

WORLD TRADE ORGANIZATION

RESTRICTED

G/SCM/Q2/EEC/17

27 July 1999

(99-3159)

**Committee on Subsidies
and Countervailing Measures**

Original: English

SUBSIDIES

Questions from the UNITED STATES Regarding the New and Full Notification (1998) of the EUROPEAN COMMUNITIES¹

The following communication, dated 26 July 1999, has been received from the Permanent Mission of the United States.

EUROPEAN COMMUNITIES

The following are questions regarding the notification of the European Communities pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures, in document G/SCM/N/38/EEC.

Part I: Structural Actions

(i) European Regional Development Fund

1. Could you please specify to whom the assistance is paid?

(ii) European Social Fund

1. How is the Fund used in a manner that renders "...the employment of workers easier..." under heading number three?

(iii) European Agricultural Guarantee and Guidance Fund (EAGGF) - Guidance Section

1. Could you please clarify, with regards to the 'Policy Objective' of the programme, what is meant by "speeding up " and "adjustments"?
2. Please provide a detailed explanation of how the "multi-annual operational programmes" are administered and whom they benefit.

¹ G/SCM/N/38/EEC

Part III: Industry Sectors

Community Framework programmes

1. Under each of the community framework programmes listed, could you please provide information on who receives benefits from these programmes as well as the amount of the subsidy given to each unit?

(ii) Aid to the Coal Industry

1. Please provide information concerning the beneficiaries of the programmes and the amount given to each unit.

Part IV: Other Programmes

Common Organization of Markets in Fishery and Aquaculture Products

1. Please provide an explanation of the information provided with respect to the duration of this programme.

Information Society Initiative in Standardisation

1. Please provide additional information on the types of “partners” that receive this subsidy. What is the estimated amount per unit?

2. Please provide more detailed information on each of the initiatives. We would also appreciate a full explanation of why, in the Community’s view, each of these initiatives should be not be considered a separate programme for which of the requisite information stipulated under Article 25 would be provided.

SPRITE - S

1. Please provide additional information on the types of “partners” that receive this subsidy. What is the estimated amount per unit?

2. Please provide more detailed information on each of the initiatives. Again, we would also appreciate a full explanation of why, in the Community’s view, each of these initiatives should be not be considered a separate programme for which of the requisite information stipulated under Article 25 would be provided.

We are also aware of the following programmes and measures in the European Communities that may meet the Agreement’s notification requirements. Please explain why the European Communities determined that the following measures or activities did not fall within the notification requirements of GATT Article XVI:1 and Article 25.5 of the Agreement on Subsidies and Countervailing Measures, or if they are covered by one of programmes already notified, could you please so indicate and provide information about the indicated activities.

1. Resider Programme, Resider II, and Successors

This programme was intended to assist in the reconversion in the iron and steel sector. According to Commission publications, its objective is to support efforts to create alternative jobs to replace those lost during the restructuring and to develop appropriate opportunities for new employment in other sectors in the affected regions.

2. RECHAR

This programme was intended to assist in the economic reconversion of the coalfields and is intended to assist in the worst affected regions by restoring the environment, promoting new economic activities and developing the potential of the workforce. Areas eligible for support are regions in which the decline of coal mining will lead to serious economic problems and a large increase in unemployment.

3. European Investment Bank Loans

The European Investment Bank (EIB) is a European Community (EC) financial institution which offers loans to designated depressed areas for EC member states.

4. ECSC Article 56(2)(b) Retraining Grants

5. BRITE/EuRAM II

BRITE/EuRAM II is a European Community-wide research and development policy under Article 130 of the European Economic Community (EEC) Treaty. The programme aims to revitalize European industry by reinforcing its scientific and technological base through research and development. Assistance is only awarded for multi-sectoral, multi-disciplinary, multi-company research and development projects. The programme usually funds 25 per cent to 30 per cent of research costs, and companies must fund at least 50 per cent. Please indicate whether this programme replaces BRITE/EuRAM which expired in 1994.

