

**Law 30/1972, of 22nd July, upon
Economic-Fiscal Regimen for the Canary
Islands.**

**Industrialization in the Canary Islands
report prepared for the Organization for
Economic Co-operation and Development
by Mitsui Consultants Company.**

I

The insular character and the geological and climatologic conditions of the Canary Provinces, give to its economy some special characteristics which advise, in some aspects, what it adopts in those provinces upon distinct measures to those which are applied in the rest of the national territory.

As consequence hence the said characteristics are awarded to the islands the regimen upon Franchise (exemption from Customs Duties) by Royal Decree of the 11th of July 1852, ratified there after by the Law of the 6th of March 1900, regimen that has influenced decisively upon the configuration of their economy.

In virtue of this regimen in the Archipelago Custom tariff rights neither taxation duties upon the importation are not required, nor are applied the existing Fiscal monopolies.

As a complement to this regimen, upon being created by the Law of Tributary Reform in 1964, the general Tax upon commercial trans-actions of Enterprises, it was established that in the Canaries several of the operations that constitute its taxable fact would not be subjected to this tax.

To promote the industrial development of the islands, the Decree of the 27th of March 1969, declared certain areas of the same, preferably for industrial localization with the application to the industries that establish in them, of consequent Fiscal incentives and other benefits of this regimen.

The Law 60/1969 of the 30th of June upon the partial modifications in some unpositive concepts, in its second transitory disposition, entrusted to the Government to remit to Las Cortes a project of law upon Economic Fiscal Regimen of the Archipelago. The present Law logically is circumscribed to the accomplishment of this mandate, pretending to articulate in reason to the same, a united harmony of measures that stimulates the themes derived from a possible organical planning which would be regulated in other standards and by other courses.

It is evident that every regimen must be in working to the ends that is pursued, to establish it. Therefore the Law starts by declaring that its objectives are to ratify and bring up to date the regimen of exemption of duties and to promote, intervening mea-

asures, economic and fiscal, the economic and social development of the Archipelago.

As is normal, in the Law, is present the social preoccupation on forming, at the proper time, the Fiscal instrument, one of the more competent means for a harmonic development, of the general Body of rules of the social policy.

It tries to fit in with the actual necessities, the Special Economic Fiscal Regimen of Canaries. Therefore, near to the fiscal measures, other economic measures of distinct nature, are included, that must act in the same sense.

II

It goes within the fiscal measures, at its time, to distinguish those that are referred to the State Treasury and the relative ones to the Insular Treasury.

A) In the first place, the regimen is regulated upon the merchandise that are sent from Canaries to the rest of national territory, as much as what is referred to the customs tariffs, as to the Compensatory Duty from the Interior Taxes.

In this matter the Law introduces two modifications upon the system in force: in the first place, the elaborated products in Canaries with foreign raw materials or semi-made products, always that the value of these do not exceed the 10% of the total price of the products, they will not be subjected to customs rights upon their entry in the rest of national territory, being applied in all cases, a reduction till this limit. In the second place, *is increased the amount of the allowance that will be applied upon the Compensatory Duty from Interior Taxes to the entry in the rest of the national territory of the manufactured products in Canaries, with raw materials, total or partially, foreign or national that they might have enjoyed from the exemption to the exportations, allowance that at present is of 50% In all the cases and that in the future will vary according to the products, but it never may be inferior to the 60%.*

For improving the communications between the islands and to stimulate the activities of the fishing and of repairing of vessels, that offer doubtless possibilities in the Archipelago, it will be raised the limit of the exemption from duty today existing for the vessels that are registered in Canaries and are imported with destination to the interinsular coasting trade and is extended this exemption to the fishing boats that operate in the Canarian or African fishing banks, likewise the pieces and spare parts for the reparation of all class of vessels and aircraft. In all these supposed cases the exemption likewise reaches the *Compensatory Duty from Interior Taxes.*

For the shipments of merchandise from the other spanish provinces to Canaries, it is established that the fiscal exemption to the exportation will not applied when refers to merchandise of the same nature to those that are produced in the

islands, but to prevent the national merchandise from being found in a worse situation in the Canarian market than those coming from abroad, the measure will only be applied in respect to the goods subjected to the special tariff of the Insular Excise Tax upon the entry of merchandise and the type of tariff will never be inferior to that of the fiscal exemption to the exportation that may be abolished upon the national goods.

Lastly, the Law takes up the principle that the exportations from the Canaries going to abroad will enjoy upon the fiscal exemption to the exportation, calculated with the same criterions as in the Peninsula, taking into account, naturally, the indirect taxation that is required in the Canaries. This exemption will affect as much to the indirect taxes of the State as to the local taxation of the same nature.

As means for stimulating the canarian industrialization, they are amplified sensibly, as much in the territorial aspect as in the sectorial one, the possibilities that it offers the legislation upon the industries of preferential interest.

As a fiscal stimulus to the investment, is amplified the scope of the prevision for investments for those that are carried out in the Canaries during a period of ten years, rising to 90% the limit of the 50% of the non-distributed profits that the legislation in force establishes.

With the same finality of favouring the expansion of the Canarian economic activity by means of the reduction of the tax burden, the Law declares that it will not be claimed in Canaries the General Turnover Tax upon Commercial Transactions of Enterprises that encumber the services of transportation between Canaries and the rest of national territory, or between the distinct islands, besides maintaining the non-application of this tax in the islands upon the cases already taken up in its resumed text. Likewise, they are abolished diverse taxes that until now are claimed in the Archipelago, as the Arbitrary Excise Taxes upon Free Ports and upon the Patents A and D.

One of the finalities that the Law pursues is that of strengthening the financial capacity of the Local Corporations, which will permit them to act the part of promoting the social-economic expansion of the Canary Islands. With this finality on being ratified the principle of exemption from duty, abolishing the application in Canaries from the State Tax upon Luxury, according to the concept of acquirements, it is transferred in favour of the Local Canarian Corporations an important source of revenue, that is going to permit the creation of the Arbitrary Insular Tax upon Luxury. This supposes a considerable sacrifice upon Tax Revenue for the State Treasury and an important tax contribution to the Public Finance for financing the development in the Archipelago, without depriving the social aims that inspire this type of taxation.

As regards to the flowing of the Public Expenditure, the Law guarantees the sufficient participation of the State in the improvement and amplification of the Canarian substructure,

through the inclusion within the Plans of Development of the necessary credits for the financing of the public capital expenditures.

(B) It is reformed too the Insular Treasury, with the purpose of improving its effects upon the canarian economy and fortifying its financial capacity. With this object, the Arbitrary Insular Excise Tax upon the Entry of Merchandise is created in the Canary Islands and the Insular Excise Tax upon Luxury; some existing tax tributes are abolished and a new regulation is given to the participation of the Municipal Corporations Councils from the insular collected taxes.

The Arbitrary Insular Excise Tax upon the Entry of Merchandise, with evident advantages, substitutes the actual excise taxes of the Cabildos Insulares (1) upon the importation and exportation. In the first place, it refers to an arbitrary excise tax that will have a unique regimen for all the Archipelago; with it the distortions will disappear that actually are produced because of the repetitions of the arbitrary excise taxes of the different islands and of the differences in their regulation. In the second place the arbitrary excise tax, counting with a special tariff for the goods produced in the Canaries, would be able to be utilized as an instrument of economic policy benefiting its industry and agriculture.

Therewithal, the differentiation of its tax rate together with the exemption from the alimentary products of prime necessity will permit an equal distribution of its tax burden. Lastly, the different elements of the arbitrary excise tax are structured with greater technical perfection.

It is created too, as it has already been said, the Arbitrary Insular Excise Tax upon Luxury in substitution of the State Tax upon the purchases of this nature; so which will continue applying it in the Canaries, as arbitrary local tax, this tributary tax figure that, because of falling principally upon the owners of high personal incomes, it has an ample social sense and increases the distributive effect of the tax system.

The purchases of all goods that may be subjected to the State Tax upon Luxury, may be subjected to duty by this Arbitrary Excise Tax, as much in the concept of "purchases in general" as in the "purchases of products in special regimen". Therewith they may be taxed by the Arbitrary Insular Excise Tax all merchandise that, in the rest of the national territory may support the tax upon luxury, thought it holds the possibility that the regulation of the Arbitrary Excise Tax, taking into account the special characteristics of the Canaries, that set aside of some of those on summarizing the ratable fact.

