

# WORLD TRADE ORGANIZATION

RESTRICTED

**G/SCM/Q2/ISR/9**

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(97-4634)

**Committee on Subsidies  
and Countervailing Measures**

Original: English

Replies of ISRAEL to Questions Posed by ARGENTINA<sup>1</sup>, the EUROPEAN COMMUNITY<sup>2</sup>,  
JAPAN<sup>3</sup>, KOREA<sup>4</sup>, POLAND<sup>5</sup>, TURKEY<sup>6</sup>, and the UNITED STATES<sup>7</sup>  
Regarding the New and Full Notification of ISRAEL<sup>2</sup>

The following communication, dated 15 October 1997, has been received from the Permanent Mission of Israel.

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## CONTENTS

	<u>Page</u>
Replies to Questions Posed by Argentina.....	2
Replies to Questions Posed by the European Community.....	2
Replies to Questions Posed by Japan.....	10
Replies to Questions Posed by Korea .....	10
Replies to Questions Posed by Poland.....	11
Replies to Questions Posed by Turkey .....	12
Replies to Questions Posed by the United States.....	13

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<sup>1</sup> G/SCM/Q2/ISR/4, <sup>2</sup>G/SCM/Q2/ISR/2, <sup>3</sup>G/SCM/Q2/ISR/8, <sup>4</sup>G/SCM/Q2/ISR/6, <sup>5</sup>G/SCM/Q2/ISR/3, <sup>6</sup>G/SCM/Q2/ISR/5, <sup>7</sup>G/SCM/Q2/ISR/7.

<sup>2</sup> G/SCM/N/3/ISR-G/SCM/N/16/ISR.

REPLIES TO QUESTIONS POSED BY ARGENTINA

**Q1. In the case of the subsidies provided for under the "Incubators" Programme, do the provisions of Article 8.2(a) apply with respect to the percentages of the cost of research activities which the aid can cover?**

Reply

Under the incubator programme, the grant is given for a maximum period of two years as 85% of the R&D expenses up to a maximum of NIS 450,000 (in 1995) per year, but the actual grant is substantially lower, and in fact the benefit is almost nil because, if the project is successful, the grant must be fully repaid in the form of royalties to the Government of Israel.

In this context, we would also like to note that there is a lack of clarity in the SCM Agreement concerning existing programmes, and that we are still studying the Agreement to determine the relevance of Article 8.2 to pre-existing programmes.

**Q2. With regard to programmes of subsidies for the development of small businesses, business tutorials, the introduction of managerial systems, etc., Israel states that there is no time-limit on these: can Israel specify the dates for the elimination of these programmes, in accordance with Article 27.4 of the Subsidies Agreement?**

Reply

As Article 27.4 refers only to export subsidies and this is not an export-related subsidy programme, we do not understand why Israel should phase out these programmes.

**Q3. Israel has notified the programme for the encouragement of export marketing. Can Israel specify the duration of the programme and whether it has a timetable for phasing out the programme, in accordance with Article 27.4 of the Subsidies Agreement?**

Reply

The programme is not contingent upon export performance since it is in fact a repayable financial contribution out of increased export sales. It should be noted that total assistance provided under this programme is negligible, \$30 million representing less than 1/5% of Israel's exports and therefore has not perceptible effect on trade. Moreover, the benefits to the recipients of this aid are virtually nil as it is repayable.

REPLIES TO QUESTIONS POSED BY THE EUROPEAN COMMUNITY

General Note

With regard to the different questions raised concerning green subsidy programmes in accordance with Article 8.2, environmental and disadvantaged regional programmes - and as to whether we intend to notify them under Article 8, it seems that there is a lack of clarity in the SCM Agreement concerning existing programmes. We are still studying the Agreement to determine how and if it is possible to notify pre-existing programmes under Article 8. Therefore in replying to the specific questions, we will not address this issue further.

