SUBSIDIES

Notifications Pursuant to Article XVI:1

TURKEY

The following notification, dated 22 April 1994, has been received from the Permanent Mission of Turkey.

EXPORT INCENTIVE PROGRAMME

The objective of the export incentive policy is to increase exports in accordance with the targets and guidelines laid down in the Development Plans. Like most developing countries, Turkey attaches great importance to the formulation and implementation of this policy, with emphasis on improving GATT disciplines relating to all subsidies and countervailing measures that affect international trade.

As it may be seen from the description below of the incentive measures currently in force, the main aim is to eliminate in part, if not entirely, the adverse effects of high domestic inflation and the shortage and high cost of financing.

Incentive measures and guidelines for Turkey’s exports are established by Laws, Decrees and Communiqués that are published in the Official Gazette.

The General Directorate of Incentives and Implementation (TUGM) of the Undersecretariat of Treasury and Foreign Trade has the overall responsibility for the implementation and supervision of the incentive programme in Turkey. The Ministry of Finance, the Undersecretariat of Customs, the Export-Import Bank of Turkey, and the Central Bank of the Turkish Republic likewise have certain functions in this area.

Turkey has taken great steps towards modifying its incentive system and by the end of 1993 has fulfilled almost all the requirements of the Code by the abolishment of all the subsidies referred to in the undertaking given to the GATT Secretariat in 1985.

The tax rebate system was abolished by the end of 1988, payments from the Resource Utilization Support Fund by the end of 1986, payments from the Support and Price Stabilization Fund by 1992. The Corporate Tax Exemption, which was one of the important measures to encourage exports was gradually reduced from 20 per cent to 5 per cent and was abolished by the end of 1993.

Encouraging exports by the export credit, insurance and guarantee schemes has been the main policy of the governments since 1987 and this policy has been declared in the annual programmes and development plans.
With the elimination of all direct export subsidies in accordance with the GATT provisions, Turk Eximbank that was established in 1987, has played an important role in securing the stable export growth experienced in the late 1980s. Turk Eximbank enhances export performance primarily through its credit, guarantee and insurance programmes with special emphasis on GATT disciplines. In this respect, Turkey has made necessary applications to take part in the OECD Export Credit Group.

Incentive measures applied in 1993 can be grouped as follows:

I. Export credits
II. Corporate Tax Exemption
III. Energy Incentives.

I. Export Credits

A. Background and authority

The Government of Turkey has declared that, the main aim of the annual programme for 1993, concerning the incentives for exports will be to encourage exports through a system of export credit, insurance and guarantee system.

To serve this purpose, various export credit schemes, short term credits as well as medium term credits, are carried out by the Export Import Bank (Eximbank) of Turkey. These credit schemes are designed to meet the financial needs of exporters in order to achieve the export level laid down in the Programme for 1993.

The export credits issued in 1993 are:
- Pre-Shipment Export Credit
- Target Market Credit
- Revolving Export Finance Credit
- Foreign Trade Companies Export Credit
- Buyers' Credit

B. Incidence

- Pre-Shipment Export Credit

Pre-Shipment Export Credit is allocated through the inter mediation of commercial banks and are extended for 120 days and for 50 per cent of f.o.b. value of export commitments for agricultural-mineral products and manufactured goods. Interest rates are determined on a monthly basis depending on the length of the credit term: for a 30 days loan, the annual interest rate is 41 per cent, for 60 days 42 per cent, for 90 per cent 44 per cent, for 120 days 46 per cent. Together with the export premium charged, these rates converge to the Central Bank short-term rediscount rates. Credit provided per company cannot exceed TRL 50 billion. Preferential credit lines are also available for certain sectors, (food, cut flowers, glass and ceramics, rugs and carpets) since April 1993, which have a maturity of 180 days and an interest rate of 43 per cent.

- The Target Market Credit Programme

The Target Market Credit Programme, introduced in April 1993 has an interest rate of 33 per cent while the maturity is 180 days. Credits, extended for 70 per cent of f.o.b. value of export
commitments, are allocated to textile, leather products and the destination of exports are restricted
to the NAFTA countries (Canada, Mexico and the United States) as well as to Japan and South Africa.

- Revolving Export Finance Credit

Revolving Export Finance Credit, introduced in April 1992 and terminated in March 1993, was aimed at supporting small and medium scaled manufacturer-exporters. The programme worked on a revolving basis such that the principle was rolled over for a 12-month period with quarterly interest payments. Credits were extended through commercial banks 360 days and for 20 per cent of f.o.b. value of export commitments. The interest rate of this credit was related to the Central Bank of Turkey’s discount rate.

- Foreign Trade Companies Credit

Foreign Trade Companies Credit Lines provides revolving credits allocated to foreign trade companies with annual export shipments exceeding $50 million on the basis of past export performance. Under this programme credits are extended in TRL (Rediscount Credit) and/or foreign currency (Foreign Currency Credit). For 90 days and for as much as 10 per cent of f.o.b. value of export commitments projected for three months. The interest rate charged is determined in accordance with the Central Bank of Turkish Republic discount rate for Rediscount Credits and to LIBOR for Foreign Currency Credits.

- Buyers’ Credits

Buyers’ Credit Programmes that enable foreign buyers to purchase Turkish goods and services on deferred payment conditions, helps exporters to enter into relatively risky markets with long-lasting and established selling positions. Eligible goods are specified within the buyers’ credit agreements, and all goods and services must have at least 50 per cent domestic content.