The Municipal Funds of Local Authorities stay re-inforced

(1) Cabildo Insular: A self-perpetuating local council that works with the Governor and has a large say in deciding how public money should be spent. The Cabildos are unique in the Spanish system and are highly valued by the million inhabitants of the Canaries.

with the participation of a 40% on the incomes that are attributed to the respective Cabildos Insulares from the amounts collected by the Interprovincial Board of Arbitrary Excise Taxes.

To this Board, the Law commits the tax revenue and the administration of it and of the new Arbitrary Excise Tax and the regulating revenue tariffs, attributing to the Board proper lawful personality.

III

One of the biggest difficulties for the canarian development has been its insufficient capitalization, thence it is necessary that the Official Credit lends a decided collaboration in this task. For that, the Law arranges that in the Policy of Official Credit, special attention will be dedicated to the financial needs of the Canaries, and that the Official Banks may establish branches in the islands. Therewithal, the Law states that it must be borne in mind that insufficient grade of capitalization is existing in the Archipelago and that they will be adopted adequate measures for the financial policy to correct this situation.

The Canaries offer evident possibilities for the development of the fishing industry, with abundant near-by fishing banks, that cannot be realized owing to the insufficient fishing fleet. Therefore, its taken up in the Law its specific promotion by means of the utilization of the credit policy to stimulate the creation of a fishing fleet, whose activity will have, in the islands, an evident social-economic interest.

Another fundamental aspect that is taken up in the Law is that of the commercial liberty, that is considered as one of the basic elements of the canarian economy, and that should be maintained without any more scarce limitations that precisely are enumerated in the Law, inspired in the respect to the superior interests. In special, the commercial traffic between the Canary Islands and the Peninsula must be presided by the criterion of greatest fluidity, without the exemption from duties being an obstacle for that. As a manifestation of the commercial liberty, it will not be applied in the Canaries any monopoly upon property or services, as already refered to fiscal monopolies or of another class. In the industrial aspect, besides amplifying the scope of application of the Decree 484/1969, of 27th March, the Law entrusts to the Government that, by means of the National Institute of Industry, to contribute for the industrialization of the Archipelago.

The agriculture of the Canaries is developing in a field of evident natural difficulties, amongst them stands out the extrem scarceness of water that raises the price of the production and

this obliges it to lead toward singular products or seasonal speciality. Amongst them, are found as essential for the economy the banana and the tomato. This obliges it to keep and maintain legally preventive appliances that the Administration was compeled to set up, sustaining fundamental productions for the canarian economy. The cultivations of exquisitiness offer interesting possibilities too. The commercialization of these will result very smoothly by the non application in the Canaries of any monopoly relative to the air transport of goods.

Lastly, is created an Economic Interprovincial Board of the Canaries, constituted by representatives from the principal institutions and organism of the islands, which the Board will serve as spokesman before the Administration for the interest and desires of both provinces and it will have an important role as consultive proposal organ for the application of the present Law.

In its virtue, and in conformity with the approved Law by the Spanish Cortes, I sanction:

Title I. Purposes of the law

Article 1.

The present Law has as purposes:

- a) To ratify modernizing the traditional system of exemption from Customs duties in the Canary Islands.
- b) To establish an aggregate of economic and fiscal means to promote the economic and social development in the Archipelago.

Title II. Economic rule

Article 2.

1. The principle of commercial liberty regarding imports and exports in the Canary Islands is recognised, as well as in general all acts of international trade, as a basic element in the economic rule.

2. In virtue of this principle, all goods may be imported or exported without any more restrictions than the following:

- a) Those that apply to moral reason, sanitarian, public order and other internationally admitted restrictions.
- b) Those derived from the dispositions for the traffic of foreign monies.
- c) Those derived from the State Commercial rule. All enlargement or decrease in the scope applying to the Canary Islands of this commercial rule will be made only through a Decree, approved by the Government, proposed by the Ministry of Commerce, and previously proposed by the Economic Interprovincial Board of the Canaries, and only when special circumstances thus recommend it.

Article 3.

As development of the principle of commercial liberty in the Canary Islands, no monopoly will be applied on goods and services, as much in fiscal character as in any other type. In particular, even less will be applied in the Canary Islands, any monopoly relative to the air transport of the goods.

Article 4.

In the case of a future link between Spain and other areas or international economic communities, in the corresponding negotiations, the peculiarity that implies within the national community, the special regimen for Canary Islands will be taken into account, for its protection.

Article 5.

Within the financial policy, the insufficient grade of existing capitalization in the Archipelago will be taken into account, adopting to this effect the appropriate measures.

As regards to the policy of Official Credit, special attention will be given to the financial needs of the islands, in view of the report presented annually by the Economic Interprovincial Board of the Canaries, and in which, in particular, they will complete the creation of the Canarien fishing fleet.

The Official Corporations of Credit could establish in the Archipelago the necessary branches to facilitate the access of the islands to the Official Credit, also being able with this aim to bestow power to the Savings Banks or other enterprises of credit and savings.

Article 6.

1. In the plans of the Economic and Social Development an adequated volume of public investment will be programed to promote the economic and social development of the islands.

2. The fiscal rule forseen under this Law will not give rise to a decrease in the volume of Public Expenditure, normal and for investment, that with the resources of the State might have been programed for the islands in the absence of this regimen.

Article 7.

1. The new industries will enjoy the benefits as set out in article 4 of the Law 152/1963 of the 2nd December on Industries of Preferential Interest and also enlargements and improvements of installations of those already existing, that correspond to the sectors declared by the Government always that:

a) They are established or enlarged under the dispositions that declare certain zones of preference to industrial localization.

b) They are established or enlarged in the zones that the Government decides.

c) They are established or enlarged in the zones promoted by the Local Corporations or by private initiative, and are recognised by the Government and are proposed by the Economic Interprovincial Board of the Canaries.

2. Also the previously said benefits may be conceded by the Government to those industries, inclusive for the restructuration of the already existing, that without fulfilling the required conditions in the previous number, merit special importance.

Article 8.

The policy of industrialization will be empowered by the Government by means of the concourse of public initiative through the National Institute of Industry, in those sectors adequate to its activity, within the norms and in the conditions contained in the legislation of the said Institute and in the Law of the Development Plan.

Article 9.

With independence in the general existing norms on the protection of the Agriculture, and without prejudice to the competencies over the protection to the agrarian productions be assigned to different Boards, the basic agricultural products of the Canary Islands will enjoy in this way a specific protection as much in the production phase as in that of commercialization, having to observe the following:

a) For the banana the governing Board (C.R.E.P.) will be maintained actualizing the Decree of the 29th January 1954 and the national market will be reserved for the canarian production.

b) For the tomato, the general regulation for the spanish exportations, with its traditional calendar, will have to secure the indispensable protection of the production and exportation to this canarian product.

c) Regarding the tobacco, the acquirement of labour proceeding from the Canaries will be stimulated by the Monopoly, always keeping in mind the legitimate interests of its agriculture and industry, and its concurrence for the sale by comission in the area of the Monopoly will be regulated in comformity with the applicable norms to the same. The development of the tobacco policy and the co-ordination of the agricultural and industrial sectors in the Canary Islands will be accomplished by the Regional Board of the Tobacco Union in the forseen form laid down in the Law 10/1971 of the 30th March.

d) For the cultivation of exquisiteness (flowers, horticultural produce, exotic fruits, etc.) ways will be worked out to make an active air transport system and an efficient commercialization at destination.

Title III. Fiscal regimen

CHAPTER 1. STATE TREASURY

Article 10.

1. The regimen of exempt territory which the Canary Archipelago enjoys is ratified and confirmed as regards the exterior trade of goods.

2. As consequence from this regimen, the imports and exportations of merchandise in the said territory, will be not

subjected to any right or tax, without prejudice to that which is established under articles 22 and 24 of this Law.

3. Remaining exempt from customs duties the foreign ships or from foreign origin, those that are registered in Spain, with registration in Canaries and that are destined exclusively to the commercial traffic inter-island coasting trade and have less than nine hundred tons of gross registered tonnage. In the same way, will be exempt from customs duties the foreign fishing boats or from foreign origin with less than one thousand tons of gross registered tonnage, when they are registered in Spain with registration in Canaries and apply exclusively to the fish in the Canarian or African fishing banks.

The other vessels which displace less than fifty tons of gross registered tonnage, will continue with the actually existing regimen.

They will be equally exempt the materials, pieces, and spare parts destined for the repair and conservation of any class of boat, floating vessels, and aircraft in the islands.

