The documents of incorporation and the by-laws of the company.
- A certificate from a duly authorized government official or the Chamber of Commerce in the headquarters country, certifying the legitimacy of the head office in the country of origin.
- Minutes from a meeting of the Board of Directors which:
 - resolves to establish a branch office in the Republic of Paraguay.
 - assigns nominal capital to the branch office (a minimum of US\$10,000 if related to export activities).
 - establishes a domicile of the branch office in Paraguay.
 - designates the person or persons to manage the branch office.
 - grants power to the person designated to manage the branch office.
- The legal instruments from the head office delegating management responsibilities in the subsidiary or branch office to the person or persons so designated.

Distribution / Sales Channels

Paraguay does not have preferred or special marketing channels. Imported merchandise can be marketed through subsidiaries of foreign companies, or local importers, distributors, and/or dealers.

Agents / Distributors: Finding a Partner

Foreign firms interested in establishing operations in Paraguay should hire experienced local attorneys and representatives to assist them in operating in a sometimes confusing and non-transparent business environment. The selection of an appropriate agent/distributor is a determining factor in success or failure. Many local companies offer specialized marketing skills to foreign companies interested in the Paraguayan market.

One significant drawback to selling in Paraguay is Law 194/93, which establishes the legal relationship between foreign companies and their Paraguayan representatives. The law requires the foreign company to prove just cause in a Paraguayan court to end a contractual relation with a Paraguayan agent or distributor. If the relationship is ended without proving just cause, the foreign company must pay its representative an indemnity. The rights under this law cannot be waived as part of the contractual relationship between both parties.

Franchising

Franchising operators are slowly penetrating the market. Several foreign companies have granted franchising rights to local firms in the areas of fast foods, laundry, clothing, and pest control. This could be a growth sector in the future once the economy recovers.

Joint Ventures / Licensing

Law 117/91, which guarantees national treatment to foreign firms, also regulates joint ventures. Under the law, the government recognizes joint ventures established through formal legal contracts between the interested parties.

Licensing agreements are widely used for the local production of international brands. Many foreign firms have licensing arrangements with local companies in the areas of apparel, toiletries and cosmetics, pharmaceuticals, processed foods, and video recordings. Trademark infringement, especially of internationally recognized brands, is a serious problem in Paraguay.

Sales Service / Customer Support

The importance of support and follow-up cannot be overstated. Even after products have gained acceptance in the market, suppliers should maintain close contact with their local representatives to keep apprised of problems and to assess the market jointly. Periodic visits by officials from the exporting company are essential to help reinforce ties with customers.

Competitive prices and quality are important. Generally, the market is willing to pay a premium for higher quality products, given the easy availability of substandard or counterfeit items. However, most deals are made or lost on the terms of financing. The greater Asuncion area is Paraguay's principal advertising center, with over one-third of the total population. Principal media for advertising are television and the press. Other widely used media include radio, billboards, signs, and direct mail. Radio is the most important media in rural areas. The following newspapers are widely used by local advertisers: *Diario Abc Color*, *Diario Ultima Hora*, *Diario La Nacion*, and *El Diario Noticias*.

Selling to the Government

Government procurement requires a public bid if the purchase exceeds US\$75,000 (this sum represents 10,000 daily minimum wages, and so will vary with changes in the minimum wage and the exchange rates). Foreign manufacturers/suppliers participating in government tenders must do so through their local legal agents or representatives. Local law grants Paraguayan companies a 15% price advantage over foreign competitors. Registered subsidiaries of foreign companies also qualify for this preference. American firms participating in government tenders are strongly urged to contact the Embassy's Economic and Commercial Section and submit an advocacy questionnaire once the decision to participate has been made. Embassy advocacy in government tenders has helped ensure a more transparent process.

The U.S. Embassy has compiled lists of potential local partners and agents, by sector, who represent or have represented U.S. companies. Also available is a list of English-speaking attorneys and law firms. American companies should contact local law firms to assist in their dealings with potential partners or agents.