**I. NOTIFIED SUBSIDY PROGRAMMES**

**I.(a) Research and Development Grants**

**Israel states that this programme consists of subsidies within the meaning of Article 8.2(a) of the SCM Agreement. Could Israel provide the criteria in accordance with Article 8.2(a)? Are these criteria reflected in the legislation? Has this programme been (or will it be) notified under Article 8 of the SCM Agreement?**

**Reply**

Regarding the criteria for receiving assistance, the assistance is limited exclusively to costs directly linked with R&D. The programme may provide up to 66% of the expenses associated with industrial research. These criteria are reflected in either primary or secondary legislation or administrative directives. The assistance is in the form of a repayable grant, that is recipients are bound to repay royalties as a percentage of the total revenues up to the entire amount of the grant. Because the assistance is repayable, it is often referred to as a "conditional grant". Since the grant is repayable, the actual benefit to successful projects is almost nil.

**I.(b) Magnet**

**Israel states that this programme consists of subsidies within the meaning of Article 8.2(a) of the SCM Agreement. Could Israel provide the criteria in accordance with Article 8.2(a)? Are these criteria reflected in the legislation? Has this programme been (or will it be) notified under Article 8 of the SCM Agreement?**

**Reply**

The Magnet programme supports basic generic industrial research. It provides 66% of the approved budget of a Magnet programme by way of a direct grant. Academic research institutes participating are entitled to a grant of up to 80% of their approved budgets. However, since the budget of the academic research institute may not exceed 25% of the total programme, the maximum overall rate of support is approximately 70%.

To qualify as a Magnet R&D programme, the project must satisfy the following criteria:

- the technology to be developed is crucial to maintain the competitiveness of companies;
- the technology cannot be acquired from commercial sources at competitive prices and delivery schedules;
- the potential sales are sufficient to economically justify the R&D investments and the costs of development, manufacturing and marketing of products resulting from the R&D;
- at least two of the participating companies and at least one academic institution have formed and registered a consortium and signed a collaborative agreement.

Benefitting enterprises are selected in the following manner:

Based on the recommendation of a group of experts, the Magnet Steering Committee determines the initiation of a project. Public notice is made regarding the initiation of the project, upon which interested entities in the field may apply to be part of the consortium.

Under the Magnet programme, a consortium shall be comprised of a group of industrial entities forming a critical mass together with an Israeli research institute specializing in the relevant field, necessary for the development of the generic technology.

**I.(c) Incubators programme**

**Israel states that this programme consists of subsidies within the meaning of Article 8.2(a) of the SCM Agreement. Could Israel provide the criteria in accordance with Article 8.2(a)? Are these criteria reflected in the legislation? Has this programme been (or will it be) notified under Article 8 of the SCM Agreement?**

Reply

The assistance is given to beginning entrepreneurs who can present an innovative technological idea for the purpose of developing a new product with marketing potential. A beginning entrepreneur seeking assistance shall submit an application to one of the technological incubators around the country. The incubator will review the application, and forward its recommendation to the main Incubator Office, and then to the Steering Committee for final approval.

It should be noted that the assistance is granted as a conditional grant, i.e. the recipients are bound to repay the grant in the form of royalties up to the entire amount of the grant (in US\$ terms).

Under the incubator programme, the grant is given for a maximum period of two years as 85% of the R&D expenses up to a maximum of NIS 450,000 (in 1995) per year, but the actual grant is substantially lower, and in fact the benefit is almost nil because, if the project is successful, the grant must be fully repaid in the form of royalties to the Government of Israel.

- **Could Israel provide an overview of the industry sectors which have benefitted from the three R&D programmes?**

Reply

No specific sector is promoted and in fact a wide variety of industrial sectors have benefitted such as electronics (including software communication and medical equipment), chemistry (including fertilizers and pharmaceuticals) and plastics.

**I.(d) The Encouragement of Marketing Fund**

**This programme appears to be contingent upon export performance. Could Israel comment on the compatibility of this programme with Article 3.1(a) of the SCM Agreement and explain why this programme is still in force.**

Reply

The programme is not contingent upon export performance since it is in fact a repayable financial contribution out of increased export sales. It should be noted that total assistance provided under this programme is negligible, \$30 million representing less than 1/5% of Israel's exports and therefore has no perceptible effect on trade. Moreover, the benefits to the recipients of this aid are virtually nil as it is repayable.

