WORLD TRADE ORGANIZATION

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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. The Working Party on GATS Rules, at its meeting of 7 July 2000, called on the Secretariat to continue monitoring Trade Policy Reviews (TPRs) for information concerning subsidies in services. More specifically, on 30 November 2000, the Secretariat was requested by the Working Party to prepare a new overview document concerning such subsidies, based on recent TPRs. While the previous document of 9 May 2000 (S/WPGR/W/25/Add.1) was based on 37 TPRs issued between January 1998 and April 2000, the present Note covers nine Reviews completed between May and December 2000. Relevant information has been included, in italics, in the overview table which was already contained in the May 2000-document.

2. As has been noted on past occasions, TPR-based information does not necessarily provide a comprehensive picture of Members' trade policies in any narrowly defined area. The selection of countries for review follows a schedule established by the Trade Policy Review Body and, thus, is not driven by issue-related considerations. Moreover, to be as relevant as possible within the TPR's overall mandate, the individual reports seek to focus on a country's main policy challenges and constraints; among these, services subsidies do not appear to have figured prominently to date. While many reports contain some information on such subsidies, no attempts have been made to assess their wider economic implications or any (distortive) effects on trade.

3. 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. This covers assistance provided 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. As discussed in the initial Secretariat Note, it may be difficult in individual cases to identify the ultimate beneficiaries of a subsidy, which may include the direct recipients, downstream industries, or individual consumers.[1] Thus, given the infrastructural importance of many services sectors as providers of generally available inputs, it might

[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 possibly 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.

be necessary to look beyond the subsidized sector, e.g., communication or transport, and take into consideration the users of the services rendered.

4. As in the two preceding documents, the following types of assistance have not been included: (i) Exemptions from indirect taxes, in particular VAT, which are frequently intended to encourage consumption rather than production of a service; (ii) generally available support, for example in the context of regional development or research programmes; and (iii) company-internal cross-subsidization between monopoly and market-oriented activities in sectors such as telecommunications. By contrast, government financial interventions in the form of share purchases and similar equity transfers have been taken into account. This has drawn some criticism at the July meeting of the Working Party as such actions might have been driven by macroeconomic concerns and no particular service sector might have been targeted (S/WPGR/M/28). However, the Secretariat felt that it might be preferable, for the sake of consistency, to continue applying the above subsidy definition to the information contained in TPRs rather than introducing additional considerations case-by-case.

II. POLICY PATTERNS

5. The information contained in recent TPR reports largely confirms the sector pattern identified in the previous document: WTO Members tend to concentrate their services-related subsidies on three sectors, tourism, maritime transport and banking services. Concerning the measures used, the update confirms Members' strong reliance on tax incentives as compared to direct grants. This may reflect a preference in the political process for less obvious and, in terms of immediate disbursements, less "costly" forms of support. However, these observations are rather impressionistic in nature; for example, they may overrate developments in sectors that attracted particular policy attention at the time of reporting. As a general feature, it appears that areas such as financial services have been reviewed in more detail than, for instance, rail or road transport and professional services.

Table 1: Subsidies for individual services sectors - information from TPR Reports, 1998 – 2000

➢ MEASURE ➢	Direct grants	Preferential credit & guarantees	Equity injections	Tax incentives	Duty-free inputs & free zones	Other & unspecified measures	Number of WTO Members
▼ SECTOR ▼							
Tourism	Botswana Canada Israel Turkey *Switzerland* *Liechtenstein*	Canada Nigeria[1] Iceland India Jamaica South Africa Trinidad & Tobago Turkey	South Africa	Nigeria[1] 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[1] Lesotho Singapore	24
Transportation general or unspecified	Canada *Switzerland* *Liechtenstein*	*Poland*		Philippines *Poland* *Korea RP*			4
Maritime transport	Australia India Solomon Islands[1]	India Thailand U.S.		Egypt HK, China India Jamaica Peru Singapore Turkey U.S. *Brazil* *Japan*	Egypt Jamaica Papua N.G. Peru Turkey	*EC* *Korea RP*	16 (30)[2]
Air transport		Papua N. G.	Hungary[1]	Egypt	Hungary Papua N.G.	*EC (F, I, P, G)*	7[*2]
Rail transport	India Kenya *Switzerland*						3
Banking	*Poland* *Brazil*	Indonesia Thailand *Poland* *EC (D)*	HK, China Thailand *Norway*	Singapore Tanzania U.S. *Poland* *Korea RP* *Switzerland*	Trinidad & Tobago[1] Jamaica Singapore Tanzania Thailand	*Korea RP*	14[2]
Other financial services		Indonesia Thailand	HK, China Thailand	Singapore U.S. *Korea RP* *Brazil*	Singapore Thailand Trinidad & Tobago[1]		8
Software, info technology, communications, info processing	Canada	Jamaica		Canada Egypt India *Korea RP*	India Jamaica Trinidad & Tobago[1] Uruguay	*Korea RP*	7

