SUBSIDIES
NOTIFICATIONS PURSUANT TO ARTICLE XVI.1 OF THE GATT 1994
AND ARTICLE 25 OF THE AGREEMENT ON SUBSIDIES AND
COUNTERVAILING MEASURES
MALAYSIA

The following updating notification, dated 30 June 1995, has been received from the Permanent Mission of Malaysia.

In view of the decision taken by the CONTRACTING PARTIES of the GATT 1947 on Avoidance of Procedural and Institutional Duplication (L/7582, dated 13 December 1994) this notification is deemed to be also a notification under Article XVI.1 of the GATT 1947.

I am pleased to submit herewith Malaysia’s notification pursuant to Article XVI.1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures.

Although Malaysia has some doubts as to whether some of these programmes fall within the definition of a subsidy, they are being notified in the interest of transparency. As provided for under Article 25.7 of the Agreement on Subsidies and Countervailing Measures, Malaysia’s notification of these measures does not prejudge either its legal status under the GATT 1994 and the Agreement on Subsidies and Countervailing Measures, the effects under the Agreement, or the nature of the measure itself.

Malaysia provides incentives to its exporters, without maintaining direct export subsidies. The incentives are as follows:

1. **Double Deduction of Expenses for Promotion of Exports**

   Certain expenses which are incurred by resident companies in their search for export markets for Malaysian products are eligible for double deduction. The expenses that qualify are those incurred on:
   
   - overseas advertising;
   - supply of free samples abroad;
   - export market research;
- preparation of tenders for the supply of goods overseas; exhibits and/or participation in trade or industrial exhibitions held outside Malaysia;
- supply of technical information abroad;
- public relation services to promote exports;
- fares in respect of travel overseas;
- accommodation and subsistence expenses incurred during overseas travel, subject to RM 200 per day; and
- cost of maintaining sales offices overseas for the promotion of exports.

1.1 Policy objective of the incentive

The double deduction of expenses for promotion of exports aims to encourage Malaysian manufacturers and traders increase the export of Malaysian-made goods.

1.2 Authority of the incentive

The double deduction of expenses for promotion of exports is provided under Section 41 of the Promotion of Investments Act 1986 and Income Tax (Promotion of Exports) Rules 1986, made under Section 41(3) of the same Act.

1.3 Form of the incentive

The double deduction of expenses for promotion of exports is a form of tax concession.

1.4 Duration of the incentive

The double deduction of expenses for promotion of exports was made effective on 1 January 1986. There is no expiry date provided therein.

2. Double Deduction of Export Credit Insurance Premiums

Premium payments in respect of insurance of products exported paid by Malaysian exporters to local insurance companies are allowed as double deduction.

2.1 Policy objective of the incentives

The double deduction of export credit insurance premiums aims to encourage Malaysia’s exporters to penetrate into non-traditional markets.

2.2 Authority of the incentive

The double deduction of export credit insurance premiums is provided under Income Tax (Deduction of Premium of Export Credit Insurance) Rule 1985 made under Section 154 of the Income Tax Act 1967.

2.3 Form of the incentive

The double deduction of export credit insurance premiums is a form of tax concession.
2.4 Duration of the incentive

The double deduction of export credit insurance premium was made effective on year of assessment 1986. There is no expiry date provided therein.

3. Local Content Requirement Attached to Incentives

The use of local content is taken into account in the granting of investment incentives provided by the Malaysian Government. Local content usage is only one of the qualifying criteria but it is neither necessary nor sufficient for the granting of investment incentives.

3.1 Objective of the requirement

The objective of this local content requirement is to develop supporting industries in order to strengthen Malaysia’s industrial structure and encourage linkages between small and medium scale industries (SMIs) and larger firms.

3.2 Authority of the requirement

Local content requirement is an administrative encouragement and the investment incentives such as pioneer status or investment tax allowance is given under the Promotion of Investments Act 1986.

3.3 Form of the requirement

The local content requirement is a form of administrative encouragement.

3.4 Duration of the requirement

The local content requirement was first introduced in 1991.

4. Export Credit Refinancing

Notwithstanding our notification of the Export Credit Refinancing (ECR) Scheme, Malaysia has doubts as to whether this falls within the meaning of a subsidy under Articles 1 and 2 of the Agreement on Subsidies and Countervailing Measures (SCM). Malaysia’s notification under Article 25 should not prejudice the status of this scheme.

4.1 Policy objective of the Scheme

The objective of the ECR Scheme is to enable Malaysian exporters to compete more effectively in the international markets.

4.2 Authority of the Scheme

The Scheme is operated by commercial banks and Malaysia’s Central Bank (Bank Negara Malaysia) will refinance these banks.

4.3 Form of the Scheme

The ECR Scheme is a form of export credit.
4.4 Duration of the Scheme

The ECR Scheme was first introduced in 1977 and has been revised several times. A comprehensive review was undertaken in 1985 and 1986. There is no expiry date provided therein.

4.5 Brief description of the Scheme

The ECR Scheme provides a short-term credit at the current interest rate of 6.0 per cent per annum to Malaysian exporters.

Under the ECR Scheme, the pre-shipment ECR facility provides working capital to direct and indirect exporters (domestic suppliers of inputs to final exporters). The post-shipment ECR facility enables Malaysian exporters to obtain immediate funds upon shipment of eligible goods sold on credit terms. Access to the ECR scheme is subject to the exporter obtaining an ECR credit facility with any commercial bank. The maximum period of financing for all eligible products is four (4) months for pre-shipment and six (6) months for post-shipment.