**I.(e) Reduction of environmental hazards**

**Israel states that this programme consists of subsidies within the meaning of Article 8.2(c) of the SCM Agreement. Could Israel provide the criteria in accordance with Article 8.2(c)? Are these criteria reflected in the legislation? Has this programme been (or will it be) notified under Article 8 of the SCM Agreement?**

**Reply**

The criteria for receiving assistance under this programme include:

- The facility must be an existing facility;
- The assistance may only be given for the adaptation of the facility to new environmental requirements (air pollution, spills and water quality, hazardous waste, solid wastes, noise level and similar environmental nuisance or pollution);
- The assistance must be directly linked to and proportionate to the firm's planned reduction of nuisances and pollution; it does not cover the cost of replacing and operating the assisted investment.

It should be noted that the assistance is available to all firms which can adopt the new equipment and/or production processes. There are no provisions under the programme which might allow granting again the assistance for the same purpose, therefore the assistance is a one-time non-recurring measure.

The above-mentioned criteria are set down in an administrative directive of the Director-General's Office of the Ministry of Environment.

Although assistance may be as high as 35% of the approved investment, according to 1995-1996 figures, assistance de facto has been much lower and in fact close to the 20% ceiling set out by Article 8.2(c) of the SCM Agreement.

**I.(f) The Import Liberalization Fund**

**This programme aims to assist Israeli companies against increased import competition. The programme appears to provide subsidies upon the use of domestic over imported goods. Could Israel provide the criteria for eligibility and explain how companies are selected.**

**Could Israel comment on the compatibility of this programme with Article 3.1(b) of the SCM Agreement and explain why this programme is still in force.**

**Reply**

The Import Liberalization Fund does not provide subsidies upon the use of domestic over imported goods, and therefore is not a programme within the meaning of Article 3.1(b) of the SCM Agreement. To the contrary, this programme was instituted in the context of an overall liberalization of the Israeli economy and aims at facilitating the implementation of such liberalization, the trade effects of which are increased imports of previously protected goods.

Under Israel's unilateral liberalization programme introduced in 1991, administrative quantitative restrictions were tariffied on 1 September 1991 and since then tariff duties are being unilaterally reduced from a high level of over 75% to a maximum of 12% by September 2000 at the latest.

Since the liberalization programme has not yet been fully implemented and since domestic industries might still be injured and need to adjust to increased competition, the Import Liberalization Fund is still in force.

Under the Import Liberalization Fund, only companies that are or might be substantially injured by the liberalization programme and can prove that through a rehabilitation plan, they are able to undergo the structural adjustment necessary to enable them to compete, are eligible to receive support through this programme.

**(g) The encouragement of Capital Investment**

- **This programme covers a number of separate incentives with different criteria for eligibility. The Community requests a separate notification for each programme e.g. tax incentives, grants, loan guarantees etc.**

**Reply**

We would like to clarify that the programmes mentioned in the EC's question (e.g. tax incentives, grants and loan guarantees) are not separate programmes, but rather alternative paths under the same programme, and therefore have not been notified separately.

- **Israel states that this programme consists of subsidies within the meaning of Article 8.2(b) of the SCM Agreement. Could Israel provide the criteria in accordance with Article 8.2(b)? Are these criteria reflected in the legislation? Has this programme been (or will it be) notified under Article 8 of the SCM Agreement?**

**Reply**

Israel's regional development programme as implemented under the ECIL is pursuant to an overall national policy aimed at the development of disadvantaged areas. The assistance to industrial enterprises in disadvantaged regions contribute to the development of industries and improve the economic conditions of the area by creating job opportunities.

