

**DECREE LAW NO. 1:
LAW OF FREE ZONES**

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**THE NATIONAL CONGRESS OF ECUADOR
THE ASSIGNED LEGISLATIVE COMMISSION**

Considering:

That it is necessary to promote foreign trade, specially with non traditional exportations, to stimulate foreign investment, the transfer of technology, and to develop production activities that generate sources work and income for the benefit of the country;

That Ecuador possess the stable social political characteristics and advantageous geographical location, that guarantees the success of the free zones, that shall be located in fixed areas with tax, fiscal, and customs shelter incentives;

That to obtain the functioning of the free zone system a legal order must be institutionalized to establish an agile, clear and stable regime, that manifests the State's will to be internationally competitive; and

In exercise of its constitutional power:

**EXPIDITES THE FOLLOWING
LAW OF FREE ZONES**

CHAPTER I

Objective

Art.1.- The norms of this law are of special character, and have as objective the creation, stimulation and regulation of the free zone system, under a clear, stable and agile legal order that guarantees its optimal function

CHAPTER II

General Objectives

Art. 2.- The free zones shall have as objective the promotion of employment, the generation of income, foreign investment, the transfer of technology, the augment of exportations of goods and services and the development of low growth geographical zones of the country.

CHAPTER III

Definitions

Art. 3.- A Free Zone is an area of national territory that is established and authorized by the President of the Republic by Presidential Executive Decree, subject to the special regime determined by this Law, in relation to foreign trade, customs, taxation, money exchange, financial investment capitals, and labor matters, the operators fully authorized shall dedicate themselves to production and commercialization of goods for exportation and re-exportation, as well as with services related with international commerce, tourism, education and accommodation.

Art. 4.- The companies that shall be installed in the free zones can be one or more of the following types:

- a) **Industrial**, that shall be dedicated to process goods for exportation or re-exportation;
- b) **Commercial**, that shall be dedicated to the international commercialization of goods for importation, exportation or re-exportation;
- c) **Service**, that shall be dedicated to give international services; and
- d) **Tourism Services**, that shall be responsible in the promotion and development of receptive tourism services, a subsidiary model to national tourism.

Art. 5.- The so called free zones operators are those natural or legal persons, national or foreign, that install themselves in the free zones to carry out the authorized activities.

Art. 6.- The free zone administrative companies are those, be it public, private or of mixed capital, that have obtained by Executive Decree, the concession to operate the free zone mechanisms in the country.

CHAPTER IV

National Council of Free Zones

Art. 7.- The National Council of Free Zones (CONAZOFRA) is thus formed, adjoined to the Presidency of the Republic as an autonomous organism, with its own legal structure, its own patrimony and financing, with administration, economic, financial and operative autonomy, that shall be integrated by the following members:

- a) The President of the Republic or its delegate, who shall preside the council;
- b) The Minister of Foreign Trade, Industrialization and Fish, or its delegate, who shall replace the council president when he is absent;
- c) The Minister of Finance and Public Credit, or its delegate;
- d) The Minister of Defense or its delegate;
- e) A Representative of the Ecuadorian Free Zone Chamber
- f) A Representative of the free zone operators, selected by electing college.

The Executive Director of CONAZOFRA shall be named by the President of the Republic, from a nomination list of non-members proposed by the organism.
The Executive Director's functions are:

To be the legal representative of CONAZOFRA, shall act as secretary to the Council, shall present the annual budget, the operative and strategic annual plans for its approval, as well as the functions and attributions stated in the Law and Regulations, and whatever else the CONAZAFRA designates him to do.

The CONAZOFRA members, which are by designation, shall be professionals specialized in economic, administrative, legal and or foreign commerce matters, the Executive Director shall labor full time.

The CONAZOFRA council shall assemble with presence of at least four of its members. The resolutions shall be handed down by majority of votes present and in case of a draw, the President shall rule the draw.