The exemptions that this number refers will be applied also in the Compensatory Duty from Interior Taxes.

Article 11.

The natural products originating from the Canaries, as well as those industrialized in them by means upon the usage of exclusively raw national materials, will be exempt from customs duties on entering the rest of the national territory.

Article 12.

1. The industrialized products from the Canary Islands with raw materials or semi-made foreign products, on entering any part of the national territory, where would be required, will be submitted to the Customs duties only according to the part of the said materials or semi-made foreign product.

2. The Customs duties will not be required when the raw materials or semi-made foreign products have been nationalized, through the payment of the corresponding Customs duties. Neither will the Customs duties be required upon entering the rest of national territory the industrialized products in Canaries with raw materials or semi-made products, always being that the value of these latter products do not exceede the 10% of the total value.

Article 13.

The Compensatory Duty from Interior Taxes and the General Turnover Tax upon commercial transactions of Enterprises will be applied on entering the Peninsula or Balearic Islands on merchandise and products proceeding from the Canaries in agreement to the following rules:

1) The products of natural origin from the Islands will not be subjected to the Compensatory Duty from Interior Tax, or the General Turnover Tax upon commercial transactions of Enterprises by the concept of importation.

2) The industrialized products in the Canary Islands with exclusively national or nationalized raw materials will not satisfy the Compensatory Duty from Interior Taxes, liquidating only 1,5% by the General Turnover Tax upon commercial Transactions of Enterprises corresponds to importation except when there occurs an applicable allowance to this last tax, in which case only the amount of the allowance will be liquidated. When those products are subjected to any of the Special Taxes in the Peninsula or Balearic Islands they will be charged by the corresponding Special Tax except when they may have been satisfied in origin.

3 The industrialized products in the Canary Islands, with raw materials, in all or in part, foreign or national that could have been object of tax relief upon exportation, will enjoy on entering the Peninsula or Balearic Islands a discount from the quota of the Compensatory Duties from Interior Taxes and General Turnover Tax upon commercial trans-action of Enterprises, which they would have to bear if they were foreign products. This discount, that cannot be less than 60%, will be fixed by the Ministry of the Treasury, after the Economic Interprovincial Governing Board of the Canaries has been heard. In any case the quota to be paid will always have as its minimum limit, that which would satisfy in the supposed case of the previous number.

4) Foreign products re-sent from the Canaries to the rest of the national territory, on entering the Peninsula or Balearic Islands will pay the Compensatory Duty from Interior Taxes in its entirety.

Article 14.

When merchandise are sent from the rest of Spain to the Canaries which have the same nature as those produced in the islands, and come under the Special Tariff mentioned in number 2 of the letter F of article 22 of this Law, merchandise will not enjoy the tax relief to the exportation.

Article 15.

In the Canaries it will not be required the General Turnover Tax upon Commercial trans-action of Enterprises that corresponds to the following taxable facts:

a) The acts, contracts and operations specified in the insets a), b), g), h) i), and j) of the third article of the Text in force of Tax Contributions, inclusive when they are realized in the Peninsula and neighbouring islands always that they have for object, goods, articles or products sent directly to the Canary Islands, and the cautious measures and those of control that regulatively be established, are accomplished.

b) The transport between the different islands of the Archipelago or between these and the rest of the national territory.

Article 16.

The Canarian exportations to foreign countries will benefit from the Tax relief for the exportation, which will be calcula-

ted with the same criterion, as in the rest of Spain and having taken into account the indirect contribution applied in the Canaries.

Article 17.

In virtue of the actual ratification of the traditional regimen of exemption from Customs duties in the Canaries declared in the in-set a) of article 1 of this Law is abolished in the Canaries the Luxury Tax burden in the purchases of merchandise and in consequence Titles II and III of adapted Text of the said tax approved by Decree 3.180/1966 of the 22nd December, will not be applicable in the islands.

Article 18.

In the Canary Islands the Patents A and D regulated in the article 34 of the adapted Text of Contributions on Luxury goods approved by the Decree no. 3.180/1966 of the 22nd December will be abolished.

Article 19.

Regarding the special taxes, the exceptional regimen for the Canaries will continue in force as regulated in the adapted Text approved by the Decree 511/1967 of the 2nd March.

Article 20.

The Taxes on Free Ports established in article 2 of the Law of the 6th March 1900 are abolished.

Article 21.

The limit of 50%, as referred to in article 34 of the adapted Text of General Tax on the Income of Societies and other Legal enterprises of the 23rd December 1967, and article 52 of the Adapted Text of Taxes on profits and commercial and industrial activities of the 29th December 1966, are raised in the Canaries to 90%, in respect to the endowments to the provision for Investments that are made during the term of ten years, counted from the entry into force of this Law.

This rule will be applied to Societies and other Lawful Enterprises and physical persons in respect of the establishment situated in the Canaries, and always that the corresponding investment be fulfilled in the Archipelago.

CHAPTER II. LOCAL TREASURY

Article 22.

1. The Insular Excise Tax is established on the entry of merchandise in the Canary Island and the actual Excise Taxes of the Cabildos Insulares over importations and exportations and the municipal overcharges upon the same, are abolished.

2. The regulation of the new excise tax will be unique for all the Archipelago and will have the following characteristics:

A) *Taxable fact.*

The excise tax is applied on entering the Canary Islands over all types of merchandise proceeding from the rest of Spain or any other foreign country.

The entrance in an island of any merchandise proceeding from any other island in the Archipelago, will in no case be subjected to this excise tax.

B) *Passive subjects.*

The natural or legal persons who import merchandise into the Archipelago which are subjected to the excise tax are obliged to pay the same.

C) *Drawback.*

The excise tax is drawn in the moment of entry anyone of the islands upon merchandise coming from the rest of Spain or foreign countries.

D) *Taxable basis.*

It will be taken as basis the value CIF of the merchandise in the place of entry into the islands.

E) *Exemptions.*

1. On entrance to the Archipelago the following merchandise will be exempt from excise tax:

a) Products of prime necessity, concretely specifeid in the Ordinance.

b) Equipment goods and industrial implements and those destined for the production belonging to livestock, agricultural, and forestal that equally are specified in the respective ordinance.

c) Newspapers, books and magazines.

d) The luggages of particular persons travelling and for particular use.

e) Those destined for the State and Local Corporations.

f) That having this benefit, by virtue of an international agreement signed by the Spanish Government.

2. Systems of temporary importation or exportation processing will be established for the merchandise that will undergo transformation in the islands and sent after for its commercialization to the rest of the national territory or exported to foreign countries.

F) *Tariffs.*

1. A general Tariff will exist whose type cannot exceede 5%. Within this limit, the Ordinance will fix the unpositive types applicable to each product.

2. A special tariff could be established for the importation of industrial products and agricultural ones coming from foreign countries being of the same nature as those made or produced in the Canaries.

The Ordinance will fix the unpositive type applicable to each product, that will not be inferior to that which it corresponds to the exemptions from the taxes of exportations in the ge-

neral regulations. Likewise will determine the cases that the excise tax may be object of further exemption from the tax to the exportation.

G) *Ordinance of Excise ax.*

1. The General Ordinance for the exaction of the excise tax will be common in all the Archipelago.

It will be approved by the Ministry of the Treasury, previously informed by the Home Office.

2. The regulating Ordinance of the Special Tariff referred to in-set 2) of letter F) that equally will be common for all the Archipelago will be elaborated by the Economic Interprovincial Board of the Canaries, will be approved by the Government after being proposed by the Minister of the Treasury.

3. Against the Ministerial agreement and the resolution of the Council of Ministers relative to the approval or modification of the Ordinances, the sole recours will be the Contentious against Public Administration.

4. The Government will be able having heard the Economic Interprovincial Board of the Canaries, modify the Special Tariff of the Ordinance to accommodate it to those international agreements signed by Spain or o those that abide by it.

Article 23.

The Government on the proposal of the Economic Interprovincial Board of the Canaries, having heard the Provincial Councils on Prices, would be able to apply, with exceptional character and in special form for the Canaries the Standard Rights established in the Decree 611/1963, of 28th of March.

The income from these rights will be deposited into the Account of the Interprovincial Board of Insular Excise Taxes.

Article 24.

1. It is created the Luxury Insular Excise Tax in the Canary Islands.

2. The regulation of this Excise Tax will be unique for all the Archipelago and will have the following characteristics:

A) *Taxable fact.*

The Excise Tax encumber the purchases in the Archipelago which are specified in its Ordinance.