Under this programme, regions are determined to be disadvantaged based on high unemployment rates, low population density, distance from the centre of Israel and other socio-economic indicators, as shown by statistical data. Two zones have been recognized as disadvantaged (Zone A and Zone B), and the level of assistance is differentiated according to the level of development of each zone, in order to ensure that the assistance provided does not favour any regions beyond what is appropriate for elimination or reduction of disparities.

In this context, we would like to reiterate that we are still studying the SCM Agreement to determine the relevance of Article 8.2 to the pre-existing programmes.

**II. ADDITIONAL PROGRAMMES NOT NOTIFIED TO THE WTO**

**Israel has not notified a number of programmes which appear to be notifiable under Article 25. The Community finds that the schemes described below provide a financial contribution which confers benefits to the local industry. In addition the schemes are clearly specific (as pertaining to a specific sector or contingent upon exports). In addition to the specific questions asked, the Community would like clarification why these programmes were not notified to the WTO and requests that, if appropriate, Israel supplies a notification under Article 25, using the standard format.**

**Q.1. Incentives under the Capital Investments Law**

**The Community found that under the capital investments law a number of additional incentives are available which are not covered by the notification. If a company is granted the status of an Approved Enterprise, the following additional benefits are available:**

- **Full tax exemption for 10 years if the right to receive grants is waived.**
- **Exemption from real estate property tax**
- **Reduced tax rates on income from the sale of property**
- **Accelerated depreciation**
- **Wage subsidies**

**Reply**

With regard to additional benefits available under the ECIL, these benefits were covered in our notification when we noted that reduced rates of taxation are available under this Law.

However, we are pleased to provide the following details concerning other benefits available under this Law.

**Corporate Tax Exemption Path**

Regarding the alternative paths, a full tax exemption from corporate tax for a ten-year period is possible if the right to receive grants is waived. This path is available for enterprises located in Zone A, and for a shorter period (six years) in Zone B.

**Exemption from real estate property tax**

With regard to exemption from real estate property tax, there is no such provision under the ECIL, and it is unclear as to what the EC is referring to. We are also not aware of the existence of such an exemption under other legislation.

**Reduced tax rates on income from the sale of property**

This programme could not be identified either. Further detail on the nature of assistance allegedly provided would be required in order to respond.

**Accelerated depreciation**

An approved enterprise under the ECIL is entitled to accelerated depreciation on its property and equipment, regardless of its location. During the first five years of operation of these assets, the assets may be depreciated at rates of 200% of the ordinary rate of depreciation regarding equipment and up to 400% of the ordinary rate of depreciation for buildings. However, depreciation on buildings shall not exceed 20% per annum. It should be noted that accelerated depreciation at similar rates is also available to industrial companies under other legislation.

**Wage subsidies**

There is no wage subsidy programme available under the ECIL. Programmes providing wage subsidies were notified in our original notification (pp. 8-10).

**Q.2. Equity infusions**

**In June 1992, the Government of Israel established the Yozma Venture Capital Ltd., an investment fund which is subsidizing investment projects. The fund invests in export-oriented technology based enterprises up to US\$2 million holding a maximum of 49% of the shares.**

**Reply**

A decision to privatize Yozma Venture Capital was taken by the Ministerial Committee for Privatization in May 1996, and therefore there was no need to examine the question of its notifiability. In fact, this fund was fully privatized in March 1997.

Following the EC delegate's oral comment at the meeting held on 1-2 May 1997, we will submit an amendment to our notification regarding this programme.

**Q.3. Export financing**

**Israel provides loans at preferential interest rates to finance production for export including the import of raw materials and components.**

**Reply**

Loans to finance production for exports including the import of raw materials and components were eliminated in July 1985 as part of the July 1985 New Economic Plan.

**Q.4. Eilat Free Trade Zone**

**In order to attract investment in the area of Eilat, a number of subsidies are granted for companies located in that zone:**

- **exemption from value added tax;**
- **a refund of up to 20% on gross wages paid to employees.**

**Reply**

The legal basis for this programme is the Eilat Free Trade Zone Law of 1985 and the accompanying regulations. Under this law, most products, imports and domestic products alike, that are purchased in Eilat are exempt from Value Added Tax. This tax benefit is available to Eilat residents, for products consumed in Eilat.