6. Electric Arc Furnace Programme

This programme, which funds the use of electric arc furnaces in the steel industry, is believed to have provided grants to both Usinor in France and ARBED in Luxembourg.

Though the following programmes were partially explained in your 20 February 1997 replies (G/SCM/Q2/EEC/10) to questions from the United States, please explain why the European Communities again determined that the following measures or activities did not fall within the notification requirements of GATT Article XVI:1 and Article 25.5 of the Agreement on Subsidies and Countervailing Measures. Please provide full notifications of the programmes listed.

ECSC Article 54 Loans and Interest Rebates

ECSC Article 56 Programmes

Article 56(2)(b) of the Treaty of Paris, which created the European Coal and Steel Community (ECSC), authorizes the ECSC aid to "activities capable of reabsorbing redundant ECSC workers into productive employment."

1. Conversion Loans (2a)

European Coal and Steel Community decision published in the Official Journal of the European Communities, No. C 178 of July 27, 1977, authorized conversion loans for projects that involve, or are likely to involve, reemployment of redundant ECSC workers. An applicant must be a small- or medium-sized enterprise, defined as an enterprise that: (1) employees less than 500 people; (2) has net fixed assets of less than 75 million European Currency Units ("ECUs"); (3) has no parent

enterprise that owns more than one-third of its share capital. A qualifying project must create new positions that are capable of being filled by coal and steel industry.

2. Interest Rebates

For firms located in "priority " regions that have suffered high unemployment in the coal and steel industries, the interest rebate is granted whether or not a qualifying firm actually employs redundant ECSC workers. A 5 per cent interest rebate is granted for the portion of loan principal equal to (a) the number of new positions created, multiplied by (b) two-thirds, multiplied by (c) 20,000 ECU's per worker. In contrast, firms located outside "priority" regions must hire redundant ECSC workers. Their 5 per cent interest rebate applies only to a portion of the loan equal to the proportion of newly-created positions actually filled by redundant ECSC workers multiplied by 20,000 ECU's.

AUSTRIA

The following are questions regarding the notification of Austria made pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures, in document G/SCM/N/38/EEC.

1. For the vast majority of programmes, the notification contain insufficient information regarding to whom and how the subsidy is provided. For those notifications in which the subsidy recipients are vaguely identified as "individual enterprises," "industrial enterprises," or "producers," please clarify which *types* of industrial enterprises or producers are eligible (i.e., to which industry sector(s) they belong).

2. For the following programmes, please explain what is meant by "steel industry which is not subject to ECSC Treaty." Are these subsidies available to enterprises in the steel industry or to enterprises *not* involved in the steel industry?

- * Guidelines on Aid to Industry for Environmental Protection Measures (Programme #7)
- * Aid for Waste Water management in Industrial Enterprises (Programme #17)

3. For the following programmes, please indicate the manner in which the subsidy is provided (e.g. grant, loan).

- * Aid Programme for the Establishment of New Enterprises and the Expansion of Existing Enterprises (Programme #34)
- * Aid Programme for Small and Medium-Sized Enterprises (Programme #37)
- * Promotion of Environmental Protection Measures in Upper Austria (Part 1) (Programme #54)

4. For the following programmes, please indicate the subsidy per unit, total amount of subsidy, or annual amount of subsidy budgeted.

- * Focal Point: Regional Planning Relocation (Programme #40)
- * Establishment and Creation of Key Industries Programme (Programme #47)
- * Scheme for the Development of Industrial Sites (Programme #48)
- * Aid under Section 4 Paragraph 5 of the Economic Assistance fund Act (Programme #59)

5. For Programme #44, Special Programme for Strengthening the Tyrolean Economy (Tyrolean Impulse Programme), please elaborate regarding which enterprises are of special regional or public interest.