Art. 8.- The attributions of the Free Zones National Council are:

- a) To dictate the general operation and supervision policies of the free zones;
- b) To propose the expedition, modification, or the suppression of legal or regulatory norms related to the free zones and its activities;
- c) To analyze the petitions to establish free zones and to decide over them;
- d) To approve the internal regulations of each free zone presented by the administrative companies, for operation;
- e) To promote internally and externally the free zones, to re-enforce them;
- f) To resolve over consultations that derive from the application of this Law;
- g) To apply administrative sanctions established in this Law; and
- h) To supervise control of Law and regulation satisfaction in the free zones.

Art. 9.- The free zone operators shall pay the National Council of Free Zones a flat fee, that shall be fixed in the regulations of this Law, the amount shall be no more the two percent of the value that the operator shall require for operational costs, administration, services, salaries and working periods, except for the acquisition of machinery, raw materials and elements.

CHAPTER V

Establishment of Free Zones

Art. 10.- The President of the Republic, by means of an Executive Decree, shall designate the free zone area and shall give the administrative company the concession to operate with the system created by this Law, once the National Council of Free Zones has given favorable approval.

Art. 11.- No operator shall be established in the free zones, whose activities cause damages to the environment.

Art. 12.- The activities, operations and exceptions permitted by this special Law, could only benefit the administration companies and operators fully authorized within the respective free zone area.

CHAPTER VI

The Free Zone Administrative Companies

Art. 13.- The operation and control of each free zone shall be under the responsibility of the respective administrative company and under the supervision of the National Council of Free Zones.

Art. 14.- The administrative company of each free zone shall be able to realize the following activities:

- a) To administer the free zone concession, according to the present Title and Regulations;

- b) To build the necessary basic infrastructure in the fixed area, to sell or rent industrial space, commercial stores and lots with services, so that the operators could occupy or build their installations according to their needs.
- c) To build buildings for offices, stores or deposits, to rent or to sell them.
- d) To give, directly or by means of a third party, water, electricity, telecommunications, or other public or private services
- e) To realize all types of acts and contracts related to the operation, transactions, negotiations of the proper activities of the establishment and operation of the free zones
- f) To elaborate the internal regulations for the free zone functioning, the same that shall be placed to the attention of the CONAZOFRA for its approval.
- g) To inform the CONAZAFRA any infractions to this Law and its Regulations so that the corresponding sanctions could be set; and
- h) To approve the classification of construction and installation by the free zone operator.

Art. 15.- The administrative company shall present the CONAZOFRA an annual report over production, commercial operation, currency flow and the use of hand labor in each free zone.

CHAPTER VII

Installation and Activities of the Free Zones Operators

Art. 16.- All natural or incorporated persons, national or foreign, that wish to establish themselves in a free zone, shall present a petition to the selected administrative company, which shall approve or deny the petition, according to the present Law and its pertinent Regulations. The administrative company shall communicate the resolution, within eight days, to CONAZAFRA, for its supervision and control.

Art. 17.- When the operators of the free zones are foreign incorporated persons, they are exempted of the requites and established formalities of the Law of Companies, its Regulations and additional legislation on societies, they shall only accredit their legal incorporation in their country of origin by means of a consular certificate and of the legal representative according to the Law

Art. 18.- The free zone operators shall be able to carry out the following activities:

- a) To build the necessary buildings that are required to comply with their objectives established in their operation authorization;
- b) To fabricate, exhibit, commercialize, package, unpack, bottle, assemble, refine, operate, choose, select, and manipulate, all types of merchandize, equipment and machinery and execute any additional activities destined to comply with their operation authorization;
- c) To import to the free zone territory free of taxes, tributes, money exchange controls, all types of raw materials, elements, machinery, and equipment necessary for their authorized activities;
- d) To export or re-export, free of taxes, money exchange controls, the final goods, the raw materials, the intermediate and capital goods, that are used, produced or commercialized; and
- e) To give facilities for travel, cargo, restaurant, sport, recreation and artistic service agencies.

