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Working Party on GATS Rules

SUBSIDIES FOR SERVICES SECTORS

INFORMATION CONTAINED IN WTO TRADE POLICY REVIEWS

Background Note by the Secretariat

Addendum

I. INTRODUCTION

1. To enhance information on subsidy programmes in the area of services, the Working Party on GATS Rules, at its meeting of 4 and 5 May 2000, requested the Secretariat to update a previous Note (S/WPGR/W/25, circulated on 26 January 1998) based on 31 Trade Policy Reviews (TPRs). While the initial document covered the period from January 1995 to December 1997, the current Note aims to extract similar information from the 37 TPRs published since.

2. Although this Note draws on information from all TPRs published from 1998 to present under the aegis of the WTO, it cannot claim to give a representative picture. First, the selection of countries for review does not reflect analytical purposes, but the country schedule established by the Trade Policy Review Body. Second, coverage and content of reports are largely determined by the availability of data as well as the Secretariat's assessment of country-specific review priorities at the time of drafting. The fact that some reports do not include subsidy-related information, therefore, does not necessarily point to the absence of such schemes in the countries concerned. Nevertheless, the TPR reports may be considered a reasonably reliable source of information in this area. They normally take into account not only material provided by national governments, but any additional information deemed relevant, including reports by international organizations and academic research papers. The factual accuracy of the individual reports has been checked by the country under review.

3. Reflecting data limitations and/or resource constraints, TPR reports have not always sought to trace the compound effects of various subsidies in individual sectors or to gauge their relative importance. Also, it has proved difficult to detail the underlying policy objectives of many programmes. For example, a particular support scheme may be social in nature or informed by industrial policy considerations, geared toward improving consumer welfare or upgrading sectoral performance, enhancing overall economic efficiency or simply shielding vulnerable domestic suppliers from import competition.

II. CONCEPTS AND DEFINITIONS

4. The subsidy definition generally used for Trade Policy Reviews is based on the definition contained in the WTO Agreement on Subsidies and Countervailing Measures. Accordingly, a subsidy is deemed to involve a financial contribution by a government or public body which confers a benefit. The TPR reports thus tend to cover assistance granted in the form of direct transfers of funds, including grants, loans and equity infusions; potential direct transfers of funds or liabilities, e.g. loan guarantees; government revenue foregone; supply of goods and services other than general infrastructure; purchase of goods; payments to funding mechanisms; or income and price support.

5. As noted before, the application of this definition to services sectors has not appeared to pose problems in principle. However, it may prove difficult in individual cases to identify the ultimate beneficiary of a subsidy, which may have been destined for downstream users rather than the immediate recipient. Exemptions from indirect taxes, in particular VAT, have generally been ignored for the purposes of this overview as such measures in many cases are aimed to support consumption rather than production of the service concerned. Some measures may have been intended primarily to promote public policy or infrastructural objectives. Given the infrastructural importance of many services sectors and their role as generally available inputs, it could thus be misleading to equate certain recipients, e.g., railways, with actual beneficiaries which might include any social or economic group relying on rail transport. Moreover, Members may use different terminology or have different demarcations between the public and private sectors.[1] The ambiguities arising from these factors no doubt affect cross-country comparability.

III. POLICY PATTERNS

6. Available evidence suggests that WTO Members tend to concentrate their services-related subsidies on three sectors: maritime transport, tourism, and financial services. This is consistent with patterns revealed in the previous compilation. Of the 37 Members covered in the TPR reports under study in this update, at least 12 have aided their maritime transport sector. This compares to the pattern found previously, where 23 of 44[2] Members covered by the TPRs were reported to have subsidized maritime transport. In the current sample, 22 Members have offered tourism subsidies; while the previous group had had 14 governments promoting investment in the hotel and tourism sector. For financial services, the current group of 37 has at least 8 Members offering subsidies (including measures applied in the wake of financial crises, which may be falling under the GATS' prudential carve-out for financial services). Of the Members covered by the previous Note, at least 10 had assisted their offshore banking sector or rescued ailing domestic banks. However, such findings may be influenced by the reports' focus on sectors where politically or economically important developments have been under way.[3]

7. The following Table confirms the high number of programmes for tourism. They are being operated mainly in developing countries. Possibly reflecting fiscal constraints, these programmes tend to rely on tax holidays and other fiscal advantages and do not normally provide for actual disbursements. Support schemes for transport and financial services, however, seem to exist across the full spectrum of WTO Members. Support policies favouring shipping companies have often used tax incentives. In financial services, a number of initiatives may have been *ad hoc* in nature, driven by the perceived need to prevent the imminent collapse of large banks, rather than influenced by longer-term policy strategies. A trend not previously apparent seems to be for governments to encourage the development of the financial services sector through tax incentives and/or offshore schemes.

[1] For example, the provision of basic health services may be ensured through: (a) cost-free treatment in state-owned hospitals; (b) the extension of public funds to commercially independent hospitals; or (c) government-sponsored premiums for basic health insurance. While conferring the same benefits to the same target group, such measures might be defined, respectively, as the provision of infrastructural services, subsidies for the health sector, social transfers and/or subsidies for insurers.

[2] Counting individually the EC Member States.

[3] As a general feature, it appears that areas such as financial services have been reviewed in more detail than, for example, rail or road transport and professional services.

Table 1:
Subsidies for individual services sectors - information from TPR Reports, 1995 to 1997

⮚ MEASURE ⮚ ⮛ SECTOR ⮛	Direct grants	Preferential credit & guarantees	Equity injections	Tax incentives	Duty-free inputs & free zones	Other & unspecified measures	Number of countries
Tourism	Botswana Canada Israel Turkey	Canada Nigeria* Iceland India Jamaica South Africa Trinidad & Tobago Turkey	South Africa	Nigeria* Argentina Egypt India Israel Jamaica Nicaragua Philippines Solomon Is. Tanzania Trinidad & Tobago Turkey Uruguay	Argentina Egypt India Jamaica Kenya Nicaragua Peru Solomon Is. Tanzania Trinidad & Tobago Turkey Uruguay	Guinea* Lesotho Singapore	22
Transportation generally	Canada			Philippines			2
Maritime transport	Australia India Solomon Islands*	India Thailand U.S.		Egypt HK, China India Jamaica Peru Singapore Turkey U.S.	Egypt Jamaica Papua N.G. Peru Turkey		12
Air transport		Papua N.G.	Hungary*	Egypt	Hungary Papua N.G.		3
Rail transport	India Kenya						2
Road transport							
Banking		Indonesia Thailand	HK, Chima Thailand	Singapore Tanzania U.S.	Trinidad & Tobago* Jamaica Singapore Tanzania Thailand		8
Other financial services		Indonesia Thailand	HK, Chima Thailand	Singapore U.S.	Singapore Thailand Trinidad & Tobago*		6

➢ MEASURE ➢ / ⮛ SECTOR ⮛	Direct grants	Preferential credit & guarantees	Equity injections	Tax incentives	Duty-free inputs & free zones	Other & unspecified measures	Number of countries
Software, information technology, communications, and information processing	Canada	Jamaica		Canada Egypt India	India Jamaica Trinidad & Tobago* Uruguay		6
Construction	U.S.	Argentina		Argentina Bolivia Trinidad & Tobago Turkey			5
Recreation, culture & sports	Canada	Jamaica		Bolivia	Bolivia Israel		4
Telecom	Peru Singapore	India		India	Trinidad & Tobago*		4
Audiovisual services	Argentina Canada			Canada Jamaica Tanzania	Jamaica Tanzania		4
Wholesale & retail trade, distribution		Turkey		Trinidad & Tobago	Tanzania		3
Real estate		India		Canada	Trinidad & Tobago		3
Other & unspecified sectors	Australia	Australia Bangladesh Turkey	Canada	Singapore	Hungary Singapore		6
Number of cases	18	25	7	43	40	3	90

ANNEX

Content of Individual Trade Policy Reviews

As an update to the previous document, which had covered TPR reports from January 1995 to December 1997 (S/WPGR/W/25), the content of this Annex is directly taken, with some minor editing, from reports published since that time. References deal with subsidy programmes for individual services sectors. Not included is information on generally available subsidies, for example in the context of regional development or research programmes, and company-internal cross-subsidization between monopoly and market-oriented activities in sectors such as telecommunications. Reductions or exemptions on a value-added tax (VAT) or on other indirect taxes have for the most part been considered as consumer subsidies and have not been included.[4] (Schemes exist, for example, to benefit consumption of medical, transport, or educational services.) Capital injections to financial institutions during a financial crisis have been listed as subsidies for a Member's financial services sector, regardless of the prudential carve-out for financial services in the Fifth Protocol to the GATS.