6. For Programme #47, Establishment and Creation of Key Industries Programme, please identify the key industries and discuss the criteria for being designated a key industry.
7. For Programme #51, Tyrolean Credit Guarantee Company, please elaborate on the information pertaining to the subsidy recipients. Specifically, describe the contents of §§ 35-40 of the Chamber of Commerce's regulations.
8. For Programme #68, Guideline of the Vienna Credit Guarantee Company Ltd., please clarify the policy objective/purpose of the subsidy.

BELGIUM

The following are questions regarding the notification of Belgium made pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures, in document G/SCM/N/38/EEC.

1. Please provide the background and authority for the programmes listed under section 2.2.

We are aware of the following programmes and measures in Belgium that may meet the notification requirements of the Agreement. Please explain why the European Communities/Government of Belgium determined that the following measures or activities did not fall within the notification requirements of GATT Article XVI:1 and Article 25.5 of the Agreement on Subsidies and Countervailing Measures. Please provide full notifications of the programmes listed.

- * SNCI Loans - provides long-and medium-term financing to encourage the development and growth of industrial and commercial enterprises in Belgium.
- * Belfin Loans - provides financing for the restructuring and development of various Belgian sectors.

DENMARK

The following are questions regarding the notification of Denmark made pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures, in document G/SCM/N/38/EEC.

Export Credit and Insurance Programme

1. Though this programme was partially explained in the 20 February 1997 response (G/SCM/Q2/EEC/10) to questions posed by the United States, please explain why this programme was not included in the new and full notification of subsidies. In addition, please give a full notification of the programme as required under Article 25.5 of the Agreement on Subsidies and Countervailing Measures.

We are also aware of the following programmes and measures in Denmark that may meet the notification requirements of the Agreement. Please explain why the European Communities/Government of Denmark determined that the following measures or activities did not fall within the notification requirements of GATT Article XVI:1 and Article 25.5 of the Agreement on Subsidies and Countervailing Measures. Please provide full notifications of the programmes listed.

Export Training Programme

Assistance for Export Groups

International Tender Programme

FINLAND

The following are questions regarding the notification of Finland made pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures, in document G/SCM/N/38/EEC.

State Aid for the Internationalization of SMEs

1. Please provide the name of the law, act, or other legal authority under which this aid is provided.

Loan Programme for SMEs (Kera Ltd.)

1. Please explain what is meant by the "aid intensity of loans".

**Aland: Grant for Technical Consulting and Promotion;
State Aid to Developing Businesses; and
Grant for Research and Development**

1. Please explain whether these programmes are financed by the local government of Aland, by the national government of Finland, or by some combination thereof.

Operational Conditions Aid

1. Please explain whether this subsidy was provided as a fixed amount to each recipient or whether the amount is fluctuating. Also, please provide the average amount per recipient.

Waste Oil Management

1. Please provide the name of the law, act, or other legal authority under which this aid is provided.

FRANCE

We are aware of the following programmes and measures in France that may meet the notification requirements referenced above. Please explain why the European Communities/Government of France determined that the following measures or activities did not fall within the notification requirements of GATT Article XVI:1 and Article 25.5 of the Agreement on Subsidies and Countervailing Measures. Please provide full notifications of the programmes listed.

1. DATAR programmes

The French government provides a series of tax and non-tax regional incentives to French and foreign businesses to establish new, or to expand existing, businesses in certain regions of France. The *Délégation à l'Amenagement du Territoire et l'Action Regionale* (DATAR) coordinates the programmes of various government agencies and ministries. DATAR programmes are limited to companies located in certain regions.

* **Regional Development Grants (PATs):**

Though this programme was partially explained in your 11 August 1998 response (G/SCM/Q2/EEC/16) to questions by the United States, please explain why the programme was not fully notified and please provide a full notification of the programme.