No product may be submitted to the excise tax, which is not subjected to the State Tax upon Luxury .

Neither will it be required upon any product that may have already paid this Excise Tax in another island of the Archipelago.

B) *Passive Subjects.*

The following natural or legal persons are obliged to pay the tax:

a) If it confers to imported products from foreign countries or from the rest of Spain, the importers; and

b) If it confers to fabricated or obtained products in the Canaries, those who fabricate or produce them.

C) *Drawback.*

The Excise Tax will be drawn:

a) If it confers to importations as much from foreign countries as from the rest of Spain, upon the moment of entry for the first time into the Archipelago of those taxed products; and b) If it confers to products fabricated or obtained in the Canaries, when the passive subjects put these products at the disposition of the purchasers of the same.

D) *Taxable Basis.*

As basis for the excise tax will be taken the value CIF of the products in the place of entry into the islands, or when it confers to those made or obtained in the Canaries, on the price of sale of the same.

E) *Tariff.*

The types of the Tariff of the Excise Tax will be fixed by the Ordinance. They cannot, in any case, be superior to the State Tax upon Luxury that burden the products of the same class.

F) *Ordinance of the Excise Tax.*

1. The general Ordinance for the exaction of the Excise Tax will be common for all the Archipelago. It will be elaborated by the Interprovincial Board of Insular Excise Taxes and will be approved by the Ministry of the Treasury, previously informed by the Home Office.

2. Against the ministerial agreement relative to the approval or modification of the Ordinance, the sole recourse will be the contentious against Public Administration.

Article 25.

1. The elaboration of the general Ordinances of the Excise Taxes upon the Entry of Merchandise and upon the Luxury, in which the Economic Interprovincial Board of the Canaries must inform, and its effort and collection, equally as that of the Standard Rights of the Decree 611/1963, of 28th of March, when these may be applied exceptionally in the Archipelago, will be of the competence of an Interprovincial Board of Insular Excise Taxes that, with proper lawful personality and for the exclusively indicated aims, is established by the Interinsular Provincial Corporations of Santa Cruz de Tenerife and Las Palmas.

The Interprovincial Board of Insular Taxes may receive for those effects the assistance and the advise from the Central Administration.

2. The effort and collection of the Insular Excise Tax on the entry of merchandise from its Special Tariff, will be competence of the Interprovincial Board of Insular Excise Taxes.

3. The Executive Committee of the Interprovincial Board will be integrated by the following members:

a) The Presidents of the two Interinsular Provincial Corporations of Santa Cruz de Tenerife and Las Palmas.

b) Five Representatives of the Provincial Corporation of Santa Cruz de Tenerife.

c) Five Representatives of the Provincial Corporation of Las Palmas.

The Body of delegates from the Interinsular Provincial Corporations, it will have to include, necessarily, at least, one Councilor originating from each one of the Cabildos Insulares, that constitute them, who will be its President, when the latter has the rank of Councilor from the respective Provincial Corporation. The Presidency of the Interprovincial Board, that will have decisive vote, will be filled alternatively and by periods of one year by the Presidents of the Provincial Corporations of Santa Cruz de Tenerife and Las Palmas. The seat of the Interprovincial Board will take place in the Capital of the Province corresponding to the President. He will act as Secretary with voice, but without vote, that of the Interinsular Provincial Corporation, whose President presides over the Provincial Board of the Insular Excise Taxes. Likewise, they will be advisers of the said Interprovincial Board, the Controllers of the Funds, in each one of the Provincial Corporations.

4. The collection obtained by the Interprovincial Board of Insular Excise Taxes, thereafter deducted from the said collection, their internal administrative expenditures and those of the Economic Interprovincial Board of the Canaries, will be distributed and issued in equal parts to the Interinsular Provincial Corporations of Santa Cruz de Tenerife and Las Palmas.

5. From the amount collected by each Interinsular Provincial Corporation, it will keep 5%, that will figure as a deposit in its ordinary budget, and it will distribute the rest and issue it to their respective Cabildos Insulares according to the number of inhabitants by right of each one of the corresponding islands.

The said Corporations, jointly with their specific functions will program the precise plans of investments to get an equally balanced development in the islands.

6. From the amount collected by each Cabildo Insular, it will keep 60%, that will figure as a deposit in its ordinary budget, and it will distribute the rest and issue it to the different Councils of the Town-Halls of the respective island according to the Municipal Ordinances or Basis in force at the moment.

Article 26.

Without prejudice to the fiscal exemption upon the indirect taxes belonging to the State, referred to under the article 16, the Insular Excise Tax upon the entry of merchandise, that of the *Luxury ones and other indirect tributes that the Cabildos Insulares and Canarien Municipal Corporation Councils collect*, will be object of exemption from the excise tax upon the exportation, and to its exit for the rest of the national territory, with charge to the earnings of these Entities, save what is foreseen under the second paragraph of number 2, of the letter F, of the article 22.

Article 27.

The present tax on spirits and alcohol, regulated by Royal Order of November 1916, is abolished, likewise the excise tax upon the tobacco.

CHAPTER II. PARTICIPATION OF THE MUNICIPAL FUNDS OF LOCAL AUTHORITIES

Article 28.

The Canarian Municipal Corporations will participate in the National Fund of Local Authorities in the proportion that regulatively is determined.

Title IV. Economic Interprovincial Board of the Canaries

Article 29.

The Economic Interprovincial Board of the Canaries is created with the character of a consultive proposal organ to the State Administration in relation with the economic and fiscal matters referred to in the following Article.

Article 30.

It is of the competence of this board:

1. To emit a report about the following matters:
 - a) The amplification or decrease of the Regimen of State Commerce in the Canaries.
 - b) The fixation of the discount from the Compensatory Duty from Interior Taxes in the supposed case under the norm 3 of article 13 of this Law.
 - c) The General Ordinance of the Excise Tax upon the Entry of Merchandise and that of the Excise Tax upon Luxury ones.
 - d) The ante - projects of modification of this Law.
2. To elaborate the Regulating Ordinance of the Special Tariff of the Excise Tax upon Entry of Merchandise.
3. To inform proposals in relation with the economic and fiscal matters regulated in this Law, and, in particular, about their social repercussions.
4. All the other faculties that may be attributed to it, in this or in other lawful dispositions.

Article 31.

1. This Board will be integrated by the following members: The Presidents of the two Interinsular Provincial Unions. The National Councilors, the Assembly Ministers (Procuradores en Cortes) representatives of the Municipal Corporations and of the Family of both provinces.
Four Representatives from the Cabildos of the Provincial Union of Santa Cruz de Tenerife.
Four Representatives from the Cabildos of the Provincial Union of Las Palmas.
One Representative of the Chamber of Commerce, Industry and Navigation from each one of the provinces.
The Presidents of the Advice Counsel of Enterprisers, of Workers and Technicians, and of the Official Chambers of Agrarian Syndicals of both Provinces.

One representative, for each one of the two Provinces, from the (Sindicatos) Trade Unions from each one of the sectors, country, industry and services.

Two representatives, one from each Province, from the Interprovincial Syndical Advice Counsel, Social Economic.

One representative from the Syndical Federation of Commerce from each one of the two Provinces.

2. He will act as Secretary with voice, but without vote, that of the Interinsular Provincial Corporations, whose President presides over the Board.

3. They may act as Adviser of the Board, with voice but without vote, the Executive Director of the Plan-Canaries, the Controllers of Funds of the Provincial Corporations of Santa Cruz de Tenerife and Las Palmas, and one Economist appointed by each one of the same.

Article 32.

1. The Presidency of the Board will be filled alternatively, by periods of one year, by the Presidents of the Interinsular Provincial Corporations of Santa Cruz de Tenerife and Las Palmas, corresponding to that who will not be from the Interprovincial Board of Insular Excise Taxes.

2. They are attributions of the President that will have decisive vote, to make the representation of the Board, to preside over their reunions, to direct the deliberations, to transfer their agreements and to exercise the other functions that the Law of Administrative Procedure attributes to the Presidents of the Collegial Organs.

Article 33.

For the study of the questions, that in the judgement of the Presidency of the Board may require it, this latter may constitute in its interior works commissions composed in the manner that in each case be established, with the assessments that may be reputed suitable.

Article 34.

The complet Summons to the Assembly, as its constitutional regimen, the adoption of the agreements and the celebration of the sessions, they will be adapted to that which was determined under Chapter II of the first Title of the Law of Administrative Procedure.