Art. 19.- The free zone operators could commercialize wholesale or retail, following the pertinent norms and regulations. It is prohibited to take into the free zones and to process the following articles:

- a) Arms, explosives, and munitions;
- b) Any type of narcotics; and
- c) Products that hinder the health, the environment, and public security and morality.

CHAPTER VIII

Internal Control

Art. 20.- The operators shall maintain the administrative company permanently informed on the entrance, use and exit of goods, elements to be elaborated, transformed, processed, commercialized or consumed; as well as the hand labor utilized, and the currency flow that is being realized in the country. The administrative company must inform the Central Bank of Ecuador on the value, volume, origin, and destiny of the goods and elements that go in and out of the free zone.

Art. 21.- The operators and administrative companies shall be responsible in solidarity on the holding, maintenance, and final destiny of all the merchandize introduced or processed in the free zones and shall respond legally to the adequate use and destiny of the same.

Art. 22.- The administration of the free zone shall have the right to verify the fulfillment of the all obligations that the operators acquire in virtue of this Law, its regulations and the contracts it celebrates. Shall verify specially according to the conformity of the regulations, merchandize inventories of raw materials that are in the depositories of the operators.

CHAPTER IX

Sanctions

Art. 23.- The administrative company shall apply the disobey operators of this Law, depending on the severity of each case, the following administrative sanctions:

- a) Notification and Fine of up to the equivalent, twice the monthly rent value;
- b) Authorization suspension to operate, for a period of up to three months; and
- c) Definite cancellation of the operating authorization within a respective free zone, previous a summary process in the CONAZOFRA.

Art. 24.- In the case of violations to the dispositions of this Law and its Regulations, that have a customs, taxation, or money exchange character, the additional sanctions that the respective laws establish shall be applied.

CHAPTER X

Support and Complementary Services

Art. 25.- The free zones administrative companies shall give all types of complementary services, and support and shall give the facilities for an efficient operation of the operators.

Art. 26.- When the free zone administrative company gives services through a third party contract, public or private, it shall authorize the establishment of said services, in a

service area of the free zone, the same that shall be separated from the operators and fixed to the administration.

Art. 27.- The natural or incorporated persons, private or public, that establish themselves in the service area of the free zone, to provide the operators, through the administrative company, shall no be benefited by any of the specific treatments of this Law.

Art. 28.- The persons that could reside inside the free zones are those destined to production, vigilance and maintenance, of the necessary services to the activities that are conducted there.

CHAPTER XI

Customs and Foreign Commerce Regime

Art. 29.- The importation and exportation of merchandize, goods, raw materials, elements, equipment, machinery, materials and other implements, that the operators of the free zones realize according to the operation authorization, shall benefit from total exemption of taxes, rights, and custom fees.

Art. 30.- The importation of equipment, machinery, materials and other implements, that the free zone administrative companies perform, to be used in the authorized zone, shall be benefited from total exemption of taxes, rights, and custom fees, if and when the importation has been authorized by the CONAZOFRA.

Art. 31.- The goods and merchandize, national or nationalized, that are destined for the free zone operators, from the national customs territory, are considered as exported to said free zones.

National goods and merchandize destined for the use and consumption of the free zone operators are exempted, when they are not used in the production process.

Art. 32.- The free zone merchandize can be introduced into national territory as if it were an importation to the country, subject to the laws that direct the matter.

Foreigners and citizens, older than eighteen, by previous authorization of the administrative company, could take in and out the free zones, products and merchandize, in non-commercial quantities, subject to the regulations that the Ministry of Finance and Public Credit shall expedite on this matter.

The administrative company shall communicate monthly to the customs administration of all the free taxation transactions realized, shall include the name of the buyer, identification number, passport and value of purchase.

Art. 33.- The Customs Administration at the petition of the free zone administration, shall permit the temporary entrance to the country of elements, raw materials for a determined time period to be processed and then returned to the free zone.

Art. 34.- The Customs Administration at the petition of the free zone administrative company, shall give customs transit to the transportation of merchandize from one free zone to another.