* **DATAR 50 per cent Taxing Scheme:**

Grants provided by DATAR for the purchase of fixed assets are taxed at a rate of only 50 per cent of the normal tax rate, because the depreciation basis for these assets is increased by exceptional depreciation equal to 50 per cent of the grant.

* **Tax Exemption for Industrial Expansion**

DATAR also administers a programme that exempts certain companies located in development regions from the business tax ("*taxe professionnelle*") for up to five years.

* **Tax Credit for Companies Located in Special Investment Zone:**

Companies located in the Nord-Pas-de-Calais region, which has been designated a special investment area (ZIP), are eligible to receive a tax credit of 22 per cent of the pre-tax manufacturing cost for industrial investments.

* **Work/Training Contracts and Internships:**

The "Worker/Training Contract" programme consists of two parts: 1) employers are exempt from social security contributions, and 2) the employer is permitted to pay employees lower salaries. The employer is only eligible for participation in the programme if he or she agrees to hire employees aged 16 to 25 with no work experience under a work/training contract for six to 36 months.

In addition to the worker/training contract, another part of the programme consists of internships where the French government pays intern salaries as well as all or part of training expenses for the interns.

* **Tax Credits for Research:**

The DATAR Tax Credit for Research programme provides commercial or industrial firms with a "tax credit break amounting to 50 per cent of research expenses which have increased in comparison with the average for the 2 previous years." The tax credit can be applied to depreciation of assets used in research, personnel costs, operating costs, cost of R&D operations, expenses relating to submission and registration of patents, depreciation on patents, and 50 per cent of certification costs.

GREECE

The following are questions regarding the notification of Greece made pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures, in document G/SCM/N/38/EEC.

Law 260/98

Could you please provide information concerning the amount of funding provided under this programme?

We are also aware of the following programme that may meet the notification requirements of the Agreement. Please explain why the European Communities/Government of Greece determined that it did not fall within the notification requirements of GATT Article XVI:1 and Article 25.5 of the Agreement on Subsidies and Countervailing Measures. Please provide full notifications of the programmes listed.

Reduction in Excise Tax for Greek Ouzo

Greek Ouzo (distilled spirit) receives a tax reduction over imported spirits.

ITALY

The following are questions regarding the notification of Italy made pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures, in document G/SCM/N/38/EEC.

We are aware of the following programmes and measures in Italy that may meet the notification requirements of the Agreement. Please explain why the European Communities/Government of Italy determined that the following measures or activities did not fall within the notification requirements of GATT Article XVI:1 and Article 25.5 of the Agreement on Subsidies and Countervailing Measures. Please provide full notifications of the programmes listed.

Export Marketing Grants under Law No. 304/90

Provides grants to food and agricultural companies to increase market share in non-Community markets.

Social Security Reductions and Exemptions, including Fiscalizzazione Benefits

This nationwide programme, with higher benefits in the south of Italy, provides deductions on payments for health care and insurance: Law No. 407/90, which provides a two-year exemption from social security benefits for hiring employees that were previously unemployed for two years; and Law No. 863, which provides a social security reduction for workers who are in training.

NETHERLANDS

We are aware of the following programmes and measures in the Netherlands that may meet the notification requirements of the Agreement. Please explain why the European Communities/Government of the Netherlands determined that the following measures or activities did not fall within the notification requirements of GATT Article XVI:1 and Article 25.5 of the

Agreement on Subsidies and Countervailing Measures. Please provide full notifications of the programmes listed.

Stimulation for the Innovation of Electric Energy (SES)

The goal of this programme is to stimulate energy conservation by encouraging the installation of co-generation equipment. It provides payments of up to 25 per cent of the equipment cost with a certain cap per project.

Investment Incentive (WIR)-Regional Programme

The WIR investment incentive is granted as a reduction of income tax due, or if no tax is due, as a cash payment at rates ranging from 8 per cent to 14 per cent of the investment cost, based on the nature of the structure or investment (e.g., sea vessels-12 per cent; new non-residential buildings-14 per cent; existing non-residential buildings-8 per cent; etc).