INDIA - WT/TPR/S/33 (1998)

pages 86-87, paras. 138, 140

To promote the development and exports of the **software** industry seven Software Technology Parks (STPs) and an Electronic Hardware Technology Park (EHTP) Scheme are in place… EHTPs and STPs are allowed zero duty on all imports, 100 per cent foreign participation, and tax holidays … Data are not available on the amount of total forgone revenue attributed to these fiscal benefits.

page 92, para. 48

Other major recipients of total non-plan subsidies include the **railways**, for which subsidies have remained around 3 per cent since 1995/96.

page 93, Table III.19

Explicit (non-plan) subsidies, *in part*
(Rs million)

	1995/96	1996/97	1997/98[a]
Other subsidies			
Payments to State Governments in lieu of sales tax on aviation fuel sold to international airlines (including Air India)	283.3	16.2	0.1
Subsidy for operations of charter flights for Haj pilgrims	170.5	373.8	420.0
Subsidy to the railways for dividend relief and other concessions	4,177.3	4,657.1	5,367.2
Insurance schemes for the poor	160.0	140.0	160.0
Subsidy for coal transport by rail-cum-sea route	0.5	0.0	0.0
Subsidy to Shipping Corporation of India for uneconomic shipping lines	124.0	110.0	110.0
Compensation for exchange loss	1,425.2	1,499.5	1,539.5
…			
- National Housing Bank	22.0	28.9	29.0
- Housing Development Finance Corpn.	590.0	539.5	800.0

a Budgeted.
Source: Government of India (1996c), Budget 1996/97, Expenditure Budget; and Government of India (1997b), Budget 1997/98, Expenditure Budget.

[4] VAT exemptions applicable to the tourism sector, however, have been included as these are not likely to be targeted at the consumers.

page 96, para. 155

Section 80IA of India's Income Tax Act grants tax holidays for a period of five consecutive assessment years in a number of cases, including industrial undertakings, **hotels, ships**, the development and maintenance of any infrastructure facility, research and development, and the commercial production of mineral oil…

page 151, paras. 117, 118

For export industries, additional incentives, such as a five-year tax holiday, tax exemption on income from exports, duty-free imports of inputs and access to some imports on the restricted list through Special Import Licenses (SILs), are also provided. There is no ceiling on the amount of foreign equity participation in the **software** and hardware technology parks and export-processing zones (EPZs), or in 100 per cent export oriented units.

page 163, paras. 156, 158

The major Indian ports are organized as Port Trusts, i.e. semi-autonomous statutory entities with a non-profit objective organized under the Indian Ports Act, 1908 and the Major Ports Trust Act, 1963. In addition to infrastructure planning and construction, Port Trusts have the power to operate ship and cargo handling facilities and services (such as pilotage, cargo, storage and container stations) and to frame regulations. The Port Authorities have their own budgets, and can raise dues (tariffs are set individually for each port) and incur debts subject to government approval. The financial situation of the Port Trusts is mixed, with some ports requiring financial support, such as subsidies, concessional lending for some capital expenditures, or restructuring of debts. Since the **ports** do not pay taxes, even on their commercial activities, they have a negative impact on the Government's fiscal position.[5]

Another significant feature of the new guidelines on private-sector participation is that it opens up **port development** on build-operate-transfer (BOT), or similar schemes, for up to 30 years, relieving scarce public resources of the cost of financing. Financial incentives to port investors include a five-year tax holiday, a five-year tax concession period and, as an incentive to financial institutions who provide long-term finance, a deduction of taxable income derived from financing of investments provided that this amount is credited to a special reserve. Additional fiscal incentives are also being provided to encourage the development of port infrastructure. Several State Governments are going ahead with minor port projects involving the private sector.

page 166, para. 169

The National Telecommunication Policy, 1994 (NTP) states that "Private investment and association of the private sector would be needed in a big way to bridge the resources gap. Private initiative would be used to complement the Departmental efforts to raise additional resources, both through increased internal generation and adopting innovative means like leasing, deferred payments, BOT (build-operate-transfer), BLT (build-lease-transfer), etc.". In line with this policy, private [**telecommunications**] services providers have been extended fiscal benefits such as tax holidays, additional access to external commercial borrowing, etc.

page 170-71, para. 184 plus Box IV.4

Special incentives are offered to national and foreign investors in the **tourism** industry, including interest subsidy, income tax incentives, import concessions, and concessional licensing for

[5] World Bank (1995a).

imports of special items for the hotel industry (Box IV.4). Preferences in access to water and electricity are also extended to the industry.

Incentives in the tourism industry

Incentives to the tourism industry provided by the Central Government include:

- An interest subsidy of 3 per cent on loans from financial institutions is available to one-, two-, and three-star categories of hotel projects outside the metropolitan cities of Bombay, Calcutta, Delhi and Madras. A subsidy of 5 per cent is available to such hotel projects if they are in the travel circuits and destinations identified for intensive development in the National Action Plan for Tourism.
- Heritage hotels are eligible for the 5 per cent interest subsidy.
- As a fiscal incentive, 50 per cent of profits derived by hotels, travel agents and tour operators in foreign exchange are exempt from income tax. The balance of profits in foreign exchange is also exempt provided it is re-invested in tourism projects.
- Import of special items for the hotel industry is permitted subject to import entitlement. Concessional customs duty is charged for imports of specified goods required for initial setting up or substantial expansion of hotels. Moreover, the tourism sector can import at a concessional rate of duty under the Export Promotion Capital Goods (EPCG) Scheme.
- Announced in the 1997/98 Budget, new hotels located in a hilly area, rural area, place of pilgrimage, or a specified place of tourist importance, receive a tax deduction of 50 per cent of profits and exemption from expenditure tax. In respect of hotels located in other places, excluding the four metropolitan cities, the tax deduction is 30 per cent of the profits.

Source: Government of India (1996k), Department of Tourism Annual Report 1995/96 and Government of India (1997b), Budget 1997/98.

SOUTH AFRICA – WT/TPR/S/34 (1998)

page 130, para. 135

The Industrial Development Corporation (IDC) provides two financing schemes, at its prevailing interest rates, for the promotion of **tourism** in South Africa. Under both schemes, owners, members or shareholders are required to finance at least 40% of their total assets. Under the Eco-tourism Scheme, for projects in conservation areas, financing is normally provided in the form of loan facilities, and in risk participation, including equity, to promoters who are not in a position to provide sufficient equity capital. The General Tourism Scheme finances the renovation, refurbishment and extension of existing accommodation. The maximum IDC funding per project under this Scheme is limited to R 10 million, subject to the condition that turnover for accommodation represents at least 70% of the total turnover.

The following incentive schemes exist: Eco-Tourism Scheme, General Tourism Scheme, Business Loans for Retail Financial Intermediaries, Seed Loans for Retail Financial Intermediaries, Capacity building support for Retail Financial Intermediaries.

BOTSWANA – WT/TPR/S/35 (1998)

pages 47-48, paras. 51-53

The Financial Assistance Policy (FAP) is the most significant positive inducement for investment in Botswana. The policy was introduced in 1982, and substantially revised for the third time in 1995. It applies only to manufacturing, small-scale mining, mineral processing, agriculture other than beef production, and **tourism**, and to selected linking service industries (which supply the primary qualifying sectors).…

All FAP assistance is provided in the form of non-repayable grants. These grants are aimed at promoting the creation of self-sustainable enterprises, with the proviso that economic and/or social returns to Botswana are greater than the purely financial returns to the projects assisted. However, qualifying businesses must have a reasonable chance of becoming financially viable. A project must therefore demonstrate a real economic rate of return to Botswana of at least 6%.

pages 65-66 (page 66 on LAN version), para. 73

The tourist industry is encouraged principally through financial assistance under the FAP; this may be in the form of capital grants, unskilled labour grants, or training grants. The total value of unskilled labour plus training grants, summed over a five-year period, should not be more than 50% of the domestic value added accruing to Botswana citizens over the period.[6] In the tourism sector such assistance is available to hotels, motels, lodges, guest houses, tourist apartments, tourist camping sites, caravans, hunting camps, tented-camp safari and tour operators, urban tourism, horse back safaris, walk trails safaris and transport of guest travellers and tourists including travel agents.

LESOTHO – WT/TPR/S/36 (1998)

pages 69-70 (pages 71-72 on LAN version), para. 77

Lesotho mainly attracts South African tourists, for which it faces increasing competition from other African destinations. The Lesotho National Development Corporation (LNDC) has been promoting **tourism** actively and a number of hotels, mountain lodges and a national park have been developed. There were 417,000 visitors in 1992 (more than twice the 1988 figure). There has been an overcapacity in Maseru since the construction of the government-financed Lesotho Hilton. The occupancy rate was 30% in 1992, compared with 20% in the 1980s. The LNDC intends to develop a major ski-resort/casino complex in the Highlands Water Area Scheme.[7]

NAMIBIA – WT/TPR/S/37 (1998)

[No reference to service-related subsidies.]

SWAZILAND – WT/TPR/S/38 (1998)

[No reference to service-related subsidies.]