Companies like all residents are exempt from value-added tax. Employers receive refunds of up to 20% on gross wages paid to employees but not more than the tax deducted at source from those wages. Resident individuals receive tax credits of up to 10% of their taxable income from employment in Eilat.

Regarding the notifiability of this programme, since the law is not directly related to industry or enterprises, but rather is aimed at the residents of the town of Eilat, it does not appear to be specific within the meaning of Article 2 of the Agreement.



**Q.5. Free Port Zones**

**The port zones of Eilat, Ashdod and Haifa are free ports with a number of incentives for the companies located in these zones:**

- **exemption from all taxes on income for seven years;**
- **reduced tax of 15% on dividends paid out;**
- **exemption from capital gains tax;**
- **exemption from property tax.**

**Reply**

Following this question, we are presently studying whether this legislation falls under the Subsidies Agreement and if notification is required. In any case, we are pleased to provide information.

The ports of Ashdod and Haifa are free port zones in that within a defined area of the port and certain warehouses, equipment for production and raw materials are exempt from customs and purchase tax. The Director of the Port is the authority responsible for the administration of the port while Customs is responsible for the supervision of goods. There are no companies presently operating in the zones today.

The port of Eilat is also a free port zone, with a larger defined area, adjoining the port. There are some four factories presently operating there.

**Q.6. Free Export Processing Zone**

**Legal basis: the Free Export Processing Zone Act of 20 June 1994.**

**Reply**

Firstly, we would like to note that the Law deals with free processing zone, regardless as to whether the processing is for the domestic or export market. The law, therefore, does not provide for the establishment of a free export processing zone law, as stated by the EC. This misnomer probably occurred because the concept of the original entrepreneurs was to establish a free export processing zone. However, by the time the Law was passed, the concept had changed to a free processing zone and the name of the Law reflects this: Law for Free Zones in Production in Israel - 1994.

This programme was not notified as no benefits have been conferred to date. Although a law was enacted (June 1994), no free zones have been established. At the time of the notification, the tender that had been published under the Law had been disqualified and the project was on the verge of termination. To date, no new tender has been published.

REPLIES TO QUESTIONS POSED BY JAPAN

**Q. Research and Development Grant, Magnet, and The Incubators Programme**

**Are there any specific sectors which are particularly promoted under these programmes?**

Reply

No specific sectors are particularly promoted under the R&D programmes. However, by nature, hi-tech sectors which require high levels of R&D have mainly benefitted. A wide variety of industrial sectors have in fact benefitted from the R&D programmes such as electronics (including software communication and medical equipment), chemistry (including fertilizers and pharmaceuticals) and plastics.

REPLIES TO QUESTIONS POSED BY KOREA

**Q.1. Israel states that 'The Encouragement of Marketing Fund' programme provides a grant of 33% on approved infrastructural marketing expenditure for those exporters intending to build their marketing infrastructure abroad.**

- **Does this programme constitute an export subsidy which is in fact tied to actual or anticipated exportation or export earnings according to Article 3.1(a)(note 5) of the SCM Agreement?**

Reply

The programme is not contingent upon export performance since it is in fact a repayable financial contribution out of increased export sales. It should be noted that total assistance provided under this programme is negligible, \$30 million representing less than 1/5% of Israel's exports and therefore has no perceptible effect on trade. Moreover, the benefits to the recipients of this aid, are virtually nil as it is repayable.

"Infrastructural marketing expenditures" refer to marketing activities which do not include current expenditure linked to the export activity nor to the volume of goods exported but rather support for participating in trade fairs and professional seminars, market studies and consultancy for the preparation of business plans, preparation of catalogues, etc.