FINAL DISPOSITIONS

First.

They are abolished, all the dispositions that are opposed to what is established in this Law.

Second.

The Government is authorized and, in its case, the interested Ministeries, in the scope of their respective competences for what they can lay down the dispositions and to adopt the necessary measures for the development and execution of the present Law.

Third.

To the effects of the Article 15 of the General Tributary Law, the exemptions and allowances contained in the present Law, they will not be affected by the temporary limitations that the said precept contemplates.

Fourth

The Government will adopt, in its case, the precise measures to correct the unbalancing that may be originated between prices and incomes with motive of the application of the present Law.

Fifth

1. The present Law will be put into force on the first day of 1973.

2. Before the 1st. October 1972 they will have to become constituted the Interprovincial Board of Insular Excise Tax and the Economic Interprovincial Board of the Canaries.

3. Before the 1st. December 1972 they will have to become approved the Ordinances of the Excise Taxes upon the Entry of Merchandise in the Canary Islands and the Ordinance of the Excise Tax upon Luxury.

Palacio de El Pardo, 22nd July 1972
FRANCISCO FRANCO

The President of Las Cortes Españolas
Alejandro Rodríguez de Valcárcel y Nebredo

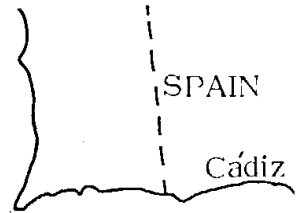
Industrialization in the Canary Islands

Phase II Report

Prepared For: Organization for Economic
Co-operation and Development

By: Mitsui Consultants Company, Ltd.
Mitsui Building, 1-1, 2-chome
Nihonbashi, Muromachi, Chuo-ku
Tokyo 103, Japan (Cables: MICONTO;
Telephone: 03-279-2321)

Date: December 1971



LOCATION OF CANARY ISLANDS

Notes: The islands of Lanzarote, Fuerteventura and Gran Canaria constitute the Province of Las Palmas. The islands of La Palma, Tenerife Gomera and Hierro constitute the Province of Santa Cruz de Tenerife.

Distance from the Canaries to African Continent is about 115 kilometers.

Distance from the Canaries to Cádiz is about 1.050 kilometers.

CANARY ISLANDS

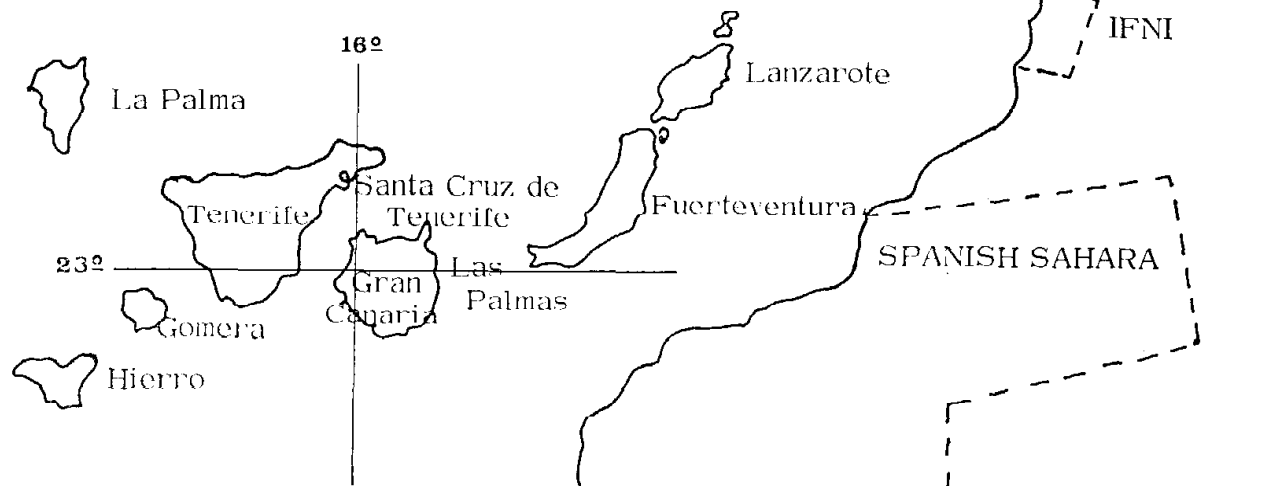


Figure 1

CHAPTER 2

EXECUTIVE SUMMARY

Population and Location

The Canary Islands Region, consisting of two principal islands, Gran Canaria and Tenerife (plus 5 minor islands) are inhabited by 1.2 million persons of Spanish origin. The islands are located some 115 kilometers west of Spanish Sahara on the African mainland.

The Industrial Structure

Tourism and services are the dominant contributors, but the manufacturing sector has shown substantial growth and now contributes 27% of the regional income.

The leading industry in terms of the value of production, is the 8.0 million tons per year refinery of the Compañía Española de Petróleos, S. A. (CEPSA) located on the northern tip of Tenerife Island. The second ranking industry is construction, sparked by the stimulus of tourists coming in the winter months from Scandinavia, Germany, France, U. K. and North America. The third ranking industry is tobacco processing, stimulated in part by the influx of Cubans in the early 1960's. Fourth, and rising rapidly, is the marine products industry based largely on the fish catch in west African waters. Other industries are much smaller than leading four mentioned.

As an employer, the industrial sector ranks second to services, and in 1970 employed nearly 87,000 persons out of a total labor force of about 412,361 or 21% of the total.

Trade

Export and import trade in 1970 consisted of exports valued at Pts. 19.7 billion (\$281 million) over one third of which were exports of petroleum products by CEPSA, and imports at Pts. 42.4 billion (\$606 million). Three fourths of the exports in 1970 were destined for the Spanish Peninsula, but only one third of the imports came from Spain or Spanish territories.

Aside from Petroleum, the leading export line is tobacco products valued in 1970 at the equivalent of \$58.8 million, growing rapidly at 20% annually, as measured by value. Other leading exports are tomatoes, potatoes and vegetables, mostly produced on Tenerife Island, where rainfall is higher than on Gran Canaria. Exports of chilled and frozen fish have grown rapidly, at 24% annually, and canned fish at a 20% annual average growth rate in the period 1968 through 1970.

Offsetting the sizeable trade deficit of the Canaries (\$606 million of imports vs. \$281 million of exports) are inward remittances from companies headquartered in Spain and revenue from tourism. The general economic viability, the favorable weather, and the homogeneity of the population, can make the Canary Islands attractive to foreign investors.

Further, the duty free entry of raw materials if processed and

reexported, is another added attraction to prospective foreign investors.

Problems

Despite the progress to date, the per capita income of the Canaries is lagging behind that of the Spanish Peninsula, emigration is continuing, and the level of investment in infrastructure and industry is lower than that of the Spanish average.

Compared with places similarly situated, the Canary Islands rank close to, but after, Singapore and Puerto Rico as measured by such criteria as governmental incentives, freedom to remit capital and earnings, taxes, infrastructure, political stability and other factors. The Canaries rank substantially higher however than Hong Kong, Taiwan and Ceylon.

Compared with other countries such as Puerto Rico, Singapore, or Ireland, the incentives to potential investors in the Canaries are however comparatively low.

Promising new Industry

Judging by such factors as water consumption (a critical factor in the Canaries), power consumption, indicated future markets, and the incentives offered by Decreto 484 of 1969, certain industries in the Canaries appear more promising than others for future development. Ranked in terms of future promise, the top ten industries were found to be:

1. Canned sea-food
2. Shipbuilding and repair chiefly for fishing vessels
3. Assembly of radio and TV receivers
4. Canned and preserved vegetables
5. Frozen sea-food
6. Tobacco products
7. Manufactured ice (mostly for fishing vessels)
8. Paper products
9. Meat products
10. Fishing nets

In addition, there are other possibilities for future industrial growth including: the processing of phosphate rock from Spanish Sahara into industrial grade phosphoric acid or elemental phosphorous, provided, of course, markets can be found in Spain; cement manufacturing on Fuerteventura Island if the quality of limestone is suitable and power can be feasibly supplied; the manufacture of petrochemicals from naphthas all of which are now being exported to Spain or to foreign countries.

The Cost and Results

The capital required for a minimum industrial expansion by 1974 could be about the equivalent of \$6.8 million and could result in the direct employment of about 7.625 persons and the indirect employment of about 8.388 in services. This would

raise manufacturing employment by 9% over 1970 levels and raise services employment by 6%. Over and beyond these percentages, is the expansive effects on related industry. In addition other spontaneous investment is likely to continue.