Agribusiness Industry Prospects

Paraguay's attempts to improve agricultural and livestock production present opportunities for basic inputs (e.g., animal genetics). Farmers and ranchers are aware that using quality inputs is a key factor in their operation's profitability, and have been adopting

advanced production practices. Competition from other exporting countries is strong and U.S. exporters must provide good service to be successful. Inputs and processes destined to support Paraguay's increasing organic sugar production also would be well received.

Processed foods and high-value items, including processed fruits, vegetables, and beverages, show much promise for U.S. exporters. Fresh fruits and vegetables have weaker demand, but frozen and canned products have gained wide acceptance for their convenience and uniform quality. While a 1998 tax has increased the cost of imported beers, U.S. brands are still very popular with consumers.

Trade Regulations and Standards

Trade Barriers

Paraguay is a member of MERCOSUR (Common Market of the South), a common market and Customs union comprised of Argentina, Brazil, Paraguay, and Uruguay. Since 1995, Paraguay has increased many of its external tariffs on products from non-MERCOSUR countries to conform to the MERCOSUR Common External Tariff (CET) of up to 23%. The tariffs on the 399 items on Paraguay's list of exceptions will be increased annually until they reach parity with the CET in 2006.

Standards

Standards are set by the National Standards and Technology Institute (INTN). INTN is currently working with the standards institutes of the other MERCOSUR countries to establish MERCOSUR-wide standards. Only a handful of Paraguayan firms have ISO 900 and ISO 1400 certification.

Labeling Requirements

Paraguayan regulations require that the country of origin be labeled on domestic and imported products. Expiration dates are required on medical products and some consumer goods. As of January of 1998, imported beer is required to display detailed manufacture and content information in Spanish, labeled at the point of packaging. Negotiations for

MERCOSUR-wide labeling requirements are underway.

Temporary Entry Provisions

Paraguay has a temporary entry system, which allows duty-free admission of capital goods (e.g., machinery, tools, equipment, and vehicles) to carry out public and private construction work. The government also allows temporary entry of equipment for scientific research, exhibitions, training or testing, competitive sports, and traveler or tourist items. The following documents are required for temporary entry: a letter stating the reason for temporary entry; a detailed list of the equipment, including the purchase price of each item; and a local insurance policy covering the cost of the duties waived. For travelers and tourists, these documents can be processed prior to arrival by a local Customs broker.

Merchandise introduced into the country under the temporary entry system may be nationalized in Paraguay by paying the requisite duties. The temporary admission system, to be phased out under MERCOSUR in 2006, allows entry of certain goods for subsequent re-export for a period of up to 12 months, which can be renewed once. Temporary entry for 10 days for merchandise in transit is also permitted.

Import Controls

Paraguay has an open market and does not require import licenses, except for guns and ammunition (the United States prohibits the export of guns and ammunition from the United States to Paraguay).

Both import and export operations must be processed through authorized banks and supervised by the Central Bank of Paraguay. Documents required for general imports include a letter of credit issued by a local bank, as well as the following documents provided by the merchandise vendor: certificate of origin, commercial invoice, packing list, and bill of lading. The last four documents must be certified by a Paraguayan Consulate in the country of origin.

There are few import prohibitions, one of the most contentious being new regulations outlawing importation of used clothing.

Export Controls

Paraguay has no export controls.

Free Trade Zones / Warehouses

Paraguay is a landlocked country with no seaports. However, it has been granted free trade ports and warehouses in neighboring countries' sea ports for the reception, storage, handling, trans-shipment, etc. of merchandise transported to and from Paraguay. The Paraguayan Port Authority manages its existing free trade ports and warehouses, but Paraguay has expressed interest in private-sector concessions to develop and manage new free trade ports. Paraguayan free-trade ports are located in Argentina (Buenos Aires and Rosario), Brazil (Paranagua and Santos), Chile (Antofagasta and Iquique), and Uruguay (Montevideo and Nueva Palmira). To date, only the Brazilian free trade ports, Nueva Palmira, Uruguay, and Iquique, Chile are operating normally. In early 1995, the government approved a law permitting free trade zones in Paraguay, and the government is developing two such zones: one at the border with Brazil and the other at the border with Argentina.