**Q.2. Israel notified that some programmes consist of subsidies within the meaning of Article 8.2(a), (b) or (c) of the SCM Agreement. However, it seems that a part of them does not meet the conditions provided for in Article 8.2 of the Agreement.**

- **For example, the 'Assistance for the financing of investment aimed at the reduction of environmental hazards at existing industrial plants' programme can provide financial aid of up to 35% of the cost of the approved investment, although Article 8.2(c)(ii) stipulates that the assistance is limited to 20% of the cost of adaptation.**
- **Could you provide an explanation for this issue?**

Reply

As a general note, with regard to the different questions raised concerning green subsidy programmes in accordance with Article 8.2, it seems that there is a lack of clarity in the SCM Agreement concerning existing programmes. We are still studying the Agreement to determine how and if it is possible to notify pre-existing programmes under Article 8.

Regarding the environmental programme, the criteria for receiving assistance under this programme include:

- The facility must be an existing facility;
- The assistance may only be given for the adaptation of the facility to new environmental requirements (air pollution, spills and water quality, hazardous waste, solid wastes, noise level and similar environmental nuisance or pollution);
- The assistance must be directly linked to and proportionate to the firm's planned reduction of nuisances and pollution; it does not cover the cost of replacing and operating the assisted investment.

It should be noted that the assistance is available to all firms which can adopt the new equipment and/or production processes. There are no provisions under the programme which might allow granting again the assistance for the same purpose, therefore the assistance is a one-time non-recurring measure.

The above-mentioned criteria are set down in an administrative directive of the Director-General's Office of the Ministry of Environment.

Although assistance may be as high as 35% of the approved investment, according to 1995-1996 figures, assistance de facto has been much lower and in fact close to the 20% ceiling set out by Article 8.2(c) of the SCM Agreement.

#### REPLIES TO QUESTIONS POSED BY POLAND

##### **Q1. Small Business Authority**

**Could Israel please provide us with a definition of small enterprise, provided that such a definition exists in the Israeli legal system?**

##### Reply

No overall legal definition exists for a small business. However, the definition in practice used by the Small Business Authority is a business with up to 50 employees and an annual turnover of up to \$5 million.

##### **Q2. The Encouragement of Marketing Fund**

**Must enterprises meet any additional criteria in order to be granted this subsidy? If yes, please specify.**

##### Reply

Enterprises must not meet any additional criteria, but must prepare a business plan and proof of expenditures according to the approved plan.

REPLIES TO QUESTIONS POSED BY TURKEY

**Q.1. Could Israel please explain what regions are eligible under the "Business Tutorial Programme", on page 6, and the criteria used to select them, in accordance with Article 8.2(b) of the SCM Agreement?**

Reply

As a general note, with regard to the different questions raised concerning green subsidy programmes in accordance with Article 8.2, it seems that there is a lack of clarity in the SCM Agreement concerning existing programmes. We are still studying the Agreement to determine how and if it is possible to notify pre-existing programmes under Article 8.

Although this programme is not related to the ECIL, eligible regions are those regions defined as disadvantaged regions under the ECIL. See below for description of ECIL.

Enterprises with up to 100 employees are eligible to apply. Applications are submitted to a regional project coordinator, who examines the enterprise. If the coordinator determines that the enterprise is likely to gain from the programme, a tutor will be assigned to the project.

Description of ECIL

Israel's regional development programme as implemented under the ECIL is pursuant to an overall national policy aimed at the development of disadvantaged areas. The assistance to industrial enterprises in disadvantaged regions contributes to the development of industries and improves the economic conditions of the area by creating job opportunities.

Under this programme, regions are determined to be disadvantaged based on high unemployment rates, low population density, distance from the centre of Israel and other socio-economic indicators, as shown by statistical data. Two zones have been recognized as disadvantaged (Zone A and Zone B), and the level of assistance is differentiated according to the level of development of each zone, in order to ensure that the assistance provided does not favour any region beyond what is appropriate for elimination or reduction of disparities.