➢ MEASURE ➢	Direct grants	Preferential credit & guarantees	Equity injections	Tax incentives	Duty-free inputs & free zones	Other & unspecified measures	Number of WTO Members
⮛ SECTOR ⮛							
Construction	U.S.	Argentina *Poland*		Argentina Bolivia Trinidad & Tobago Turkey *Korea RP* *Poland*			7
Recreation, culture & sports	Canada *Korea RP* *Norway*	Jamaica		Bolivia	Bolivia Israel		6
Telecom	Peru Singapore	India		India	Trinidad & Tobago[1]		4
Audiovisual services	Argentina Canada *EC*			Canada Jamaica Tanzania *Korea RP*	Jamaica Tanzania		6 (20)[2]
Wholesale & retail trade, distribution		Turkey		Trinidad & Tobago *Korea RP*	Tanzania		4
Real estate		India		Canada *Japan*	Trinidad & Tobago		4
Other & unspecified sectors	Australia	Australia Bangladesh Turkey	Canada	Singapore *Korea RP*	Hungary Singapore		7
Number of cases	28 (42)[2]	29	8	59	40	8 (35)[2]	121 (149)[2]

1 Subsidy programme envisaged.
2 Counting EC Member States individually.
Source: WTO Secretariat.

ANNEX

Content of Individual Trade Policy Reviews

Norway - WT/TPR/S/70

page 63, para. 142

The ***Press Subsidies Programme*** aims at promoting and maintaining a diversified press. Newspapers with one or more issues per week with an average circulation between 1,000-6,000 copies can apply for grants. Grants are also given to newspapers in an unfavourable market position and with an average circulation up to 80,000. The size of the grant is calculated on the basis of the individual newspaper's annual circulation.

page 103, para. 134

Through the Government Bank Investment Fund and the Government Bank Insurance Fund, the State retains a stake in Den norske Bank (DnB) and Christiania Bank og Kreditkasse (CBK), the major **commercial banks**. State participation in the banking sector increased at the beginning of the 1990s as the result of government intervention to rescue troubled banks after heavy losses required substantial injections of capital through the Government Bank Insurance Fund (GBIF). The Government thus became the major shareholder in CBK, DnB and Fokus Bank. [State participation in the sector has diminished significantly since.]

Poland - WT/TPR/S/71

page 66, para. 116

Activities in many sectors benefit from a range of investment-related tax concessions, as well as subsidized credit and loan guarantees. Loan guarantees, for example, are provided on investment loans extended for the purposes of maintaining existing infrastructure; for environmental protection; to privatized state-owned enterprises; and to introduce new technology resulting from research and development. … The main sectors to benefit from these arrangements in recent years have been iron and steel, **transport,** food and agriculture, energy, **construction,** and pharmaceuticals.

page 67, para. 119

The **banking sector** has also received grants, loans, and tax incentives to encourage cooperative banks to restructure and to establish regional banks. The scheme is administered jointly by the Ministry of Finance and the National Bank of Poland.

page 112, para. 210

Privatization of the state-owned **railway** company (PKP) is planned. PKP has suffered large and increasing losses, estimated at Zl 1 billion in 1998, partly due to declining coal movements. […] The restructuring programme provides for expenditure of Zl 1.65 billion annually […]

European Union - WT/TPR/S/72

page 122, para. 94

The European **Banking** Federation filed a complaint to the Commission in December 1999 about the State guarantees for Germany's Landesbanks, and the Commission began a formal investigation.[2]

page 133, para. 123

According to the Commission, European companies suffer from relative financial fragility compared with their main competitors; in recent years the Commission has operated a "one-time-last-time" approach to state aid, which has paved the way for the restructuring and privatization of many of the state flag-carrier **airlines**. The conditions attached to aid have been strictly monitored and enforced and the Commission does not intend to permit further aid for restructuring purposes.[3] It is estimated that from 1990 through 1996, flag carriers received support worth over US$ 9 billion.[4]

page 136, para. 130

The considerable decline in the number of ships under national flags led the various Member States to initiate state-aid programmes in **maritime transport services**. In 1997, the Commission re-examined these programmes taking into account their fiscal implications. State aid may normally be granted only for ships registered under the national flag and can only be implemented to safeguard Community jobs, maintain seafaring know-how, and improve skills. Tax abatements for shipping companies are considered to be state aid and should be restricted to maritime transport activities.

page 140, para. 141

The MEDIA II Programme is a central component of the European **audio-visual** support programme, allocating ECU 45 million over five years in support of training of audio-visual professionals, and ECU 265 million on development of production projects and distribution of audio-visual products. MEDIA II will expire in December 2000. The proposed allocation for the future MEDIA Plus programme over five years is € 50 million for training and € 350 million for the development and distribution of projects.[5]

Republic of Korea - WT/TPR/S/73

page 88f, para. 132

Non-tax measures allegedly included subsidies through the financial market stabilization package (purchase of bad loans from **banks** by the state-owned Korea Asset Management Corporation (KAMCO); […] and R&D in the **information and communication industries**.