NIGERIA - WT/TPR/S/39 (1998)

pages 114-115, paras. 182-84, 187

Tourism in Nigeria does not yet attract large numbers of visitors or receipts (Chart IV.8). In order to develop this sector, the authorities have developed a new tourism policy and put in place a package of incentives to attract private sector investment in **tourism** development.

The authorities have also indicated the need to grant preferential credit and fiscal status to potential investors in tourism.

HUNGARY – WT/TPR/S/40 (1998)

pages 54-55 (pages 54-56 on LAN version), para. 72 and Box III.2 (part of)

A significant aspect of the tax system in this early phase was that foreign investors were treated more favourably than domestic entrepreneurs. Such "positive discrimination" was thought necessary to compensate foreign investors for what they perceived to be the relatively high risk of

[6]"Domestic value added" is defined as sales revenue minus tradeable inputs minus transfers to citizens.
[7]EIU (1997).

investing in an economy in the early stages of transition. Most of these preferences were abolished at the end of 1993, however, and any incentives are now largely accorded to domestic and foreign investors alike. Two notable exceptions involve the special deduction granted to companies with at least 30% foreign participation and the tax allowance for fully foreign-owned **offshore companies**. Although the last date for qualifying for this special deduction was the end of 1993, existing enterprises continue to enjoy the incentive for which they originally qualified until 2003. Fully foreign-owned offshore companies can still qualify for the tax allowance.

Box III.2: Tax incentives for investment, 1996, *excerpts*
(Ft million)

Incentive	Description	Amount
Incentive for offshore companies	This incentive, which was introduced on 1 January 1994, is available for **offshore trading or service companies**. A tax credit of 85% of the tax due, granted to offshore companies, was withdrawn and replaced beginning 1 January 1997 with a low rate of corporate income tax, i.e. 3%. Offshore companies are not entitled to any other tax incentives.	397

Source: Hungarian authorities.

page 90, para. 71

Conscious that internationalization of the Hungarian economy, the rise in living standards, and the development of tourism are likely to result in future expansion of **air transport** activities, the Government and the industry have engaged in wide-ranging modernization of the sector. This involves, *inter alia*, the recapitalization of Malév, including the purchase and leasing of new aircraft, the expansion of the Budapest-Ferihegy airport (the only airport in Hungary capable of meeting international transport needs), and the transformation of the former Soviet military air-bases into domestic and cargo airfields.[8] Recapitalization of Malév is considered to be essential if the national carrier is to compete internationally and is therefore a prerequisite for the complete opening of air transportation to foreign competition. While no direct subsidies are given to Malév, it does receive other forms of assistance, including a reduction in customs duties on spare parts and equipment as well as a tax exemption for fleet renewal.

AUSTRALIA – WT/TPR/S/41 (1998)

page 78, para. 115

Direct financial assistance is provided mainly in the form of sector-specific bounties and subsidies and also in the form of concessional loans, interest rate subsidies and government guarantees.[9] In 1996/97, the highest percentage of budgetary financial assistance went to the manufacturing sector, which received almost 60% of total outlays, followed by primary production, **services**, and mining and energy, with 22%, 14% and 5%, respectively, of all assistance.[10]

page 138, para. 114

Despite financial assistance from the Government, the **shipping** sector has continued to decline. It is estimated that the total value of assistance through expenditure on capital grants and accelerated depreciation for the sector has been $A 137 million over a ten-year period up to 1997. In addition, voluntary redundancy programmes for the sector cost the Shipping Industry Reform Authority (SIRA) an additional $A 43 million.

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[8] A second terminal was completed at Budapest-Ferihegy airport in 1993. Further expansion is under way, involving the construction of a third terminal, which will be operated by a foreign-owned company.

[9] Industry Commission (1997c).

[10] Industry Commission (1997c).

JAMAICA - WT/TPR/S/42 (1998)

page 66, para. 66 and Table III.12

Some of the existing incentive schemes include measures aimed at encouraging exports, such as the Export Industry Encouragement Act (EIEA) and the Factory Construction Act, or to save or earn foreign exchange, such as the Jamaica Export Free Zones Act (Table III.12).

Investment incentives available in Jamaica

Sectors	Incentives	Requirements/conditions	Concessions
…			
Information Processing	Jamaica Export Free Zone Act	All transactions must be conducted in US$. Company cannot sell in domestic market more than 15% of production.	Exemption from import duties on raw materials and machinery. Duty relief on raw materials and capital goods in perpetuity. Possibility of single-entity free zones.
…			
Film	Motion Picture Encouragement Act	Must be recognized producer.	Income tax relief for nine years. Duty-free importation of machinery and equipment.
Tourism	Hotel Incentives Act	Must contain at least ten bedrooms and facilities for meals	Income tax relief for nine years. Duty-free importation of building materials and furnishings.
	Resort Cottages Incentives Act	Articles must be used for the construction and equipment of resort cottages.	Income and dividends tax relief for ten years. Duty-free importation of articles used in construction of resort cottages.
All industries			
…			
	International Finance Companies (Income Tax Relief) Act[b]	To encourage establishment of **offshore banking** facilities.	Income tax relief on profits and capital gains. National treatment not applicable.
	Shipping Incentives Act[c]	Vessels must be owned by local companies (state owned).	Relief from income tax and import duties for ten years.
…			

a Extension to services to be implemented.
b Currently not in use.
c Under amendment
d Suspended.

Source: National Industrial Policy; and information provided by the Jamaican authorities.

page 73, para. 89

The National Investment Bank of Jamaica (NIBJ) has a debt restructuring programme to provide companies registered in Jamaica with financing of up to 50% of the debt to be restructured, to a maximum of J$50 million per company. The balance of the debt is expected to be restructured by the creditor bank, in the form of an interest rate reduction, a write-off, or by rescheduling. Funds are provided at a rate based on NIBJ's cost of funds, for a maximum period of seven years. The sectors targeted under this programme include agriculture, manufacturing, mining, **tourism, information technology, entertainment and infrastructure**.

page 74, para. 97 (see also page 115, paras. 103, 104)

There are also a number of sector-specific incentive programmes that grant tax and import duty relief, such as the **Hotel Incentives Act, the Resort Cottages Incentives Act, the Shipping Incentives Act, the Motion Picture Encouragement Act**[11], the Cooperatives Societies Act. Under these Acts, tax incentives include investment allowances up to 40% for plant and machinery and a five-year period to carry forward tax losses (carry forward of losses now applies across the board). In the case of free zones, income from qualifying activities is indefinitely exempt from tax.

page 120, para. 119

Among specialized development financial institutions, the National Development Bank, owned by the Government, provides medium and long-term financing to businesses (particularly manufacturing and **tourism**) through commercial banks. Funding is provided through the National Industrial Bank of Jamaica (NIBJ) (Chapter III(4)(i)), the European Investment Bank, the Caribbean Development Bank, and through bond issues of the Bank of Jamaica….. The Trafalgar Development Bank provides medium and long term financing to productive enterprises in the private sector; its activities are concentrated on the foreign exchange loan market. Around half of the loans disbursed are directed to manufacturing, with agriculture, tourism and mining following at a certain distance…..[12]

page 125, para. 136

Shipping services are provided by over 30 shipping lines. Jamaican shipping companies may benefit from the incentives included in the Shipping Incentives Act, by which they are exempt from income tax and from import duties for a period of ten years after their establishment.

MALI - WT/TPR/S/43 (1998)

[No reference to service-related subsidies.]

TURKEY - WT/TPR/S/44 (1998)

pages 68-70, paras. 92-93 and Table III.17

Until 31 December 1993, export income was exempted from the payment of corporate income tax... The reduction, which had been progressively reduced, was 20% and limited to the following activities; (i) revenue earned abroad and brought to Turkey from services such as **repairs**, and **construction** facilities; and (ii) producer-exporter companies' revenue from exports of industrial products above US$250,000 a year.

Exporters can take advantage of a large number of export credit schemes, operated by the Export Credit Bank of Turkey (Turk Eximbank)…

[11]The Motion Picture Industry (Encouragement) Act provides recognized motion picture producers the right to import into Jamaica any plant, equipment, machinery and materials for the building of studios or for use in motion picture production free of customs duty, additional stamp duty and general consumption tax, provided the goods cannot be manufactured domestically [*footnote moved from page 113, para. 97*].

[12]Loans by the Trafalgar Development Bank outstanding in 1996 reached J$1.29 billion, compared to J$2.64 billion for the National Development Bank, and J$1.19 billion for the Agricultural Credit Bank. See: BOJ Annual Report 1996, p.p.22-26.