Membership in Free Trade Agreements

Paraguay is one of the four members of the Southern Cone Common Market, MERCOSUR. This organization is a Customs union currently with a common external tariff of up to 23%. MERCOSUR signed a free trade agreement with Chile in July of 1996 and with Bolivia in December of 1996. Similar arrangements are under negotiation with Mexico, Peru, and the European Union. Paraguay and its partners within MERCOSUR are currently in discussions with the United States on developing a Free Trade Areas of the Americas (FTAA) agreement. Paraguay is negotiating the FTAA through the 3+1 mechanism, whereby all four MERCOSUR countries generally adopt a single position on issues.

Investment Climate in Brief

- There are no formal restrictions to foreign investment in Paraguay. National treatment of foreign investors is guaranteed, as is full repatriation of capital and profits. Paraguay's tax burden is the lowest in MERCOSUR, with no personal income tax, a 30% earnings tax for businesses, and a 10% value added tax. Repatriated earnings are subject to an additional 5% tax (35% total).
- Government efforts to attract foreign investment through privatization have progressed slowly because of residual political opposition and uncertainty about the transparency of the process.
- There are no restrictions on conversion or transfer of foreign currency.
- After losing 52% of its value relative to the dollar, the Paraguayan guarani has experienced relative stability since early 2003. The free-floating exchange rate on July 21, 2003 was 5,950 guaranies to the dollar.
- Private property has historically been respected in Paraguay as a fundamental right. Paraguayan authorities are sensitive to the potential fallout of expropriation of land owned by foreigners. We are not aware of any cases of expropriation or nationalization involving foreign-owned property.
- The legal system is undergoing fundamental reform. New codes introduced important changes, including oral arguments, more modern investigations, increased powers for public prosecutors, and a three-year limit on judicial proceedings. These reforms are making the legal process more transparent, but will require more training for public prosecutors and judges and an increase in the number of public prosecutors
- A number of fiscal incentives (contained in law 60/90), including a 95% tax exemption for five years and duty-free import of capital goods, are available to all investors.
- Foreign and domestic private entities may establish and own business enterprises. Foreign businesses do not need to be associated with Paraguayan nationals for investment purposes. Private entities may freely establish, acquire, and dispose of interests in businesses.
- The 1992 constitution guarantees the right of private property ownership. While it is quite common to use property as security for loans, the lack of consistent property surveys and registries makes it often impossible to collect.
- Credit is available through numerous sources. High collateral requirements are generally imposed. The banking system, though facing significant pressures and several recent closures, is generally sound, but also susceptible to political influence and the effects of negative rumors.
- Paraguay has not traditionally been affected by political violence.
- One of the most serious problems facing Paraguay is the legacy of institutional corruption after decades of dictatorship. There have been mechanisms created to combat corruption, such as the Comptroller's office, but investigations often become political and are seldom completed. The slow pace of judicial reform and the continued lack of transparency are barriers to development. Corruption remains a serious problem in Paraguay, particularly in the areas of Customs and tax administration.
- OPIC has financed telecommunications and forestry projects. Paraguay is a member of the Multilateral Investment Guarantee Agency (part of the World Bank Group), which promotes foreign direct investment by providing guarantees to investors and lenders.
- The labor force is estimated at over two million and increases by approximately 65,000 new entrants annually. Local businessmen also cite the lack of a skilled work force as a major obstacle to growth.