If other larger scale plants are installed to process Fuerteventura limestone and phosphate rock from Spanish Sahara, the capital required and the employment could rise to several times the above figures, depending on the scale of production.

Recommendations

This report concludes that there are numerous promising sources of investment capital, both private and official, to finance new industrial capacity and infrastructure. Power and water are both deficient and the road system is barely able to cope even with the current level of traffic.

However, to effectively mobilize world sources of capital it will be necessary to conduct a series of feasibility studies under Phase III, enlisting the support of the group of Spanish experts who compiled the Phase I report, completed in October 1971 and used as the basis for this study.

PLANNED INDUSTRIAL ZONES

(A) Arinaga (in Gran Canaria), about 30 km. South of Las Palmas

(a) Acquisition of industrial land:

- First Stage: 200 ha.
- Second Stage: Expansion to 1.000 ha.
- Third Stage: Further expansion to 1.500 —
1.800 ha.

A technical team is now working to survey the industrial zone and to plan infrastructure. The land with necessary infrastructure could be sold at prices between Pts. 250 - 500/m² (\$3.57 - \$7.14/m²).

(b) Electric power:

A 30 kv. line, together with another of 6 kv. line, can be extended to the Arinaga zone. The 30 kv. line could be able to supply, in the initial stage, up to 10 mw. in capacity, and at later stage, up to 20 mw. using double lines.

(c) Water:

There is no problem in getting industrial water from a nearby conduit.

(d) Highway:

The highway from Las Palmas to Gando will be widened at least as far as Arinaga.

(e) Port:

It is important that the existing port of Arinaga be improved or a new port constructed at a suitable location.

(f) Employment:

Presuming the average density of employment of 60 persons/ha., and starting with about 300 ha. (reserving the rest for future expansion), some 1.800 workers could be employed at the Arinaga industrial zone.

(B) Puerto de La Luz and Las Palmas (on Gran Canaria near the Northern Outskirts of Las Palmas)

(a) Industrial land available:

About 100 ha. plus about 42 ha. (The latter is to be for ship repair).

(b) Industries under consideration for this zone:

Industries should be closely linked to the sub-sector of "ship repair" and/or should be export - oriented industries. This zone could later be converted to a free port area where raw materials can be imported in bond for processing and finished goods exported.

Table 1
CHARACTERISTICS OF
INDUSTRIES IN THE CANARY ISLANDS
(RANKED BY VALUE OF PRODUCTION) - - 1970

No.	(A) Type of Industry	(B) Value of Production (Millions of Pesetas)	(C) Value Added (Millions of Pesetas)	(D) Persons Engaged	(E) Rank of Industry in terms of Employment
1	Petroleum Products	10,402	4,836	1,675	10
2	Construction	9,389	5,614	51,900	1
3	Tobacco	3,700	1,254	3,443	5
4	Marine Products	2,968	1,015	4,262	3
5	Bakeries	990	422	2,358	7
6	Wood Products	736	372	3,740	4
7	Flour Milling	715	65	284	23
8	Gas and electricity	712	500 (e)	100 (e)	39
9	Publishing and Printing	707	343	1,871	8
10	Paper and Cardboard Products	636	185	470	19
11	Motor Vehicle Repair	633	244	1,853	9
12	Ceramics excluding cement and Construction Materials	626	235	3,020	6
13	Cement	606	113	263	25
14	Dairy Products	588	80	485	18
15	Carbonated beverages	484	334	806	12
16	Mineral Water	448	354	553	17
17	Ship Repair	425	306	1,024	11
18	Other Metal Products	408	201 (e)	795	13
19	Fertilizers	367	107	540	16
20	Brandy, Liquor	365	89	265	29
21	Beer	348	205	565	15
22	Mixed Feed	345	104	107	37
No.	(A)	(B)	(C)	(D)	(E)
23	Edible Oil Products	332	38	84	41
24	Coffee roasting	322	51	206	29
25	Cocoa, Chocolate, Candy	264	134	410	21
26	Noodles and Crackers	215	114	431	29
27	Bottled Butane	200	110 (e)	58	43
28	Dyes, Pigment, Paint	162	56	131	35
29	Pastry	161	95	582	14
30	Plastic Products	161	84	184	31
31	Insecticides, Pesticides	144	43	158	32
32	Quarrying, Mining, Water	140 (e)	18 (e)	327	22
33	Other Chemical Products	113	59	259	26
34	Glass Products	111	60	209	28
35	Basic Chemicals	103	44	106	38
36	Hand tailoring	100	70	5,000	2
37	Canned Vegetables	68	34	60	42
38	Products made from Wire	68	33 (e)	132 (e)	34
39	Footwear and Leather Products (1968 figures)	61	27	210	27
40	Ice Plants	60 (e)	40 (e)	195	30
41	Hardware	55	27 (e)	108 (e)	36
42	Meat Products	53	14	46	46
43	Wines	50 (e)	25 (e)	36 (e)	48
44	Readymade garments	49	9	141	33
45	Sawn timber	37	18	88	40
46	Metal Plating	25	12 (e)	49 (e)	45
47	Metal Containers	21	11 (e)	42 (e)	47
48	Basic Metals	20	16	53 (e)	44
49	Electrical Goods	not reported			49
	Total	38,558.0	17,674.4	86,807	—
		(Value of Production)	(Value Added)	(Persons Engaged)	

Note: (e) denotes estimate

Table 4

LIST OF CANDIDATE INDUSTRIES FOR THE CANARY ISLANDS BASED ON EXPANDED EXISTING MANUFACTURING CAPACITY OR NEW CAPACITY

(Note: Numerals in parentheses denote the ranking explained later in Chapter 7 of this report.)

- | | |
|--|--|
| 1. Canned Sea Food (71) | 31. Pressed Metal Products (53) |
| 2. Ship Building & Repair (68) | 32. Tire Recapping (53) |
| 3. Radio & TV Receivers (67) | 33. Soaps & Synthetic Detergents (52) |
| 4. Canned & Preserved Vegetables (65) | 34. Bolts, Nuts, Rivets & Screws (52) |
| 5. Frozen Sea Food (65) | 35. General Measuring Instruments (52) |
| 6. Tobacco Products (61) | 36. Matches (52) |
| 7. Ice (60) | 37. Insecticides & Pesticides (51) |
| 8. Paper Products (59) | 38. Dairy Products (51) |
| 9. Meat Products (59) | 39. Sporting Goods & Toys, except Dolls & Children's Vehicles (50) |
| 10. Fishing Nets (58) | 40. Biscuits, Crackers & Other Dry Bakery (49) |
| 11. Dry & Wet Batteries (58) | 41. Saw Mills (49) |
| 12. Cartons and Boxes (57) | 42. Buttons (49) |
| 13. Steel Castings (57) | 43. Beer (48) |
| 14. Household Electric Appliances (56) | 44. Cutlery (48) |
| 15. Rubber Footwear (56) | 45. Food Processing Machinery (48) |
| 16. Cement Products (56) | 46. Agricultural Machinery & Equipment (48) |
| 17. Work, Sport & Sanitary Clothing (55) | 47. Wheat Flour (47) |
| 18. Knit Goods (55) | 48. Hand Tools (46) |
| 19. Distilled & Blended Liquor (54) | 49. Leather Products for Industrial Use (45) |
| 20. Glass Containers (54) | 50. Plywood (45) |
| 21. Animal Fodders & Feeds (54) | 51. Electroplating, except Steel Plating (45) |
| 22. Luggage (54) | 52. Cement Manufacturing (44) |
| 23. Leather Footwear (54) | 53. Non-Ferrous Die-Casting (43) |
| 24. Confectionary & Miscellaneous Bakery Products (54) | 54. Electric Wire & Cables (43) |
| 25. Mattresses & Related Springs and Furniture (54) | 55. Phosphatic Fertilizer (36) |
| 26. Plastic Processing (53) | 56. Petroleum Refining (35) |
| 27. Tinsplate for Cans (53) | 57. Synthetic Dyes & Organic Pigments (35) |
| 28. Metal Products for Construction (53) | 58. Compressed or Liquified Gas (35) |
| 29. Paints (53) | |
| 30. Printing, except Mimeographing (53) | |

Not included in the foregoing list are four other candidate industries A through D below:

- A. At present the CEPSA refinery on Tenerife is exporting all naphthas which, if markets were found, could become the basis for local production of ethylene and propylene and numerous derivatives. CEPSA would have to decide if local processing were a profitable alternative to exports.
- B. The manufacture of cement based on the limestone deposit in Fuerteventura may be possible, assuming of course that the quality of the limestone is satisfactory and sources of power can be economically developed.
- C. The Phase I Working Group has suggested a plant for phosphate rock processing. Elemental phosphorous, a phosphate rock derivative, could be made from imported rock and drummed for shipment to the Peninsula for making industrial (that is detergent-grade) phosphoric acid. The suitability of this candidate industry will of course require further analysis of markets under Phase III.
- D. Expansion of the tourist plant through investment in hotels is already taking place, largely from German investment, but further growth is possible.