Key features of the export credit and guarantee programmes, June 1998, ***in part***

Scheme		Eligibility	Conditions	Amount of credit
8.	Tourism Marketing Credit Programme[e]	**Tourism** companies selected by Ministry of Tourism and those attracting more than US$1 million worth of currency to Turkey annually	Interest rate: 75% Maturity maximum 180 days Maximum 40% of project cost and TL equivalent of US$500,000	1997: US$15 million
11.	Overseas Chain Stores Investment Credit Programme[e]	Turkish entrepreneurs' overseas investments for the establishment of **shopping malls and chain stores**	Interest rates: determined specifically for each project Maturity maximum 7 years Maximum 75% of investment amount if local content is 50% or more, otherwise 60%	1997: US$8 million
14.	Project Credits Programmes[h]	Foreigners buying Turkish goods and **services**, min. 50% domestic content	Interest rate: depends on the countries' relative credit risk standing and is calculated in relation to LIBOR Maturity 2 years or more Deferred payments Maximum 85% of the goods and services provided from Turkey	1977: US$113 million

e Programme introduced after 1993.

h Buyers Credit and Guarantee Programme was renamed Project Credits Programme; mostly project financing is provided under this programme.

Source: Government of Turkey.

page 73, paras. 101-103

With the objective of promoting export-oriented investment and production, the Government of Turkey has established ten free zones. The enterprises established in the zones are active in a wide range of areas, including high-technology investments, leather products, and storage facilities.[13] A new initiative is the **Istanbul Stock Exchange International Securities Market Free Zone**, which commenced operation in the first half of 1997. Its main objective is to create an international finance centre operating in the field of stock purchases/sales, stock barter, maintenance and other transactions within the body of the Istanbul Stock Exchange.

A wide range of financial benefits are extended to the free zones. These include, *inter alia,* …exemption from corporate, income and value-added taxes.

page 80, para. 122

To qualify for the general investment aid programme, potential investors have to apply for an investment incentive certificate, which is non-transferable. Any investment project, whether foreign or domestic, receives the same treatment…..[14] In addition to the geographical location, priority is given to **infrastructure services, tourism,** yacht and shipbuilding sectors. Where the investment is not realized as foreseen by the incentive, the funds are returned with interest.

page 139, para. 127

Special tax incentives are provided to Turkish investors in the **maritime** sector. Incentives include: an income tax of only 10% on the wages of the seafarers during international voyages; and

[13] Those in operation include Aegean, Antalya, Erzurum Eastern Anatolia, Istanbul Ataturk Airport, Istanbul International Stock Exchange, Istanbul Leather, Mardin, Menemen Leather, Mersin, and Trabzon.

[14] However, the administration differs: foreign investment applications are handled by the General Directorate of Foreign Investment, while domestic investor applications are handled by the General Director of Incentive and Implementation.

the book profit resulting from sale or loss of a vessel can be deducted from the purchase price of the same kind of replacement vessel within three years and after deducting the realized depreciation amount.

<u>pages 143-44, paras. 153-54</u>

The Turkish Government has played an active role in the **tourism** sector. It grants incentives for tourism investments (Box IV.4) in accordance with the Tourism Encouragement Law… Investors in the tourism sector have priority in incentives granted under the general investment aid programme.

<u>page 145, Box IV.4</u>

Incentives offered only to the tourism industry

Special incentives are offered to national and foreign investors for investment in the construction and management of tourist facilities (Law No. 2634 on the Encouragement of Tourism). Investors with a Tourism Operation Certificate issued by the Ministry of Tourism may benefit from the following incentives:

- corporate income tax exemptions (temporary measure): maximum 20% of the foreign exchange earnings of tourist establishments is deducted from the total gross profit subject to taxation;
- the Central Bank of Turkey provides up to 20% of fixed investment costs in cash;
- a property tax exemption for five years (temporary measure);
- the allocation of public land for the construction of tourist facilities on long-term lease;
- permission to employ foreign personnel and artists (up to 20% of the total personnel);
- discount rates on water, electricity and gas prices;
- priority in allocation of telephone, fax and telex lines; and
- foreign exchange retention quotas: a percentage of foreign exchange earned by tourist establishments may be retained by the investors and used for essential imports required for operation.

<u>Source</u>: Government of Turkey; and Yamamoto, K. (1997), "Development of International Tourism in Turkey - its effects and problems", <u>Journal of International Economic Studies</u>, No. 11, p. 80.

SOLOMON ISLANDS – WT/TPR/S/45 (1998)

<u>page 35, para. 73</u>

Tourist development projects are entitled to special additional incentives. These include a set five-year tax holidays; 50% outright deduction in the first year for capital expenditures (excluding land), and 5% annually thereafter; 50% write-off for the costs of vessels built locally for tourism; and duty-free import of capital equipment and materials for two years.

<u>page 94, para. 121</u>

Although the Government has no direct interests in tourism resorts following the privatization of the Mendana Hotel, it encourages private development by offering various tax concessions. The Foreign Investment Board may grant income tax incentives permitted under the Income Tax Act. These include a five-year tax holiday on **tourist hotels and resorts** (subject to minimum bedroom number requirements of 300 and 50, respectively), and other tourist-oriented projects. Approved projects may also depreciate capital expenditure over two years, and write off overseas promotion at a rate of 150%. The same benefits apply to expenditure on expansion and renovation of eligible resorts incurred from 1 January 1989.

<u>page 95, para. 127</u>

An important priority for the Government is to develop inter-island **shipping services**. It has indicated that it would consider either subsidizing non-commercial routes, or licensing by tender unprofitable routes to private operators.

BURKINA FASO – WT/TPR/S/46 (1998)

[No reference to service-related subsidies.]

ARGENTINA – WT/TPR/S/47 (1998)

<u>page 87, para. 151</u>

Fiscal incentives are available for specific production projects in agriculture, livestock and industry and for **tourism services**; industrial projects can enjoy benefits until the end of 2005.[15] The authorities indicated that no new projects are being approved. The benefits consist of tax breaks through credit bonds for amounts equivalent to the capital invested in the project, or, from December 1994, of VAT credit certificates equivalent to the VAT paid to suppliers of raw materials and semi-manufactures.

<u>page 139, para. 158, 160</u>

Following legislative reforms aimed at promoting the local **film industry**, in October 1994 the Argentine Film Law was amended to include: a 10% tax on the rental and sale of home video; a 10% tax on the sales price of all tickets for the screening of films; the obligatory exhibition and remuneration of national short subject films (to be implemented); and an authorization to the Argentina Film Institute to oversee the compulsory local processing, dubbing, and sub-titling of foreign films.[16] … Since 1995, 50% of the tax revenue from film-related activities has been used to subsidize domestic film production.[17]

<u>page 142, para. 174</u>

To provide some stimulus to the [**construction**] sector, the Government launched a 1995-99 investment programme, but this has not yet been implemented because it contains fiscal and financial constraints. Further measures included fiscal incentives (including a reduced VAT rate levied on new houses), a 1996 credit programme (with securitized mortgages), and credits from the state-owned National Mortgage Bank, (BHN) with longer maturities and lower interest rates, estimated be worth US$850 million in 1996 and US$1.1 billion in 1997.[1] In 1997, a mortgage insurance mechanism was under consideration to enable the finance of 95% of the new house value.

TOGO - WT/TPR/S/48 (1998)

[No reference to service-related subsidies.]

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[15] Decree 2054/92, 10 November 1992; MEOSP Resolution 1280/92, 11 November 1992; Decree 1125/96, 4 October 1996; and Decree 69/97, 23 January 1997.

[16] Law 17741, 14 May 1968 was amended by Law 24377, 28 October 1994.

[17] Decree 815/95, 14 June 1995.

TRINIDAD & TOBAGO - WT/TPR/S/49 (1998)

page 53, para. 65

Under the Corporation Tax Act, an export allowance, in the form of a tax credit, is granted to locally incorporated companies for exports to non-CARICOM countries of locally manufactured or produced goods, **services**, and agricultural products.[18] Branches of foreign corporations are not eligible for this allowance. The tax credit covers the profits on the proportion of exports sales to total sales so that profits on exports are effectively tax exempt. In 1996, export-allowance claims amounted to TT$18 million (US$3 million), implying a forgone revenue of TT$6.3 million (US$1.1 million) at the 35% corporate tax rate. In 1997, under the Finance Act, this allowance was expanded to include services connected with the building industry (architectural, engineering, etc.). The Minister of Finance has declared that this export allowance will be eliminated by 1 January 2000.

page 56, para. 78

With the aim of stimulating job creation and investment in distressed areas of the country, the Ministry of Trade and Industry has proposed an Enterprise Zones Programme. The Programme has not yet been legislated. To qualify as an Enterprise Zone an area must have an unemployment rate at least 50% above the national average or a poverty rate exceeding the national average.... Activities qualifying for the zones are assembly, manufacturing, agricultural and agro-processing, research and development, **information processing**, **telecommunication** and **financial services**.… Investors in the Enterprises Zones who invest at least TT$50,000 and employ at least two persons are entitled to tax incentives. Such incentives include a tax credit of TT$3,000 for each new employee and TT$3,000 for each TT$50,000 of investment, altogether not exceeding TT$50,000, provided at least 50% of the new employees are zone residents.[19]

page 58, paras. 84-85

Sector-specific investment incentives are available under different legislation. The **Hotel Development** Act provides investment incentives to hotel owners and hotel operators which include a tax holiday for a period of five to ten years as well as customs and excise duty exemption on building materials and articles of hotel equipment to be used exclusively in connection with the construction and equipping of a hotel project. The Ministry of Tourism has discretion on the granting of concessions based on the size and cost of the hotel project.

page 60, paras. 92-93

The Venture Capital Investment Programme, which is governed by the Venture Capital Act of 1994 and the Venture Capital Regulation of 1996, was launched in 1996 to mobilize equity financing for small and medium-sized enterprises involved in agriculture, **tourism**, manufacturing **and non-financial services**. Under the programme, investors (individuals or corporations) in registered venture capital companies[20] are eligible for a tax credit of 35% of the amount invested. By early 1997, three venture capital companies were registered under the programme.[21]

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[18]The export allowance is calculated as follows: Export allowance = (Export sales/Total sales) x Total sales profit.