SPAIN

The following are questions regarding the notification of Spain made pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures, in document G/SCM/N/38/EEC.

Fisheries

1. You said in your 11 August 1998 response (G/SCM/Q2/EEC/16) to our question about Structural Aid to Fisheries, Aquaculture, and the Processing and Marketing of Fish Products that “part of the financial aid, up to a maximum of 50 per cent, may be used to reduce the interest on loans granted to owners of new fishing vessels by the various loan bodies.” However, you did not clarify in this new notification the form in which this financial aid was granted under the various programmes listed under the Fisheries section of your notification. Please clarify for each programme in what form the subsidies are provided (e.g. loans, grants).

2. What is the duration of the various fisheries programmes?

3. Who are the recipients of the seven types of fishery subsidies listed on page 3?

4. Please explain whether these subsidies are provided as a fixed or fluctuating amount for each recipient. Also, please provide an estimated average amount received per recipient.

Special Economic Aid to Ship-Owners and Crews Affected by the Stoppage of Fishing

1. Please clarify whether all ship-owners and crews receive the same amount of aid or whether the amounts fluctuate.

Promotion of the Economic and Social Sectors of the Agri-Food Industry

1. Please explain what is mean by the “economic and social sectors” of this industry.

2. Please develop your answer to question 8 (“Duration of Subsidy”).

Support Initiative for Technology, Quality and Industry Safety (ATYCA)

1. Please explain whether these subsidies were provided as a fixed or fluctuating amount for each recipient. Also, please provide an estimated average amount received per recipient.

R&D Plan for the Aeronautical Sector

1. Please explain what form these subsidies take in addition to being “repayable advances.” For example, is the interest rate subsidized and/or are the recipients granted certain grace periods?

Aid Under Technological Programmes Connected With the SEAT Modernization Plan

1. Please indicate whether any subsidies were granted in 1998 and, if so, details about those subsidies including amounts, recipients and dates.

2. In your subsidies notification, you stated that subsidies may be granted in the years 1995 to 1998. Has this programme been terminated? If so, please indicate the legislation terminating the programme and when that legislation became effective. If this programme is continuing, please indicate the new legislation authorizing the continuation of the programme.

ARTE/SME Programme

1. Please explain what the letters “ARTE” represent.

Regional Economic Incentives Scheme

1. Please identify the type of recipient of this subsidy (e.g., private businesses or regional government authorities).

2. Please explain whether this subsidy was provided as a fixed or fluctuating amount for each recipient. Also, please provide an estimated average amount received per recipient.

Autonomous Communities

1. Please explain whether the amounts listed under each subsidy programme for the autonomous communities are provided by the central government, by regional governments, or by some combination thereof.

Catalonia: Aid Under Technological Programmes Connected With the SEAT Modernization Plan

1. Please explain whether this subsidy was provided in addition to the SEAT subsidy discussed on page 13 of your notification document.

Galicia: Non-Repayable Subsidies to Cooperation Among Enterprises

1. Please provide the total amount budgeted for or disbursed in 1997.

UNITED KINGDOM

The following are questions regarding the notification of the United Kingdom made pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures, in document G/SCM/N/38/EEC.

Business Connect Wales

1. What type of support is provided under this programme? In addition, please explain how the funding contracts work.

Business Links

1. It is not clear who actually receives these grants. Do the Trade and Enterprise Councils (TEC) receive these grants from Government Office contracts and then distribute them to other entities such as Chambers of Commerce, Enterprise Agencies, etc. - or do these grants stay with the TECs?

Civil Aircraft Research and Demonstration Programme (Carad)

1. How are eligible costs determined and how are the levels of eligible costs on projects established?

Cardiff Bay Development Corporation

1. What type of investment costs are eligible and how are the levels of eligible costs on projects established?

Development Board for Rural Wales

1. How is it determined whether eligible businesses qualify for whole or partial rent waiver and how is the eligible time period determined? Are there any fixed amounts of rent determined per project and, if so, how are these amounts determined?