The next chapter describes the screening process whereby the list of 58 candidates has been screened and each potential industry given a rank to denote its suggested priority for further investigation in Phase III.

CHAPTER 7

COMMENTS REGARDING THE INDUSTRIES RECOMMENDED FOR PHASE III STUDY

7.0 Ranking of Candidate Industries

Table 4 in the previous Chapter lists 58 candidate industries for the Canary Islands. To determine which of the 58 have the highest potential, each was screened against ten criteria as follows (A through J):

- A. Employment generation — Which industries will create the most jobs?
- B. Labor intensity - Which industries will provide jobs for the smallest investment per employee?
- C. Value added per establishment — Which industries will contribute the greatest gain terms of regional gross product?
- D. Capital requirement — Which industries will cost the least to establish on a viable scale?
- E. Electric power requirement — Which industries are likely to use the least power? (This criterion was selected because of the power shortage in some areas).
- F. Water requirement — Which industries will probably use the least water? (This criterion was selected because of the water shortage in Gran Canaria and most of the other islands.)

- G. Estimated demand for imported products — Which industries can make the highest contribution toward import substitution?
- H. Compatibility with the Spanish Government's developmental objectives — Which industries will benefit from the incentives offered in Decreto 404 of March 27, 1969? (These are mostly food producing industries).
- I. Availability of local raw materials — Which industries can largely meet their raw material needs from sources in the Canary Islands?
- J. Export potential — Which industries have the best historical record of exporting? (e. g. marine products, tobacco, processed vegetable and potatoe exports and ship repair services are bringing substantial income to the Canaries).

Each of the 58 candidates was then ranked, usually by assigning points ranging from 10 down to 0. For example if an industry consumes much less water than the others, it would be ranked 10 under Criterion F. If an industry requires a much larger capital investment than other candidates, it would be given a rank of only 1 or 2 points. In almost all cases the spread in values was calculated from the highest to the lowest, then divided by 10, and rank points given to each industry accordingly.

The basis for such industry characteristics as employment generation, labor intensity, value added, capital requirement, power consumption, water consumption (that is criteria from A through F) is the Japanese historical experience in manufacturing in 1969.

The basis for judging candidate industries in terms of their the import substitution capability, export capability, consumption of raw materials, and compatibility with developmental objectives (criteria G through J) was: (1) the findings of the Phase I Report, (2) official data on trade with foreign countries and trade with the Spanish Peninsula and territories, and (3) Decreto 484 of 1969, as mentioned.

After the candidates had been ranked by the ten criteria, the sum of ranks for each industry was calculated. The individual industry judged by this system to be the most promising, namely canned sea food, had a total ranking of 71; the candidate judged to be the least promising, namely compressed or liquified gas, had a total ranking of only 33. The detailed screening and the points assigned to each of the 58 industries for the 10 criteria are shown in Appendix B. The listing of industries from the most to least promising are shown in Table 4 in Chapter 6 above.

No claim is made by the authors that the ranking system confirms that one industry is "best" or "worst". What is being attempted here is to determine which of the 58 industries at this stage appear to be promising. This is a pre-screening for a final selection under Phase III. The critical test in Phase III will be the anticipated profitability of a specific plant assuming a product of defined specifications, selling at a certain price, and at a given volume of sales.

It can be argued that some of the then criteria should be weighted more heavily or weighted more for Gran Canaria than for Tenerife, etc. than others at this stage in the research; the authors believe the finer adjustments should wait until Phase III. In any event the probable industrial characteristics of the candidates are shown in detail in Appendix B and can be used as a stepping stone to subsequent evaluations.

Appendix B

RANKING OF RECOMMENDED INDUSTRIES

This appendix contains a tabulation which lists 58 candidate industries for the Canary Islands. The total of 58 candidates refers to the sub-sector only of industry groups. Some of the 58 candidate industries are more promising than others, therefore, each industry is ranked to indicate its probable future promise. The highest rank is 71 for canned sea-food. The lowest rank is 33 for compressed or liquified gas. (See Table 4 in Chapter 6).

Each candidate industry has been given an overall rank by means of ten criteria (A through J); these criteria relate to such factors as the employment potential of each industry, the capital requirement, the value added, the indicated export potential, the size of the market, and other criteria that would be generally applicable in any country. However, in addition, there are further criteria which were selected only because of conditions peculiar to the Canary Islands, namely, the consumption of industrial water, electric power, and the Spanish government's developmental objectives.

Several of the entries in this appendix require explanation, and therefore are annotated by means of letter symbols appearing in parentheses such as, (b), (c) or (k). The explanatory notes to which the symbols refer are as follows, (a) through (I):

- (a) The classification of industry sectors and subsectors are based on the "Standard Industrial Classification for Japan", published by the Research and Statistics Department, Ministry of International Trade and Industry, Government of Japan. From a wide range of possible subsectors, the candidates for the Canaries were selected on the following basis:*
 - (I) Subsectors were selected correspond as closely as possible to the industries now operating in the Canaries as described in the Report of the Working Group of the Planning Commission, Government of Spain (the "Phase I Report").*
 - (II) Subsectors were chosen because they had been recommended as feasible new industries by the same Working Group during meetings with the Mitsui Consultants survey team.*
 - (III) Other subsectors were selected because they had been recommended by leading businessmen in the Canary Islands in response to a questionnaire (please, refer to Appendix G).*

- (IV) *Subsectors were included which by Mitsui Consultants are known to be promising in countries which do not have a highly developed industrial base.*
- (b) *The criterion in Column A is the capability of each industry, to generate new employment. Employment generation is based upon the actual average employment figures for each industry per establishment in Japan covering all manufacturing establishments in 1969 (except for those employing 10 persons or less). The average employment figures per establishment have been divided into 10 groups from the largest to the smallest employers; 10 ranking points were given to industries which employ the most people; 9 points were given to those employing less; 1 point was given to industries which employ the fewest people.*
- (c) *The criterion in Column B is labor intensity of each industry for the same amount of investment. The labor intensity figures are based upon the actual average fixed assets per employee of each industry in Japan covering all the manufacturing establishments (except those employing 10 persons or less) in 1969. The average fixed assets per employee have been divided into 10 groups ranging from the smallest to the largest. Industries which require the least capital per employee were given the most points; industries which require more capital per employee were given fewer points.*
- (d) *The criterion in Column C is the value added by each industry per average establishment. The value added is based on the actual average value added per establishment by each industry in Japan covering all the manufacturing establishments (except those employing 10 persons or less) in 1969. The value added per establishment has been divided into 10 groups from the largest to the smallest and were given ranking points from 10 to 1 accordingly.*
- (e) *The criterion in Column D is the capital requirement for each industry of average size. This is based on the actual average fixed assets per establishment of each industry in Japan covering all the manufacturing establishments in 1969 (except those engaging 10 persons or less). The fixed assets per establishment have been classified into 10 groups from the smallest to the largest. Industries requiring the least investment were given 10 points; industries requiring the highest investment were given only 1 point, etc.*
- (f) *The criterion in Column E is the requirement for electric power for each industry per average establishment, basing upon the actual average power consumption for each industry per average establishment in Japan covering all manufacturing establishments in 1969 (except those employing 10 persons or less). The figures for power consumption per establishment were divided into 10 groups from the smallest consumers to the largest consumers of*