Art. 35.- The machinery and equipment of the free zone operators shall be able to enter temporary to the country for

repair or maintenance, previous authorization of the free zone administrative company and notification, in a maximum period of forty eight hours, to the Customs Administration.

Art. 36.- The merchandize, goods, raw materials, elements, equipment, machinery, materials and spare parts that go into the free zones or out of them, shall be under vigilance of customs only in the national customs territory and not inside the free zones.

The merchandize that is introduced to the Free Zones is considered outside of customs territory in respect to importation or exportation rights.

The natural or incorporated persons established in the rest of the national territory that export goods to the operators of the Free Zones, shall receive the same treatment just if it was an exportation to another country.

It is not considered an exportation the introduction, from the rest of the customs territory to the Free Zone, of construction materials, food, drinks, combustibles and cleaning elements for the consumption or utilization inside of the area of the zone.

Art. 37.- If the Customs Administration considers that there is a violation to the terms of authorization for the operation of the operators, it shall notify of the particular to the Free Zone administrative company.

Art. 38.- The machinery and equipment utilized in the free zones could be nationalized by previous authorization of CONAZAFRA in conformity of the pertinent legal dispositions.

Art. 39.- The free zone operators could be benefited from the left over quotas of importation given to Ecuador by third countries or by international treaties, when they are not utilized by the country, according to the resolution of the Ministry of Industry, Commerce, Integration and Fish.

CHAPTER XII

Taxation Regime

Art. 40.- The Administrative Companies and the operators of the free zones, for all of its acts and contracts that are executed inside the free zones, shall benefit from an exemption of one hundred percent on their income tax or any other tax that could substitute it, as well as the tax over the aggregated value, provincial taxes, municipal, or any other that could be created, even if it requires an expressed exemption.

Art. 41.- The free zone operators shall benefit, as well, from total exemption over taxes on patents and all of the taxes active over production, on the use of patents and makes, on the transfer of technologies, and on the repatriation of earnings

Art. 42.- The administrative companies and operators of the free zones shall benefit from the exemptions mentioned in this chapter for a period of 20 years, taking into account the resolution that authorizes their installation, that could be renovated at the criteria of CONAZOFRA.

Art. 43.- The payment that is made by the operators for services given by foreign technicians are exempt of paying income tax, they shall not be retained at the source.

The sale of merchandize at the retail level through authorized stores, as well as, the services to particulars by tourism

companies that operate in the free zones, shall submit by all effects to the active legislation of the rest of the national territory.

CHAPTER XIII

Money Exchange and Financial Regime

Art. 44.- The free zone operators shall benefit from money exchange liberty to make all of their transactions, from the free zones to the exterior of the country, and could maintain their money deposits in or special accounts in national or foreign banks, thus, they're not subject to the Central Bank of Ecuador Laws and Regulations on money exchange

Pay for operational, administrative, service, salaries, and work time costs, that the operators make in the country, shall be made in sucres, for which they shall sell all their necessary currency in the national financial system. The administrative company shall inform the Central Bank of Ecuador monthly.

Art. 45.- The local commercial banks could guarantee credit lines given by international banks to free zone operators, being always authorized by the Monetary Junta and under strict cash flow control, that shall permit back payment in the foreign currency under the terms given for the credit line.

Art. 46.- The public financial institutions, as well as the institutions that make up the private financial system, national or foreign, could establish themselves in the free zones or in the service areas, previous authorization from the Bank Superintendent, that shall determine the requisites that must be complied by these offices.

Art. 47.- The free zone operators shall not be benefited from development credit lines or any other preferential ones given by the national financial system .

Art. 48.- The Central Bank of Ecuador shall not give currency for importation of goods and services made by the free zone operators.

The foreign investment authorizations given by CONAZAFRA must be submitted to the Central Bank of Ecuador.

CHAPTER XIV

Capital Treatment Regime

Art. 49.- The foreign investment to the free zones is not subject to the existing foreign capital treatment regime or any other that could be presented in the future, it operates upon the only required authorization of CONAZAFRA, thus, the free zone operators shall benefit from a free regime towards their capital investment as well as to their earnings obtained.