**Q.2. Does Israel consider that the subsidies granted under the "Encouragement of Marketing Fund" programme, on page 11, are not export subsidies? Could you please clarify?**

Reply

The programme is not contingent upon export performance since it is in fact a repayable financial contribution out of increased export sales. It should be noted that total assistance provided under this programme is negligible, \$30 million representing less than 1/5% of Israel's exports and therefore has no perceptible effect on trade. Moreover, the benefits to the recipients of this aid are virtually nil as it is repayable.

**Q.3. Could Israel please clarify what is meant by the phrase "infrastructural marketing expenditure", on page 11, and indicate the marketing expenditures considered to be infrastructural?**

Reply

"Infrastructural marketing expenditures" refer to marketing activities which do not include current expenditure linked to the export activity nor to the volume of goods exported but rather support for participating in trade fairs and professional seminars, market studies and consultancy for the preparation of business plans, preparation of catalogues, etc.

**Q.4. Could Israel provide a more detailed sectoral breakdown of the subsidies granted under the programme titled "The Encouragement of Capital Investment" on page 14?**

Reply

Subsidies under this programme are provided to all industrial sectors, including: food, refrigeration, textiles, clothing, leather, wood and wood products, paper, printing and cartons, plastics and rubber, chemical, pharmaceuticals and paints, metals, electronics including software and energy, ceramics and glass.

**Q.5. What are the criteria used by Israel in determining that a firm is a start-up firm? Does Israel consider any kind of legal, financial or administrative relations of the start-up firms with the already established firms while deciding on whether a firm is a start-up one or not?**

Reply

Under the Law for the Encouragement of Industrial Research and Development, a "start-up" is defined as a company in which the R&D programme is the initial and only activity, and which has no source of financing except equity capital from the persons carrying out the R&D.

#### REPLIES TO QUESTIONS POSED BY THE UNITED STATES

##### Magnet

**Q.1. What are the eligibility criteria under the Magnet programme? How are benefitting enterprises selected?**

Reply

To qualify as a Magnet R&D programme, the project must satisfy the following criteria:

- the technology to be developed is crucial to maintain the competitiveness of companies;
- the technology cannot be acquired from commercial sources at competitive prices and delivery schedules;
- the potential sales are sufficient to economically justify the R&D investments and the costs of development, manufacturing and marketing of products resulting from the R&D;
- at least two of the participating companies and at least one academic institution have formed and registered a consortium and signed a collaborative agreement.

Benefitting enterprises are selected in the following manner:

Based on the recommendation of a group of experts, the Magnet Steering Committee determines the initiation of a project. Public notice is made regarding the initiation of the project, upon which interested entities in the field may apply to be part of the consortium.

Under the Magnet programme, a consortium shall be comprised of a group of industrial entities forming a critical mass together with an Israeli research institute specializing in the relevant field, necessary for the development of the generic technology.

**Q.2. Could Israel indicate the number of projects funded under this programme during 1995 and provide examples of projects benefitting from assistance under this programme?**

Reply

Ten projects were funded under this programme during 1995. Examples of projects benefitting from assistance under this programme include the following:

Energy:	Ultra concentrated solar energy
Communications:	Digital wireless communications
Biotechnology:	Development of technology for growing micro and macro seaweed in open pools

**Q.3. Please clarify the time-frame within which funds are disbursed and the projects are completed.**

Reply

The time-frame for projects to be completed is five years.

#### **The Incubators Programme**

**Q.4. What is the application process for start-up companies seeking grants under this programme?**

Reply

The assistance is given to beginning entrepreneurs who can present an innovative technological idea for the purpose of developing a new product with marketing potential. A beginning entrepreneur seeking assistance shall submit an application to one of the technological incubators around the country. The incubator will review the application, and forward its recommendation to the main Incubator Office, and then to the Steering Committee for final approval.

**Q.5. How does the programme address a start-up company's "need [for] infrastructure?" Please explain in more detail the type of assistance provided under this programme, e.g. scientific research, advisory services, job placement, training, administration, marketing, etc.**

Reply

The "incubator" is a centre providing centralized administrative services for the operation of several projects. As such, the incubator provides modest facilities (a small office, office equipment, secretarial and book-keeping services) which we referred to as "infrastructure" assistance in our original notification.