[19]Ministry of Trade and Industry, 1996.

[20]Individuals and companies interested in establishing a venture capital company must become incorporated under the Companies Act and have at least TT$50,000 in paid up capital and an authorized capital of between TT$5 million and TT$20 million. The venture capital company must raise at least TT$500,000 in paid up capital and begin making equity investment within 12 months of its registration.

[21]Forde and Joseph *et al*. (1997).

Concessionary financing is available from development banks to some sectors. Credits at preferential rates may be obtained from the Agricultural Development Bank (ADB) for the agricultural sector and from Development Finance Limited (DFL) for the manufacturing, **tourism**, agro-processing and industrial services sectors...[22]

<u>page 101, para. 116</u>

With a view to encouraging the development of the **hotel industry**, the Hotel Development Act was enacted in 1963 and subsequently amended to provide incentives to hotel owners and operators. These incentives include: a tax holiday for a period of five to ten years; an accelerated depreciation for equipment owned by the hotelier; a capital allowance in respect of approved capital expenditure; carry-over of losses incurred by owners and/or operators during the tax holiday period; and tax exemption on dividends accruing to the owner/operator.

URUGUAY – WT/TPR/S/50 (1998)

<u>pages 50-51, paras. 108-109</u>

Law No. 15.921 of 17 December 1987 and Decree No. 455/988 of 8 July 1988, which regulate the operation of the free-trade zones, allow storage and warehousing, manufacturing, **financial institutions, data processing** and other activities that the Executive deems beneficial to the country's economy (Article 2). However, companies established in a free trade zone are not allowed to undertake manufacturing, commercial or service activities outside the free zones (Article 14), that is, separate companies have to be established to conduct operations outside the zone. The free zones are administered, supervised and controlled by the Ministry of Economy and Finance, through the Directorate of Free Zones (Article 5).

<u>page 95, para. 111</u>

The [**tourism**] sector is eligible for incentives provided under the Industrial Promotion Law of 1974.[23] The benefits, which include tax and duty exemptions, are granted through the Ministries of Tourism and of Economy with the approval of the Ministry of Industry, Energy and Mining.[24] Incentives are provided mainly for investment in tourism resorts, equipment, renovation and amelioration of existing facilities.

INDONESIA – WT/TPR/S/51 (1998)

<u>page 118, Box IV:5</u>

Bank restructuring in Indonesia

…

Another aspect of the Government's policy in the sector is to restore the confidence of depositors and creditors in the banking system. The Government has already announced that it would provide a full guarantee to all depositors and creditors of locally incorporated commercial banks. In addition, it has created the Indonesian Bank Restructuring Agency (IBRA), an institution responsible for the supervision and the restructuring of ailing **banks**. The Agency also exercises a preventive role in detecting bank failures.

…

<u>Source</u>: WTO Secretariat, based on information provided by the Government.

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[22]These two development banks were established as wholly government-owned institutions in the late 1960s and early 1970s, respectively, to encourage the development of capital markets and of targeted economic sectors. Private capital was injected in both banks in the late 1980s, after which their lending has become less concessional, with interest rates more in line with market rates.

[23] Law No. 14.178, 28 March 1974.

[24] The Ministry of Tourism was created in 1986 to promote this industry (Law No. 15.851, 24 December 1986).

HONG KONG, CHINA - WT/TPR/S/52 (1998)

page 40, para. 60

With the exception of income from certain **international shipping** services, which are tax exempt, profits (total income minus total deductions) derived from trading, professional or business activities in Hong Kong are subject to statutory tax rates of 16% in the case of corporations and 15% for unincorporated businesses.

page 75, para. 38

There are no publicly owned **banks** in Hong Kong. However, in August 1998, in an attempt to stabilize share prices on the Hong Kong Stock Exchange, the Hong Kong Monetary Authority (HKMA) purchased shares in several companies, including nearly a 9% stake in the Hong Kong and Shanghai Banking Corporation (HSBC) Holdings, the Hong Kong-based international banking group, which accounts for some 30% of the benchmark Hang Seng Index.

page 87, para. 83

According to the authorities, Hong Kong has no market access restrictions or exceptions to MFN treatment for shipping service. The only exception to national treatment pertains to the international operations of ships registered in Hong Kong; the income for owners of these ships derived from cargo uplifts or towage operations in Hong Kong or elsewhere is exempt from Hong Kong's profits tax.[25] Such an exemption constitutes tax relief for the export of **shipping** services.

CANADA - WT/TPR/S/53 (1998)

page 59, para. 79

The Export Development Corporation also has equity participation in Exinvest, incorporated in 1995 to establish or invest in corporations, partnerships, joint ventures or other incorporated bodies that provide financial support to sales for goods and **services**.

[25]The Government estimates that HK$28 million in tax revenue were forgone per annum as a result of this exemption.

page 71, Table III.11 and paras. 118, 120

Selected federal subsidy programmes, *in part*
Can$ million

Name of subsidy	Form of subsidy	Amount of subsidy 1995/96	1993/94
Industrial programmes		**761.7**	**903.5**
…	Repayable or non-repayable contributions		
Support Program for Tourist Attraction and Infrastructure Projects			
…			
Business Incentive Program and the Cooperative Tourism Marketing Initiative	Contributions or repayable contributions	5.5	n.a.
Communications Technology R&D Incentive Program	Non-repayable contributions	3.0	5.9
Western Transportation Industrial Development Program	Non-repayable contributions	1.1[a]	0.6

n.a. Not applicable.

Note: Grants are unconditional transfer payments which are not subject to being accounted for or audited but, for eligibility and entitlement, may be verified.
Contributions are conditional transfer payments for a specified purpose, which are subject to being accounted for and audited to a contribution agreement.

Source: WTO document G/SCM/N/25/CAN, 2 December 1997; and Government of Canada.

The two largest beneficiaries of budgetary appropriations in 1996/97 were the Canada Mortgage and Housing Corporation and the Canadian **Broadcasting** Corporation, totalling together nearly Can$3 billion…..[26]

Cultural industries are also the focus of several assistance programmes, including book writing and publishing, film and video production, film distribution, and the "cultural milieu" in general.

page 73, para. 124

According to a report released in March 1998, current and capital expenditures deemed eligible for federal SR&ED tax incentives increased from Can$4.5 billion in 1988 to Can$6.9 billion in 1992 and, in the case of smaller CCPCs, from Can$0.7 billion in 1988 to Can$1.4 billion in 1992.[27] …Manufacturing, **communication services**, **wholesale trade** and the **real estate finance** sectors accounted for 91% of the value of SR&ED tax credit claims.

page 105, paras. 85, 87-88

Assistance is provided to the **audiovisual** sector through direct subsidies, tax incentives, copyright remuneration, local-content requirements (mainly in the form of broadcasting quotas) and foreign-ownership restrictions.[28]

[26]According to Article 2 of the SCM Agreement, only the subsidies that are specifically provided to an enterprise or industry or group of enterprises or industries are notifiable.

[27]Finance Department and Revenue of Canada, Release Evaluation of Federal Income Tax Incentives for Scientific Research and Experimental Development, http://www.fin.gc.ca/newse98/98-031e.html.

[28]For details, see WTO (1996a), Chapter IV(5)(v).