The national investment in free zones shall be subject to the actual norms on national investments overseas.

Art. 50.- The operators that pledge to the advantages of the Cartagena Accord, shall be subject to the Accord Commission's decision over the matter.

CHAPTER XV

Labor Regime

Art. 51.- The labor regime between free zone operators and laborers are subject to the actual labor law, with the modifications that are introduced in this chapter.

Art. 52.- By their nature, the labor contracts in free zones are temporary in character. Thus, they are not submitted to what Art 14 of the Labor Code specifies and can be renewed as many times as possible

In all cases, the labor contracts in free zones shall be registered in the Labor Inspector of the corresponding jurisdictional area

Art. 53.- The salaries that the workers receive in the free zones shall be superior, at least in 10%, to those minimum salaries that the same workers receive in the country.

The parties, at the moment of signing the contract, shall fix the salary amount in American dollars, value that shall be paid in sucres, calculated at the exchange rate of the day of pay.

Art. 54.- The foreign personnel that shall be required shall have authorization of CONAZOFRA.

Art. 55.- The free zone workers shall have the corresponding right to the net earnings share according to the labor Code.

Art. 56.- The labor contracts inside the free zones shall be subject to the general prevention, hygiene and security norms, according to the Labor Code and respective Regulations. There shall not exist any free zone labor contracts with workers under the age of fifteen.

Art. 57.- The free zone administrative company and operators shall train and prepare the service personnel that they have.

CHAPTER XVI

General Dispositions

Art. 58.- The Ministry of Foreign Relations shall emit special visas to reside in the country for foreigners and their families, if and only when they have working contracts with the free zone operators or administrative companies.

The Regulations shall establish the conditions as to number, in relation to the utilization of the human resources that shall be demanded, the specialization and levels of technology that is required.

Art. 59.- The cargo transport, property of the operators, from and to the free zones, shall be exempted totally from the restrictions contemplated in the cargo reserve and civil aviation laws, published in the Official Register 889 of 1979 and 509 of 11th of march 1974 respectively.

Art. 60.- CONAZOFRA shall be the only one to establish the limitations or restrictions to the importation that the free zone operators realize.

The companies authorized to develop tourism in the free zones, that have been considered, by the CETUR directory has convenient for the economic and social development of the country, shall be benefited with what is established in the Tourism Law.

Those that give tourism services in the free zones, and have not been authorized by CONAZOFRA, shall be governed by

the Tourism Law, and the rest of the pertinent Laws; indicating the corresponding justification.

Art. 61.- The norms in this Law have the character of being special and shall overcome any other law, being it general or specific of character, and shall not be modified or derogated by any other law, but only by those that are expressly created for such a purpose.

Art. 62.- All the legal dispositions that are opposed to the norms of this Law shall be annulled, and in special manner the following articles 108, 109, 110, and 111 of the Customs Organic Law, and articles 431, 432, 433, 434 and 435 of its General Regulations.

Art. 63.- The President of the Republic, within 90 days from the date of the expedition of this Law, shall emit the General Regulations for the application of the norms of this Law.

Transitory Disposition.- The National Council of Free Zones, shall define the low growth zone map of the country, so that these shall have priority when the authorization of free zone permits are given.

FINAL ARTICLE.- The present Reformatory Law shall become effective from the date it is published in the Official Register.

Given in the City of San Francisco de Quito, Metropolitan District, in the session chamber of The National Congress of Ecuador, on this the eleventh day of February of nineteen nine-nine.

Signature).
Ing. Jose Pons Arizaga, President of the National Congress

Signature).
Lcdo. Guillermo H. Astudillo Ibarra, Secretary General
NATIONAL CONGRESS

CERTIFICATION: This is a copy equal to the original that lies in the archives of the General Secretary.

Day: 99/03/12 Hour: 10:00

Signature)
General Secretary