Buyers’ Credits that are medium term credits have gained importance in export credit programmes. The opening of Buyers’ Credit Line of $300 million to the former Soviet Union in 1988 marked the beginning of the Buyers’ Credit Programme. In 1992 Hungarian, Czech Republic and Tunisian Buyers’ Credit agreements have been signed and important portions of these credits have already been disbursed. New markets will be opened up in the Czech and Slovak Federal Republic, Poland, Romania, Bulgaria, Mexico, Ukraine, Morocco, Iran, Pakistan together with planned new credit lines.

C. Amount of subsidy

Under the Pre-Shipment Export Credit facility, a total of $1,223 million was disbursed in 1990, $1,339 million in 1991, $1,532 million in 1992 and $1,788 million in 1993.

Under the Target Market Credit Programme, a total of $146.6 million was disbursed in 1993.

Revolving Export Finance Credits Programme facility, under which a total of $76.5 million was disbursed in 1992, was terminated in March 1993, and the resources used were allocated to the Pre-Shipment Export Credit Programme.

Credits extended through Foreign Trade Companies Credit Programmes were $204.3 million in 1990 and $180.7 million in 1991, $232.5 million in 1992 and $275.8 million in 1993.
As of end December 1993, a total of $1,580 million worth of credit has been extended, of which $802.5 has been disbursed, under the Buyers’ Credit Programme.

D. Effect of subsidy

It is very difficult to evaluate the effects of these types of credits. Export credits are generally available to exporters in almost all countries, and the difference between the interest rates of these credits and the commercial credits usually form the subsidy element. In a developing country like Turkey, where the inflation rate is high and finance is scarce and costly, it is not always the right track to follow to estimate the subsidy element of these types of credits.

On the other hand, the volume of these credits still did not reach the desired levels and, it can be argued that the effect of the subsidy is very limited due to the limited volumes of these credits in comparison to the total volume of exports.

II. Corporate Tax Exemption

A. Background and authority

The Corporate Tax Exemption system, established under Law No. 5422, was amended in 1981 by Law No. 2573 and in 1988 by Law No. 3482 and the Council of Ministry Decree numbered 93/3893, has been abolished by Law No. 3946 published in the Official Gazette dated 30 December 1993.

The exemption system was only granted to companies and not to business operated by individuals. It was therefore mainly designed to encourage exports through companies.

B. Incidence

Corporate Tax Exemption was applied to the producer-exporters of industrial products whose annual export earnings are above $250,000; to the producer/exporters of fresh fruits and vegetables and aquatic products and for foreign exchange earnings in respect of freight.

In practice, a certain percentage of export earnings is declared non-taxable. In the case of companies that do not produce export products themselves, the rate is 5/4 per cent. For 1993 the exemption rate was 5 per cent.

On the other hand, it must also be emphasized that the exemption is applicable only when the company makes profits for the year in question and exemption for that year cannot be transferred to the following year.

C. Amount of subsidy

Since the subsidy is an exemption for a certain amount of the total corporate taxes to be paid, it is difficult to evaluate the amount of this subsidy per unit of exported products.

However, the total amount of corporate taxes not collected due to this subsidy for the 1990-92 period are TRL 1.2, 1.4, 1.7 trillion respectively and the 1993 figures are not available yet.

D. Effect of subsidy

It is almost impossible to determine the effects of this exemption. However, taking into consideration the fact that the subsidy is applicable to all sectors, it can be argued that the subsidy
does not have a distortive effect between sectors. Also, since the exemption is applicable only when the company makes profits for the year in question and the exemption for that year cannot be carried over to the following year, the effect of the subsidy is limited.

On the other hand, this has been one of the important and effective subsidies, especially when the exemption rate was 20 per cent. Due to the gradual deductions in the exemption rate within a couple of years, the subsidy had lost its effectiveness in the last years and therefore it is expected that the exporters will not be affected by the abolishment of this measure.

III. Energy Incentives

A. Background and authority

Energy incentive has been established under the Council of Ministers Decree numbered 92/3464, and published in the Official Gazette No. 21364 of 3 October 1992.

The General Directorate of Incentives and Implementation (TUGM) of the Undersecretariat of Treasury and Foreign Trade has the overall responsibility for the implementation and supervision of this incentive.

The aim of this incentive is to promote exports at the production level and to eliminate the disadvantage of relatively high energy costs.

It should be noted that when the subsidized rates are calculated, world prices are taken into consideration. For 1993, the subsidized rates were still above the world average.

B. Incidence

Energy incentives are applied for electricity, natural gas, LPG and water used in the production of export products. A reduced rate is applied for the energy used in the production of export goods that is 25 per cent lower than the normal price. For fuel-oil a duty free rate is applied to exporters.

The customs declaration forms as a proof of the realization of export and the invoices already paid are the necessary documents to calculate the amount of deduction that is later paid back to the producer/exporter.

C. Amount of subsidy

It is very difficult to evaluate the amount of subsidy per unit of exported products. In 1993 a total of TRL 281 billion has been paid to the producer/exporters.

D. Effect of subsidy

The subsidy aims are supplying energy to the producer/exporters at world prices and thus although it creates a bias between the exported goods and the goods for domestic consumption in favour of the exported goods, it is not an effective subsidy in increasing total exports. On the other hand, the time lag between the actual payment of the receipts and the payment of the subsidy reduces the effect of the subsidy due to the high rate of inflation.

It is almost impossible to determine the effects of this incentive.