Business Customs

Travel Advisory and Visas

A passport and visa are required. American citizens traveling on business must submit a completed visa application, an application fee, a passport with at least six-months validity from the date of the application, one passport photograph, a bank statement or other evidence of financial solvency, a round-trip ticket or a printed trip itinerary prepared by a travel agency, and a company letter. Applications are available from the Paraguayan Embassy or Consulate (email embapar.usa@verizon.net). Travelers can contact the Paraguayan embassy (telephone 202-483-6960), or consulates in Los Angeles, Miami, or New York. General travel information, including visa requirements, safety information, and relevant regional travel warnings and public announcements, can be obtained from the U.S. Department of State's Bureau of Consular Affairs.

Business Infrastructure

There are no specific local business customs beyond the bounds of normal courtesy. Paraguayans are informal in observing appointment times, but foreign business visitors should not take such liberties when arriving for scheduled meetings. For social events, it is customary to arrive up to 30 minutes late. Persons are normally addressed by their academic or professional title (e.g. doctor, engineer, architect, or licenciado, in the case of university graduates). Spanish is the language of business in Paraguay, although many in the business community understand English, Portuguese, and German.

The majority of local businesses observe a 48-hour work week, with commercial working hours 8:00 a.m. to 7:00 p.m., Monday through Friday, and 8:00 a.m. to 12:00 p.m. on Saturdays. Note that most commercial businesses are closed during the afternoon siesta between 12:00 p.m. and 3:00 p.m. Government office working hours are generally 7:00 a.m. to 1:00 p.m., Monday through Friday, and closed on Saturday, with substantial variation among different offices.

Asuncion's taxi network is well developed, but the public transportation system is inadequate for business purposes.

The poor telecommunications infrastructure represents an important obstacle for business. Internet access is commonly available. Mobile communication is also available; business travelers often obtain a mobile phone locally for extended stays.

Hotels are comfortably furnished and prices are lower than in other Southern Cone capitals. No international hotel chains currently operate in Paraguay.

Most types of foods are available at low prices by international standards. Asuncion has no particular health risks and no special precautions need be taken. However, in past years, there have been reported cases of dengue fever in Asuncion and malaria and dengue in Caaguazu, Alto Parana, Canindeyu, and Guaira departments, approximately 160 kilometers east of Asuncion. Cases of dengue and malaria are two to three times more likely to occur in the warm months between January and May. Tap water is potable in the Asuncion area only. Sanitary conditions are generally adequate. There are competent doctors, dentists, and specialists in Asuncion.

Information for Business Representatives is available from the U.S. Department of Commerce's STAT-USA. Business travelers to Paraguay seeking appointments with U.S. Embassy-Asuncion officials should contact the Economic/Commercial Section (telephone 595-21-213715; fax 595-21-208315).

Useful Web Sites

PARAGUAY:

- MERCOSUR <http://www.mercosur.org>
- Free Trade Areas of the Americas (FTAA) http://www.ftaa-alca.org/busfac/ctyindex/PRY_e.asp

UNITED STATES:

- USDA Foreign Agricultural Service
<http://www.fas.usda.gov>
- US Export Programs Guide
<http://infoserv2.ita.doc.gov/ticwebsite/tic.nsf/AF34FA880278BDD5825690D00656C6F/F69FD0CF72B7713B58525691900746F18?OpenDocument>
- Internet Guide to Trade Leads
<http://infoserv2.ita.doc.gov/ticwebsite/tic.nsf/504ca249c786e20f85256284006da7ab/ef7db94aef24919885266470049c1cd?OpenDocument>
- US Trade Finance Resources
<http://infoserv2.ita.doc.gov/ticwebsite/tic.nsf/AF34FA880278BDD5825690D00656C6F/F69FD0CF72B7713B58525691900746F18?OpenDocument>
- Basic Guide to Exporting
<http://www.unzco.com/basicguide/index.html>

HEMISPHERIC:

- Hemispheric Guide on Customs Procedures
http://alca-ftaa.iadb.org/hgcp_eng.htm
- Hemispheric Trade and Tariff Database
http://alca-ftaa.iadb.org/eng/ngmadb_e.htm