The Canadian Film or Video Production Tax Credit, introduced in 1995, provides a refundable tax credit for film producers meeting Canadian-content requirements.… The Government introduced in 1997 the Film or Video Production Services Tax Credit, which consists of a refundable tax credit to film production services corporations of up to 11% of eligible labour expenses. This tax credit is intended to allow film producers, both domestic and foreign, employing Canadians for production services performed in Canada, to qualify for assistance. The scheme is expected to provide approximately Can$55 million per year in direct benefits to the film industry.

page 107, Table IV.8

Main federal support measures for audiovisual services, 1997-98

Sector	Direct financial assistance (incl. grants, funds to agencies, etc.)	Tax measures	Local-content requirements	Foreign investment provisions
Broadcasting	Canadian Television Fund CTF): Can$200 million (including Can$50 million contribution from Telefilm Canada and Can$50 million contribution from private sector). CBC radio/TV appropriation: Can$858 million.	Income Tax Act disallows an eligible business deduction expenses for advertising placed on non-Canadian stations.	60% of Canadian content for conventional TV (private licensees must show 50% Canadian content in prime time; public licensees must show 60% Canadian content in prime time). Pay, speciality TV and pay-per-view services have varying Canadian-content requirements. 30% Canadian content for radio broadcasts (music)[a;] French-language radio: 65% of vocal popular music must be in French. Cable TV: majority of channels received by the subscriber must be Canadian.	Ownership limitations of 20% of the licensee company and 33.3% of the holding company.
Film and video	Telecom budget: Can$210 million (includes government appropriation, returns on investment, and Can$50 million contribution to CTF). National Film Board appropriation: Can$57.3 million.	Canadian Film or Video Production Tax Credit; and Film or Video Production Services Tax Credit.		Investments must meet "net benefit to Canada" requirement of the Investment Canada Act both for new business and acquisition of existing businesses.
Sound Recording	Sound Recording Development Program: Can$9.45 million		Music productions must fulfil specified criteria to qualify as Canadian works.	Investments must meet "net benefit to Canada" requirement of the Investment Canada Act both for new businesses and acquisition of existing businesses.

a This requirement will be raised to 35% in 1999.

Source: Heritage Canada.

GUINEA - WT/TPR/S/54 (1999)

[No reference to service-related subsidies.]

EGYPT - WT/TPR/S/55 (1999)

Table II.4
Fields of investment under the Law of Investment Guarantees and Incentives (8/1997)

Air transportation and directly related services
Financial leasing
Hospital and medical centres offering 10% of their service capacity free of charge
Hotels, motels, boarding houses, tourist villages, tourist travel and transportation
Housing projects whose units are to be leased unfurnished for non-administrative purposes
Infrastructure relating to drinking water, sewage, electricity, roads and communications services
Overseas maritime transport
Production of computer software and systems
Transport of goods in refrigerated vans; refrigerators for the preservation of agricultural products, industrial products, and foodstuffs; container depots and grain silos
Underwriting subscriptions to securities
Venture capital

Source: General Authority for Investment (GAFI), *Law of Investment Guarantees and Incentives and its Executive Regulations*, May 1997.

<u>page 55, para. 109</u>

Tax exemptions are also provided for investments outside the Old Valley and under the New Communities Law, or for investments made in certain sectors such as **tourism**.

<u>page 97, para. 110 and Table IV.9</u>

Around 25% of Egypt's international trade is carried by **ships** flying the national flag. Egypt provides a number of incentives for companies flying the national flag, including up to 75% discount on supplies and the use of infrastructure owned by the General Authority for Ports; up to 50% discount on service charges by the General Authority of Red Sea Ports, for vessels using Safaga Port; and discounts on agency fees and use of ports for a period over 48 hours.

Investment incentives in the tourism industry

Scheme	Exemptions or concessions
Taxes	All tourist establishments except restaurants are exempt from paying taxes for 5 years in Cairo; 10 years in remote areas; and 20 years in El Wady El Gedeed and Toshka areas under the Law of Investment Guarantees and Incentives (8/1997).
	Rebuilding and expansion activities of tourist-related premises are exempt from taxes on 50% of income.
	Law 93 of 1996 allows a reduction up to 75% of fees for tourist and passenger ships entering Egyptian ports.
Customs duty	Under Decree 11 of 1996, there appears to be a 5% rate of customs duty on all imported equipment, except for restaurants.
	Imported limousines by tour operators are exempt from duty.
	Motor vehicles for public transport imported by tourist resorts established in remote areas appear to receive duty reductions of 5%.
	Alcoholic beverages may be imported by hotels at a rate of 300% duty.[a]
Land acquisition/development	…
	Low interest loans are provided to developers for infrastructure services, by the Tourism Development Authority.
	Law 72 of 1996 allows the expansion of tourist facilities and exemptions for tourist projects.
	The Tourism Development Authority offers land to private developers for a nominal rate of US$1 per square metre in designated tourist areas.

a MFN rates on alcoholic beverages range from 1,200% for beer to 3,000% for spirits.
Source: Information provided by the Egyptian authorities.

UNITED STATES - WT/TPR/S/56 (1999)

page 82, para. 110

Eximbank is responsible for assisting the export financing of U.S. goods and services through a variety of loan, guarantee, and insurance programmes.[29] It guarantees both working capital loans for U.S. exporters and the repayment of loans by foreign purchasers of U.S. goods and services. In addition, the Federal Credit Insurance Agency (FCIA) an affiliate of the Eximbank, the Federal Government's general trade finance agency, provides credit insurance to cover the risk of non-payment by foreign buyers for political or commercial reasons. The bank does not compete with commercial lenders but rather supplements conventional lending, assuming risks that commercial banks cannot take on. Eximbank programmes have minimum acceptance levels and varying coverage for foreign content included in U.S. manufactured and produced items. The Eximbank is required to 'set aside' up to 10% of its operations for small businesses. It must also review the environmental impact of transactions requesting financing. Moreover, Eximbank is required to provide financing for U.S. goods and **services shipped on U.S. vessels**.[30]

page 99, para. 162

…The corporate tax is also used as an instrument of government policy; that is, it embodies tax relief measures that assist some activities or industries relative to others. Among the main forms of tax relief accorded to companies are accelerated depreciation, deferral of income from controlled foreign corporations, reduced corporate tax rates, tax credit for corporations receiving income from doing business in U.S. possessions, exclusion of income of foreign sales corporations, and a credit for increasing research activities.… Tax expenditures are recognized as an alternative to other government policy instruments, such as direct expenditures and regulations. They are estimated to cost the Federal Government billions of dollars in lost tax revenues; such measures are aimed in particular at sectors (such as **small life insurance company** deduction, deferral of tax on **shipping** companies, excess bad debt reserves of **financial institutions**.)

page 106, para. 180

The Maritime Administration (MARAD) has provided financial assistance to U.S. **shipowners** through the Federal Ship Financing Programme (Title XI) and the Capital Construction Fund (CCF) programme.[31] Title XI provides for federal government guarantees of private sector financing or refinancing obligations for the construction or reconstruction of U.S. flag vessels in U.S. shipyards. These financing guarantees are also available to foreign shipowners.

BOLIVIA – WT/TPR/S/57 (1999)

page 32, para. 22

Under the Temporary Import Regime, the payment of import duties and internal taxes is suspended for goods entering Bolivia for a limited period and for a defined use.[32] Permits for temporary entry are issued for a 90-day period, which may be extended once, under certain

[29]As notified to the WTO (WTO document G/SCM/N/38/USA, 19 November 1998).

[30]http://www.exim.gov/mover.html [4 August 1998].

[31]The United States has not ratified the OECD Shipbuilding Agreement concluded in 1994, which is meant to eliminate all direct and indirect support and to combat injurious pricing practices. Provisions are made for a standstill on existing subsidy levels and on new measures of support during the intervening period, but allow for the continuation of previously committed aid subject to certain conditions.

[32] Supreme Decree No. 24440, 13 December 1996.

conditions. Goods benefiting from this regime include … machinery and equipment for **repair**; **equipment and apparatus for scientific, sport or cultural events**…

ISRAEL – WT/TPR/S/58 (1999)

page 26, para. 33

Israel has a number of laws to encourage foreign investment. The incentives include, *inter alia*, investment grants, tax breaks (rebate on profit tax), research and development support, wage financing, and training support.[33] The incentives offered depend on the location of the company as well as on the type of industry (preference is given to industrial, **tourism** and agricultural projects).

page 39, para. 29

Concessional duties on imports are granted within the framework of several schemes…. **Performing troupes of artists and entertainers**, and petroleum companies are also allowed to import duty free.

page 115, para. 132

The Government has played an active role in the **tourism** sector. Investors in tourism are eligible for government incentives under the framework of the Encouragement of Capital Investments Law of 1959. An approved investor may choose between a capital incentive package in the form of a grant equivalent of up to 24% of the investments in fixed assets, tax exemption and tax deduction, or an enhanced tax-incentive package; the benefits are contingent on the location and the size of the investment. The total cost of the scheme in 1998, excluding forgone revenue, was NIS 243 million.

PHILIPPINES - WT/TPR/S/59 (1999)

page 59, para. 91

The basic system of incentives is defined in and regulated by the Omnibus Investment Code. The Code provides for investment incentives made under the Philippines Investment Priorities Plan (IPP), which includes a list of promoted areas of investment eligible for Government incentives, and incentives granted to export-oriented enterprises, regardless of whether they fall within the IPP…. In early 1999, the IPP list includes, as priority investment areas, *inter alia*, industries that are undergoing industrial adjustments (e.g. chemical products and engineered products and components) …**infrastructural services, transport carriers**, social and housing projects, motor vehicles and components, **tourism**, and research and development activities.