- power. The smallest consumers were given 10 points; the largest consumers were given 1 point, etc.
- (g) Criterion F is the requirement for industrial water for each industry per average establishment. This is based on the actual water consumption for each industry per average establishment in Japan covering all manufacturing establishments in 1969 (except those employing 10 people or less). The figures for average water consumption per establishment have been classified into 10 groups from the smallest to the largest consumers. The smallest consumers were given 10 points; the largest water consumers were given 1 point, etc.
 - (h) The criterion in Column G is the assumed market size for imported products in 1974. This criterion is therefore a measure of potential import substitution in 1974, the year by which the new industrial capacity now being planned for the Canaries should be in operation. In order to arrive at the 1974 market size, data were taken from Appendix A-1 of this report. The table in Appendix A-1 shows the actual import record for 1970 and the annual average growth rates of imports for the years, 1968 through 1970. Appendix A also forecasts the growth of imports to 1974. Other comments on the methodology used in arriving at the 1974 market size are included at the end of Appendix A.
 - (i) The criterion in Column H is the availability of benefits from the incentive policy of the Spanish government as stipulated in Decreto 484, dated March 27, 1969; 5 rank points have been given to all industries which are eligible for the benefits outlined in Decreto 484, no points were given to other industries which do not benefit from Decreto 484.
 - (j) The criterion in Column I is the availability of local raw materials for each industry. This is based on information in the Report of the Working Group of the Planning Commission, Government of Spain (The Phase I Report), and on the observations of the Mitsui Consultants survey team to the Canary Islands. Those industries which can procure the highest percentage of raw materials locally are given 10 points and those which obtain the least local materials were given 1 point.
 - (k) The criterion in Column J is the 1974 export potential of Canary Islands industries. The data for this criterion are contained in Appendix A-2 and consist of the 1970 export figures and forecasts to 1974. Largely because of export to the Spanish mainland, the export volume for certain products has reached substantial proportions, e. g. tobacco product exports of Pts. 4. 0 billion, marine products exports of Pts. 1. 8 billion in 1970.
 - (l) The range of points for cement manufacturing is based on the possibility that the limestone deposits in Fuerteventura can be effectively exploited by 1974. If the deposits are exploited, local raw materials for cement manufacture sho-

uld be available and the ranking of 10 for Criteria I is justified. However, the exploitations of these deposits is quite uncertain because the power supply is in doubt and Mitsui Consultants Co. has not analyzed the stone characteristics.

CHAPTER 9

ASSESSMENT OF THE INVESTMENT CLIMATE IN THE CANARY ISLANDS

9.0 Purpose of Assessment

The purpose of this chapter is to look at the Canary Islands from the point of view of a prospective investor in new industry and to answer the question, "Should he invests his own capital in a manufacturing project in the Canary Islands or should he invest in some other locality similarly situated?".

9.1 Criteria Used

No such assessment can be precise because several subjective judgements are involved. To be as objective as possible, however, the following 13 criteria were used in the assessment.

1. Governmental incentives to new industries having foreign capital participation — To define this criterion more narrowly, the duration of the "tax holiday" for new industry was used as the basis for judging the availability of incentives.
2. Freedom of investing companies to remit capital and earnings.
3. The maximum percentage of equity in a new company allowed to foreign investors.
4. The percentage of company profits taken by the corporate taxes.
5. The local availability of labor.
6. The prevailing level of wages in manufacturing (Appendix D shows ILO data used.)
7. The absence or presence of discriminatory practices against foreign investors, such as nationalization.
8. The rate of inflation in the local economy.
9. The adequacy of infrastructure — (This was defined narrowly in order to provide a basis for comparing one country with another. Rather than basing this criterion on a wide range of variables, the presence or absence of an industrial estate (*poligono industrial*) or the expectation of a future estate was taken as the basis for judging the adequacy of infrastructure).
10. The political stability of the country.
11. The availability of supporting industries — This involves a partially subjective judgement, namely, whether or not newly established industries would have to rely

on imports largely for spare parts, and raw materials or whether the local industrial base could meet such requirements.

12. The recent annual growth rate of the gross national product or the gross regional product.
13. The availability of adequate housing for executives who might be stationed in the country concerned.

The following seven countries or regions were compared using the above criteria: The Canary Islands, Ceylon, Hong Kong, Nigeria, Puerto Rico, Singapore, and Taiwan, and the results are shown in Table 7.

On the basis of the 13 criteria, the overall rating for the Canaries was "3.1", as compared with the rating given to Singapore of 3.5 and the rating of 3.4 given to Puerto Rico, as shown in Table 7.

In rating the Canary Islands, it was assumed that the wage rates were, lower than those prevailing on the Spanish mainland, and were estimated to range from Pts. 4.000 to Pts. 6.000 although the distinction between wages for skilled and unskilled labor made it necessary to use an average of Pts. 5.180. The *Decreto* 484 of March 27, 1969 was taken to be the basis for the assumption that a 5 year tax holiday is allowed in the Canaries, although this holiday applies to some industries only. The incidence of the tax holiday privilege is subject to administrative determinations, but the authors assumed the holiday would be generally applicable and therefore gave the Canary Islands a rating of "3", that is next to the highest. The footnotes to Table 7 provide additional detail as to methodology used.

Table 7

INVESTMENT CLIMATE IN SELECTED COUNTRIES SEEKING TO ATTRACT FOREIGN CAPITAL -- 1969

(Note: A rating of "4" is best; a rating of "1" is worst)

	Canaries	Ceylon	Hong Kong	Nigeria	Puerto Rico	Singapore	Taiwan
1 . Governmental Incentives to New Industries with Foreign Capital Participation a/	3	3	1	2	4	3	3
2 . Remittance of Capital and Earnings b/	4	2	4	2	4	4	2
3 . Permissible Foreign Equity Ratio c/	4	1	4	4	4	4	2
4 . Corporate Tax Percentage d/	2	1	4	1	3	1	3
5 . Availability of labor e/	3	2	3	3	4	4	3
6 . Wage level in Manufacturing f/	2	4	2	3	1	3	3
7 . Discrimination against Foreign Capital	4	1	4	4	4	4	4
8 . Inflationary Trends g/	1	n.a.	1	2	2	4	1
9 . Adequacy of Infrastructure h/	3	1	1	1	4	4	4
10 . Political Stability i/	4	2	2	2	4	4	1
11 . Availability of Supporting Industries	2	1	3	2	3	4	4
12 . GNP, Recent Annual Growth Rate j/	4	n.a.	4	1	3	4	3
13 . Living Conditions for Foreign Executives	4	2	3	1	4	3	2
Total:	40	20	36	28	44	46	35
Average number of Points under Each Criteria	3.1	1.8	2.8	2.2	3.4	3.5	2.7

See footnotes a through j on the following page.)

Footnotes for Table

The following notes show the basis on which each of the seven countries were ranked under the 13 criteria of suitability for foreign investment. The source of information for the rankings under various criteria were: (1) a questionnaire sent to the affiliated offices of Mitsui Consultants in the countries concerned, (2) World Economic Information Services, a Tokyo-based consulting company serving private industry and the Japanese Government, (3) U. S. Department of Commerce, **Overseas Business Reports**, (4) observations of the Mitsui Consultants Survey Team which visited the Canaries in October 1971.

- (a) Government Incentives: Tax holiday of Over 10 years = 4 points; 5 - 9 years = 3 points; 2 - 4 years = 2 points; no holiday = 1 point.
- (b) Remittance of Capital & Earnings: No restriction = 4 points; Some restriction = 2 points.
- (c) Permissible Foreign Equity Ratio: Up to 100% = 4 points; Up to 50% = 2 points; Up to 49% = 1 point.
- (d) Corporate Tax Percentage; 1-15% = 4 points; 16 - 25% = 3 points; 26 - 35% = 2 points; 36 - 40% = 1 point.
- (e) Labor: Labor quality is generally good; skilled labor is available; unskilled labor is abundant = 4 points; Labor quality is generally good; skilled labor is short, unskilled labor is abundant = 3 points; Labor quality is poor; unskilled labor is abundant; skilled labor is short = 2 points.
- (f) Monthly Wage Levels in Manufacturing: Up to \$40 = 4 points; \$41 - \$60 = 3 points; \$61 - \$80 = 2 points; Over \$81 = 1 point.
- (g) Annual Inflation Rate: 0 - 1.5% = 4 points; 1.6 - 3.0% = 3 points; 3.1 - 4.5% = 2 points; 4.6 - 6.0% = 1 point.
- (h) Infrastructure: Industrial Estate available = 4 points; Industrial Estate planned = 3 points; No industrial estate = 1 point.
- (i) Political Stability: Very stable = 4 points; Stable = 3 points; Socialistic policy, etc = 2 points; Future uncertainty = 1 point.
- (j) GNP Growth Rate: Over 11% = 4 points; 11 - 8% = 3 points; 7 - 5% = 2 points; Less than 5% = 1 point.