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[2] *Bulletin Quotidien Europe*, Nos 7652, 7644, 7633, 7621 and 7600.

[3] For instance, the assistance of the French Government to Air France, authorized in 1994 and challenged by the Court of First Instance in response to complaints by European competitors, was confirmed by the Commission in July 1998 (European Press Release IP/98/682). Proceedings were also reopened in the cases of Olympic Airways, given that conditions of the 1994 State Aid Agreement were not being complied with. Furthermore, aid to TAP and Alitalia was allowed, despite, in the case of the latter, irregularities in compliance with the terms of the aid package (European Press Releases IP/98/135 and IP/98/495).

[4] *The Economist*, 27 September 1997.

[5] COM(1999) 658 final.

Table III.9
Main internal tax incentives in force relating to production and trade under the Special Tax Treatment Control Law (January 1999)

Target and stated objective	Designated activity and/or beneficiary	Measure	Expiry date
Small and medium-sized enterprises (SMEs) To reduce concentration of economic wealth by conglomerates and strengthen economic fundamentals.	SMEs involved in fishery, manufacturing, mining, **construction, transportation, wholesale and retail, value-added (communication) network (VAN) business, research & development business, engineering, auto-repair, industrial waste or sewage disposal**.	Investment reserves for losses may be treated as losses in the calculation of income (up to 20% of the business assets).	31 December 2003
	[…]		
	Newly set SMEs established in rural areas or new capital venture technology-intensive firms established in designated areas to undertake mining, manufacturing, **VAN business, research & development business, broadcasting, data processing & computer business, engineering, transportation and warehousing.**	Reduction of income or corporation tax by 50% for a six-year period.	31 December 2003
	[…]		
[…]	SMEs involved in manufacturing, **data processing and computer-related business, VAN, research & development business, broadcasting, data processing & computer business, engineering, transportation and warehousing.**	Reduction in corporate or income tax by 20%.	31 December 2003
Business restructuring	[…]		
To facilitate business restructuring, re-engineering and financial structure improvement.	Livestock, fishery, mining, manufacturing, **construction, transport all activities**.	Income tax deferral for the amount of investment in business assets of an individual firm converted into a corporation.	Undefined
	Financial sector activities.	50% reduction on the special additional tax on capital gains from the alienation of assets of financial institutions.	31 December 2000
		Tax deductions for financial institutions purchasing and assuming assets and liabilities of another such institution.	Undefined
Balanced (regional) development	[…]		
To deal with pollution and traffic congestion in urban centres (mainly Seoul) by encouraging firms to move out of metropolitan areas.	**Hospitals** in areas with inefficient or non-existent medical facilities.	Income or corporation tax reduction by 50% for a six-year period.	31 December 2000
		Income or corporate tax reduction of the amount equivalent to 3% of the amount invested in assets for the new hospital for the taxable year of the date of completion.	
Value-added tax (VAT) related sectoral incentives	[…]		
	National **housing** construction.	VAT exemption.	Undefined

Source: Ministry of Finance and Economy (1999), *Korean Taxation 1999*, [Online].

page 95, para. 138

As from 1999, industry-specific subsidies have also been made available to **culture-related industries**.[6]

page 163, Para. 124

To overcome the financing problems of Korean **shipping** companies, the authorities have announced plans to create a W 500 billion (US$437.8 million) fund during the second half of 2000 to help cash-strapped shipping companies purchase vessels[7]; the programme (sponsored by Korea Shipowners Association) was being worked out in June 2000. The Shipping Industry Promotion Act, which promoted the development of the national fleet for the purpose of securing stable transport capacity, was to be eliminated as of July 1999, thus eliminating the legal basis for direct government support (including subsidies) to national shipping companies.[8]

Bahrain – WT/TPR/S/74

[No reference to service-related subsidies.]