ROMANIA - WT/TPR/S/60 (1999)

[No reference to service-related subsidies.]

NICARAGUA - WT/TPR/S/61 (1999)

pages 38-39 , para. 24

Nicaragua's scheme for the concessional entry of imports was revised substantially in 1997 when new tax legislation was introduced; further adjustments were made in 1999.[34] Changes were both to reduce tax evasion, by specifying those items that are exempt from tax payments, and to

[33] Government-guaranteed loans were eliminated in January 1997.
[34] Law 257, 4 June 1997; and Law 303, 24 March 1999.

abolish administrative discretion in making exceptions to the law or granting tariff exemptions. At present, duty-free imports include… imports relating to the **construction of hotels and entertainment centres.**

page 93, para. 120

Fiscal incentives available since 1960 to investors in new **tourism**-related facilities (i.e. hotels, entertainment centres) were expanded in 1999.[35] These incentives now include tax reductions on capital (100%) and income (from 80% to 100% depending on the location) for a ten-year period (renewable if new works are undertaken); duty- and tax-free import or purchase of all construction-related contracts, related material, machinery, and equipment; exemption from municipal taxes; sale of state-owned land (payment in money or shares), or land concessions from 20 to 99 years (as from 1999); tax breaks on real estate tax for a ten-year period (as from 1999); and tax breaks to financial institutions on earnings from loans for tourism projects (as from 1999). In recent years, 34 projects benefiting from these incentives are to invest US$128 million, build 1,392 hotel rooms and create 1,940 jobs.

PAPUA NEW GUINEA - WT/TPR/S/62 (1999)

page 61, para. 37

Imports of aircraft and parts by a PNG registered company with a PNG **airline** operator's licence are duty free. Similarly, a PNG registered **shipping** company may import all ships duty free, including boats, ferries, tankers, and fishing vessels but not pleasure craft. Registered PNG companies may also import marine engines and outboard motors of up to 40 hp duty free.

page 121, para. 160

Air Niugini is also the only licensed "first level" domestic **air carrier** operating regular flights to major centres. This monopoly situation, together with price control based on uniform pricing practices, results in high cost services. Other airlines may operate but not in direct competition with the national carrier. Air Niugini has had difficulties trading profitably and has accumulated government-guaranteed debts; it recently received a further injection of government funds.

THAILAND – WT/TPR/S/63 (1999)

page 54, para. 70

Important increases have taken place in credit commitments under the Merchant Marine Financing, which is a credit of up to seven years extended to domestic merchant marine businesses to finance the purchase of new or used ships. The objective is to help develop the Thai **shipping** sector in order to lessen dependence on foreign vessels and alleviate Thailand's current account deficit. Nearly B 4 billion of credit commitments had been made under this programme at the end of 1998, up from B 13 million in 1995. The scheme is believed to have increased the share of merchant ships that fly the Thai flag from 0.44% in 1995 to 9.43% in 1998.

page 104, paras. 115-117

Since the 1995 Review, Thailand's banking sector has been hit by a widespread crisis that has undermined the financial system; the number of financial companies fell from 91 at the end of 1996 to 36 at the end of August 1998, and is expected to decrease to 24 after the current programme of

[35] Decree 520, published on 13 August 1960, and its amendments; and BCN (1998b).

consolidation is terminated; the number of banks will decrease from 15 to 13 at the end of the consolidation process. Moreover, four of the remaining **banks** have received Government intervention in the form of large injections of public funds through debt-equity swaps. These four banks are currently being privatized without any restriction on foreign ownership.

In 1996, the Bank of Thailand agreed to bail out two major **financial institutions**, Finance One Company and Bangkok Bank of Commerce. In late 1997, the Government, through the Financial Institutions Development Fund (FIDF), injected a large amount of money into financial institutions to provide liquidity.[36] After the Government accepted the International Monetary Fund's rescue package, the FIDF was entrusted to provide a (blanket) guarantee of the deposits and liabilities of the remaining financial institutions in order to restore confidence.

The new prudential requirements have posed an additional burden on financial institutions in their attempts to find foreign or local partners, raise capital through public offering, and thus achieve the Government's objective of private-sector-led recapitalization. On 14 August 1998, in response to these problems, the Government announced a package of capital support measures to restructure the financial sector, including the provision of public funds to recapitalize remaining financial institutions.

<u>page 106, Box IV:1</u>

International Banking Facilities

Off-shore banking was launched in Thailand with the establishment of the Bangkok International Banking Facilities (BIBFs) in March 1993… The operations of the International Banking Facilities include: taking deposits or borrowing in foreign currencies from abroad; lending in foreign currencies in Thailand (out-in lending) and abroad (out-out lending), non-baht cross-currency foreign exchange transactions; discounting bills or providing guarantees against any debts denominated in foreign currencies to persons residing abroad; undertaking financial transactions that involve international trade in cases where buyers and sellers reside abroad; seeking loans from foreign sources; and acting as fund managers in arranging loans. In addition, IBFs can engage in other investment banking services such as provision of financial information; undertaking investment feasibility studies; financial advisory services; advisory services for business acquisition and take-over or mergers; and arranging or underwriting debt instruments for selling abroad.

The authorities granted the following privileges to IBFs: a reduction in the corporate income tax rate from 30% to 10%; exemption from special business tax (including municipal tax), which is currently at 3.3% of total turnover; and exemption from withholding tax on interest income from deposits or lending for out-out transactions with non-Thai residents; exemption from stamp duties; and reduction of withholding tax from 15% to 10% on interest on foreign loans for countries that have a double-taxation agreement with Thailand. Provincial International Banking Facilities (PIBFs) are granted the same tax concessions.

…

Source: Government of Thailand.

KENYA – WT/TPR/S/64 (1999)

<u>pages 45-46, para. 89</u>

Several incentive schemes (e.g. tax holidays, remission and refunds of import duties, accelerated depreciation, and investment allowance) are in place to encourage investment in Kenya (Chapter II(3)(ii)). More specifically, import duties on inputs used in the manufacture of certain specified products are fully or partially remitted (section (2)(iii)(e)). An investment allowance (deduction of up to 60%) is provided in the manufacturing and **hotel** sectors. VAT paid on inputs used in business activities of registered companies is refunded.[37]

[36] Nidhiprabha (1998), p. 309. In order to finance this expenditure, B 400 billion of bonds had been issued in January 1999 (in March 1999, one dollar was worth approximately 36 baht).

[37] Companies with combined turnover of taxable goods and services exceeding KSh. 2 million per year must be registered for VAT purposes.

page 79, para. 108

With the exception of **passenger fares and services** provided in distant parts of the country, other railway freight services are not subsidized.

ICELAND – WT/TPR/S/65 (2000)

page 99, para. 146

The **tourism** sector has been one of the fastest growing industries in recent years.… Private firms play a leading role in the tourist industry, but the State also participates through the Ministry of Communications, the National Tourist Board, Ferðamálaráð Íslands, and a special loan fund….

TANZANIA – WT/TPR/S/66 (2000)

page 16, paras. 32-33

Businesses that are identified as priority sectors may import capital goods at the rate of 5%. The 12 priority sectors for the purposes of investment promotion are: …**air aviation**; …**commercial, development, and micro-finance banks**;…**tourism and tour operators**; and **radio and television broadcasting**.

Both the lead and priority sectors also benefit from deferment of value-added taxes until the investment commences operations. Additionally, a tax holiday is granted for the first five years; and a capital allowance deduction in the years of income of 100% is also granted.

page 17, para. 39 and Table II.3

Table II.3 contains the minimum investment capital required by the Government of Zanzibar for coverage under the Investment Act. All capital goods brought in during the start-up of an investment are assessed a zero rate of duty, but a service charge of 5% of the duty payable is levied. The Minister responsible for investment has the discretion to grant tax holidays of between one and five years…

Minimum investment levels for Zanzibar
(US$ '000 and T Sh)

Project sector	**Proposed capital** **Foreigners (US$ '000)**	**Citizens (T Sh '000)**
Hotel [a]	4,000	300,000
Tour operator & related services	100	14,500
Agriculture	200	29,000
Fisheries	1,000	12,000
Industries	400	50,000
General business ventures & trading	350	50,000
Services	150	22,000

a Quality hotel projects of up to ten bedrooms are also encouraged. An average investment of US$30,000 per room is required and will be considered as minimum investment for such projects.
Source: Zanzibar Investment Promotion Agency.

page 19, para. 49

Zanzibar also passed legislation in 1998 establishing a Free Port Authority. The Authority is seeking to establish Zanzibar as a regional **distribution** centre, with packaging and minimal processing facilities. The authority has sheds for lease, as well as land for lease on which to build such sheds. Plans call for a "bonded warehouse" operation: at least 80% would be for the export market with the remaining 20% permitted onto the local market, subject to local tariffs. Investment incentives for this free port operation are essentially identical as for the EPZs, except that such operations are eligible for a 20-year tax holiday.