Energy Efficiency Best Practice Programme

1. What costs are eligible under this programme and how are the levels of eligible costs on projects established? Is there any fixed amount determined per project and, if so, how are these amounts determined?

Environmental Technology Best Practice Programme

1. What eligible technology transfer costs and R&D costs are covered by the programme and how are the levels of eligible costs on projects established? Is there any fixed amount determined per project and, if so, how are these amounts determined?

Environmental Technology Innovation Scheme

1. Who is eligible for assistance under this programme?

2. Were grants provided under this programme at a fixed amount or did the amount of the grant fluctuate? How was the total fixed amount (or fluctuating amount) level of grant determined for each project?

Eureka (UK)

1. What costs are eligible under this programme and how are the levels of eligible costs on projects established?

General Industrial Collaborative Projects (GICP)

1. What costs are eligible under this programme and how are the levels of eligible costs on projects established? Is there any fixed maximum amount determined per project and, if so, how are these amounts determined?

Launch Aid

1. For each project, is there a maximum amount of government investment established?
2. How are the levels of government assistance determined for each project?

LEDU-Selective Financial Assistance

1. How does LEDU determine the total amount and type of assistance (i.e., grant, loan, equity) each project receives?

LEDU- R&D

1. How does LEDU determine the level of funding provided to each project?

LEDU- Local Enterprise Programme

1. How does LEDU determine the level of funding provided to each project?

Offshore Supplies and Service Company Assistance for Research

1. Under which government authority or legislation is this subsidy granted?
2. How is the level of funding provided determined for each project?

Scottish Enterprise

1. How does Scottish Enterprise determine the total amount and type of assistance (i.e., grant, loan, guarantees) each project receives?

Single Regeneration Budget

1. How is the total amount and type of assistance (i.e., grant, loan, guarantees) each project receives determined under this programme?

Small Firms Loan Guarantee Scheme

1. What business activities and what types of small businesses are eligible for loan guarantees under this programme?
2. How are the 70 per cent and 85 per cent loan guarantee levels determined for each project?

UK Coal R&D Programme

1. How is the level for eligible research costs determined for each project?

UK New and Renewable Energy Programme

1. How is the level for eligible costs determined for each project?

Use of Discretionary Resources by Training and Enterprise Councils (TECs) In Wales

1. How is the total amount and type of assistance (i.e., grant, loan) each project receives determined under this programme?

Fisheries Subsidies

Please provide the background and the authority that authorizes the following programmes:

- * Grants Towards the Acquisition of Freshwater Fishing Vessels and Engines (NI)
- * Grants Towards Fish Farming (Northern Ireland)
- * Highland Prospect Limited: Fish Processing and Fish Farming Loans
- * Highland Opportunity Limited: Fishing Vessel, Fish Processing and Fish Farming Loans
- * Safety Improvements on Fishing Vessels
- * The Borders Enterprise Fisheries Aid Programme

Industrial Development Board- Selective Financial Assistance

1. How is the total amount and type of assistance (i.e., grant, loan, shares) each project receives determined under this programme?

The Borders Enterprise Fisheries Aid Programme

1. How is the total amount and type of assistance (i.e., grant, loan) each project receives determined under this programme?

We are also aware of the following programmes and measures in the United Kingdom that may meet the notification requirements referenced above. Please explain why the European Communities/Government of the United Kingdom determined that the following measures or activities did not fall within the notification requirements of GATT Article XVI:1 and Article 25.5 of the Agreement on Subsidies and Countervailing Measures. Please provide full notifications of the programmes listed.

1. **Regional Development Grants**- Under Industry Act of 1972 and Industry Development Act of 1982.
 2. **National Loan Fund**-section 3 of the Iron and Steel Act of 1981
-