Brazil – WT/TPR/S/75

page 107, para. 125

There has been a substantial transfer of public control to private entities, assisted by the Programme of Incentives to the Restructuring and Strengthening of the National Financial System (PROER).[9] Under PROER, the Federal Government committed itself to financing 100% of the costs of restructuring provided that the state-owned **banks** were either privatized, converted into developmental agencies, or liquidated. In the event that none of these three alternatives was chosen, the Federal Government would provide only 50% of the restructuring costs, with the remainder to come from the States.

page 110, para. 141

In general no incentives are granted to the **insurance** sector. However, the tax on financial services (IOF) has been reduced to 0% for insurance operations in the agricultural sector, on mortgages (obligatory insurance), on export credit, and for satellites BRASILSAT I and II (launching and operations risks).[10]

page 114, para. 163

Maritime transport: The revenue from **transportation** of merchandise is exempt from the Social Integration Programme (PIS) and the Contribution for Social Security (COFINS).[11] The cost

[6] Culture-related industries include producers of video programming, Internet bookstore start-ups, and producers of computer game software, music disks, and TV programming. A soft loans programme is expected to cover 500 firms and create 14,000 jobs (*The Korea Herald* [Online], 12 May 1999. Available at: http://www.koreaherald.co.kr/ [30 September 1999]).

[7] Ministry of Maritime Affairs and Fisheries information, published in *The Korea Herald* [Online], 31 December 1999. Available at: http://www.koreaherald.co.kr/ [10 January 2000].

[8] OECD (1998c).

[9] Resolution No. 2.208, 3 November 1995.

[10] Decree No. 2.888, 21 December 1998.

[11] Law No. 9.432, 8 January 1997.

of freight for Brazilian exports and import is not taken into account in the calculation of import duties and export taxes if goods are transported in vessels registered in the Special Brazilian Registry (REB).

Japan – WT/TPR/S/76

<u>page 65. Para. 112</u>

In order to achieve various policy objectives, including investment in certain equipment to address environmental concerns and stimulate demand, Japan has a complex system of tax breaks … The FY2000 amendment included special taxation measures, concerning public welfare, the energy sector, and **housing**.

<u>page 107; para. 95</u>

Under the regime ["International Ship Regime"], certain Japanese-flag ships are entitled to preferential tax treatment …[12] According to the authorities, the International Ship Regime has no distortionary effects on trade in **maritime transport services**; it aims to place Japanese vessels on an equal footing for with those of other countries that provide preferential tax treatment for their ships registered.

Switzerland and Liechtenstein – WT/TPR/S/77

<u>page 52, para. 92</u>

The [Swiss] Confederation also grants subsidies in the form of: … and direct grants and allowances for the development of **tourism** (about Sw F 3.6 million per year over 1997-01); and direct grants and allowances to monopoly suppliers of infrastructural services such as **railways and other public transport**. Financial assistance by the Swiss Confederation to suppliers of public transport services amounted to some Sw F 3.3 billion in 1996, Sw F 3.8 billion in 1997, Sw F 5.7 billion in 1998, and Sw F 3.8 billion in 1999.

<u>Page 52, para. 93</u>

The Government [of Liechtenstein] also provides financial support of some Sw F 500,000 per year for international **tourism** marketing activities, and of Sw F 12 million per year for **public transport**.

<u>Page 91, Para. 72</u>

Banking and fund management services (Switzerland): Cantonal tax incentives are available.

<u>Page 104, para. 118</u>

The Swiss Corporation for Hotel Credit has a working capital of SwF 118 million; it provides concessional loans (with subsidized interest rates at 2 percentage points below the normal rates) and credit guarantees to small and medium-sized companies investing in tourist areas. The Confederation

[12] These include tax breaks in ship-registration tax and local property tax.

allocated a credit of Sw F 18 million for the period 1997-01 (i.e. Sw F 3.6 million per year on average) to finance innovation and cooperation between **tourism** operators.[13]

Page 105, para. 120

Tourism: The Liechtenstein Government provides financial support of some Sw F 500,000 per year (on average) for marketing activities.

Canada – WT/TPR/S/78

Page 50f, paras. 181 and 185

Cultural Policy:

The Secretariat Report for Canada's 1996 Review contained an overview of the main trade-related instruments of support, often granted in combination, which include direct subsidies, tax incentives, foreign ownership restrictions (see document S/WPGR/W/25) and local-content requirements.[14]

The rules governing tax deductibility available to Canadian advertisers were changed to provide full deductibility in any periodical – as defined in the Foreign Publishers Advertising Services Act, regardless of the nationality of ownership – that includes at least 80% original or Canadian content. Canadian advertisers will receive half the deduction for ads placed in foreign periodicals under the de minimis exemption, as well as advertisements placed in magazines created by foreign investors that include less than 80% original or Canadian content. The authorities have stated that the policy does not discriminate among foreign suppliers. In December 1999, the Canadian Heritage Minister announced a three-year Can$150 million fund to provide direct financial assistance to Canadian magazines.[15]

[13] Arrêté fédéral finançant l'encouragement de l'innovation et de la coopération dans le domaine du tourisme de 1997 à 2001, 10 octobre 1997, Article 8. The annual allowance of Sw F 8 million, formerly granted by the Confederation to hotels and inns, was abolished in 1998.

[14] WTO (1996).

[15] For details see Canadian Heritage online information. Available at: http://www.pch.gc.ca.