SINGAPORE – WT/TPR/S/67 (2000)

<u>page 72, para. 118</u>

Like several other countries in the region, Singapore makes extensive use of tax incentives to encourage investment in certain activities and sectors. Tax incentives, which apply equally to foreign and local companies, have been an important tool in implementing the Government's development policy since independence. Initially set up to encourage labour-intensive industrial development under the Pioneer Status award, currently tax incentives are used to encourage foreign direct investment (FDI) in high-technology sectors, and skills development and training activities.… Most other programmes grant tax exemptions or tax concessions for companies investing in **high-technology industries or services**, or providing high-skill employment opportunities for Singaporeans.

<u>page 98, Box IV:1</u>

Offshore banking in Singapore

…

Offshore banking became permissible in Singapore in 1973 with the creation of the first ACU, as part of an effort by the Government to develop Singapore into an international financial centre. The growth of offshore banking has been aided, in part, by Government incentives. These include a concessional tax on profits (10% compared with the standard rate of 27%). In addition, ACUs are not subject to reserve and liquidity requirements.

…

Source: International Monetary Fund (1995), *Singapore: A Case-study in Rapid Development*, Occasional Paper 119; and Monetary Authority of Singapore (1999), *Annual Report 1998/99*.

<u>pages 100-101, para. 50 and Table IV.4</u>

In addition to regulation, the MAS has an important role in developing Singapore into an international financial centre by providing incentives for **banks and financial institutions** to invest in certain activities (Table IV.4). The incentives include concessional corporate tax rates of 10%, compared with the standard rate of 26%, and tax holidays for a number of activities. In recent years, particular emphasis has been placed on developing Singapore as the premier fund management hub over the next decade.[38] In offering these incentives, national treatment is extended to all foreign investors.

[38] Republic of Singapore (1998c).

Incentives offered by the Monetary Authority of Singapore

Scheme	Eligibility	Incentive
Operational headquarters (OHQ) incentives	Financial institutions providing management and other approved headquarters related services to subsidiary, associated or related companies in other countries	Concessional corporate tax rate of 10% for five to ten years (renewable) for income from providing qualifying OHQ services to approved network. Tax exemption for dividend income from approved network companies and on dividends distributed from the OHQ for five to ten years (renewable).
Double deduction for R&D expenditure	Eligible financial institutions engaged in R&D	Double deduction for qualifying R&D expenses against income.
Tax incentive for Asian Current Unit (ACU) income	Banks and merchant banks	Concessional tax rate of 10% on income derived from offshore ACU activities with non-residents and other qualifying financial institutions in Singapore.
Tax exemption scheme for fund management	Fund management	Investment income of foreign investors exempt from tax; fund managers managing at least S$5 billion of foreign investors' funds given a five to ten year tax holiday (renewable on a case-by-case basis) on their fee income. Other fund managers taxed at a concessional rate of 10% on fee income.
Tax incentive scheme for approved trustee companies	Trustee or custodian services	Income from these activities provided to non-resident beneficiaries taxed at 10%; investment income from the trusts exempt from tax.
Tax incentive scheme for bond market activities	Bond market players	Tax holiday for fee income from arranging, underwriting and distributing qualifying debt securities; interest income qualifying from debt securities paid to financial institutions and corporations in Singapore taxed at 10%; interest from qualifying debt securities payable to non-residents exempt from withholding tax; income from trading in debt securities taxed at 10%.
Tax exemption scheme for syndicated facilities	Banks, merchant banks and approved securities companies	Tax exempt for income from arranging, underwriting and participating in syndicated credit, guarantee and debt facilities which are arranged in Singapore and for which proceeds are used outside Singapore.
Tax incentive scheme for transactions in foreign securities	Banks, merchant banks and securities companies	Income from transactions in foreign securities and related services taxed at 10%. Income from arranging and underwriting initial public offerings of foreign currency denominated shares on the Singapore Stock Exchange and from transactions in foreign securities listed on the Stock Exchange exempted from tax.
Tax incentive scheme for foreign securities lending and borrowing	Banks, merchant banks and securities companies	Concessional tax rate of 10% on net income from loans of foreign securities to eligible parties and to income from arranging such loans. Withholding tax exemption on loan fee or manufactured dividend or interest paid to non-residents.
Tax incentive for credit rating agencies	Credit rating agencies	Concessional tax rate of 10% for five years on income from providing credit rating services with respect to the issue of foreign securities in Singapore.
Tax incentives for finance and treasury centres (FTC)	Corporate treasury centres	Concessional rate of 10% on fee income received from the provision of financial and treasury services to approved network companies and income from conducting trading and other treasury activities on FTC's own account. Interest paid on foreign currency denominated loans from network companies and banks outside Singapore and on foreign currency denominated bonds issued by the FTC may also be exempt from withholding tax.
Tax incentive for offshore insurance business	Insurance companies	Concessional tax rate of 10% on income from writing offshore insurance business.
Incentives in new technology schemes for insurers	Insurance companies	Grants may be made for training staff in new and specialized lines of risks, reinsurance or captive insurance business.

Source: Singapore authorities.

<u>page 111, para. 84</u>

Singapore Airlines (SIA) is the national airline and is publicly listed. The Government holds a majority share of 53.8% through its holding company, Temasek Holdings. SilkAir, a wholly owned subsidiary of Singapore Airlines, operates to short-haul, secondary points in the region... A tax incentive administered by the TDB is available for **aircraft leasing companies** on income derived from offshore aircraft leasing. Approved companies, which need to apply to the TDB for this incentive, may also depreciate aircraft bought during the incentive period over 20 years, instead of five years.

page 114, para. 98

In an effort to keep Singapore attractive to ships and to keep costs competitive as a premier hub port, the MPA introduced a concession of 20% on port dues to all container vessels (excluding long-staying ships) from May 1996. The concession was extended up to 2000. In addition, a tax exemption is provided by the Trade Development Board for approved international **shipping** companies (Chapter III(3)(vi)). A number of steps have also been taken to improve port management and accommodate efficiently the growing number of ships calling at Singapore.

page 118, para. 110

The IDA actively supports the development of Singapore's communication network and infrastructure. Under its Development Grant Scheme, the IDA provides assistance to encourage the local **telecommunications** industry to upgrade its network infrastructure; to encourage research and development in advanced telecommunications; and to encourage the development of enhanced capabilities and innovative services.[39] All companies registered in Singapore may apply for the grants and must meet one of two criteria.[40] The IDA has made available over S$250 million for the industry thus far under this programme.

page 123, para. 128

The Singapore Tourism Board will also develop its role as a one-stop agency for **tourism** development, offering updated information on industry development and incentives for investors in the industry.

BANGLADESH - WT/TPR/S/68 (2000)

page 69, para. 138

Items included in the "Crash Programme" also have access to various facilities, including soft loans at a concessional interest rate, and assistance for market exploration and securing joint-venture partners. The current crash programme includes … **engineering consultancy** and **services**…

PERU - WT/TPR/S/69 (2000)

page 49, para. 124

Incentives to promote **port services** take the form of exemptions from import duties and domestic taxes granted to merchandise entering "centres for export, transformation, industry, commercialization, and services" – CETICOS – through the ports of Ilo, Matarani or Paita. Merchandise imported under the transit regime from any other entry point may also benefit from this exemption provided it is re-exported or exported after transformation in the CETICOS through one of the above-mentioned ports.

[39] Generally up to 50% of the qualifiable direct project costs are provided by the IDA, with co-financing provided by the recipient. The projects range, on average, between one and three years.

[40] The criteria are: to foster the strategic development of info-communication and postal infrastructure and services and enhance the competitiveness of Singapore as a global and regional business hub; and to foster innovation and advancement of technology and enhance the capability, efficiency and quality of info-communication services (Telecommunications Authority of Singapore (undated (a)).

page 50, para. 132

Most exonerations affecting the general sales tax (IGV) and the excise tax (ISC) were consolidated in Supreme Decree No. 055-99-EF of 15 April 1999. Under this Decree, in addition to the exonerations affecting imports and those applied in CETICOS, certain activities are exempted from the IGV or the ISC. Activities exempt from the IGV are industrial enterprises located on the Peruvian border; financial institutions in the process of winding up; as well as lodging and food services rendered by firms established in Peru by foreign-based **tourist operators**. The importation or sale of residual fuel or diesel to power generating and distributing firms are exempt from the ISC.

page 80, para. 75

A special investment fund (FITEL) has been created to promote universal access [to **telecommunications**] through private investment in regions where demand does not otherwise make such investment profitable. The fund, administered by OSIPTEL, is financed through a contribution from all enterprises in the sector, equivalent to 1% of their sales during the previous month, which at of end 1999 had reached an accumulated value of US$44 million. FITEL monies are used to subsidize concessions granted through public bids to operate services in rural areas; these concessions are granted to the enterprise that makes the lowest bid for a subsidy to supply the service in question.