#### **Small Business Authority**

**Q.6. Do the Centres provide financial assistance directly to small enterprises - for example, preferential loans to offset operating losses in order to "prevent their collapse?" Or do the Centres simply provide advice to enterprises?**

Reply

The Centres are business advisory centres that provide information, guidance, professional counselling, referrals to sources of funding and training courses. The users pay fees for the assistance.

The use of the words "preventing their collapse" was a mistake. It was taken from a publication written to attract small businesses to the Centres to obtain managerial know-how.

The Centres do provide assistance with loan applications and may act as guarantors for regular market rate commercial bank loans which are secured by personal guarantees of the owners and by the company's assets.

### **Business Tutorial Programme**

**Q.7. What are the eligibility criteria for “disadvantaged areas” under this programme? How are benefitting enterprises selected under this programme?**

#### **Reply**

Although this programme is not related to the ECIL, eligible regions are those regions defined as disadvantaged regions under the ECIL. See below for description of ECIL.

Enterprises with up to 100 employees are eligible to apply. Applications are submitted to a regional project coordinator, who examines the enterprise. If the coordinator determines that the enterprise is likely to gain from the programme, a tutor will be assigned to the project.

#### **Description of ECIL**

Israel's regional development programme as implemented under the ECIL is pursuant to an overall national policy aimed at the development of disadvantaged areas. The assistance to industrial enterprises in disadvantaged regions contributes to the development of industries and improves the economic conditions of the area by creating job opportunities.

Under this programme, regions are determined to be disadvantaged based on high unemployment rates, low population density, distance from the centre of Israel and other socio-economic indicators, as shown by statistical data. Two zones have been recognized as disadvantaged (Zone A and Zone B), and the level of assistance is differentiated according to the level of development of each zone, in order to ensure that the assistance provided does not favour any regions beyond what is appropriate for elimination or reduction of disparities.

### **Encouragement of Marketing Fund**

**Q.8. What exactly is an “infrastructural marketing expenditure”?**

#### **Reply**

"Infrastructural marketing expenditures" refer to marketing activities which do not include current expenditure linked to the export activity nor to the volume of goods exported but rather support for participating in trade fairs and professional seminars, market studies and consultancy for the preparation of business plans, preparation of catalogues, etc.

**Q.9. Is eligibility for Marketing Fund assistance contingent upon export performance?**

#### **Reply**

The programme is not contingent upon export performance since it is in fact a repayable financial contribution out of increased export sales. It should be noted that total assistance provided under this programme is negligible, \$30 million representing less than 1/5% of Israel's exports and

therefore has no perceptible effect on trade. Moreover, the benefits to the recipients of this aid are virtually nil as it is repayable.

**The Import Liberalization Fund**

**Q.10. How does a manufacturer prove that it has been damaged by import liberalization?**

**Reply**

The manufacturer is required to prove the injury, *inter alia*, on the basis of price undercutting and significant increase in imports of like or directly competitive products or positive evidence of threat of a substantial increase in imports as a result of the unilateral (unbound) tariff reductions.

**Q.11. How exactly does a recipient utilize the grant monies?**

**Reply**

The recipient may utilize the grant money only in accordance with the approved business rehabilitation plan, which must be implemented within one year from its approval. Examples of utilization of money include: introduction of new technologies, changes in the product (design and packaging to the production of a completely different product) or in production processing, changes in managerial system.

**Q.12. Please explain how there can be no trade effects from assistance aimed at improving domestic competitiveness vis-à-vis imports.**

**Reply**

The only possible trade effects of the programme are increased imports, resulting from the implementation of the unilateral liberalization programme which was facilitated by the operation of the Import Liberalization Fund.

**Non-Notified Programmes**

**Q.13. We are aware of the following programmes available to producers in Israel. Please explain where and the manner in which these subsidies fall within Israel's notification (e.g. in relation to the section concerning the Law for the Encouragement of Capital Investment) or why the programmes have not been notified under GATT Article XVI:1/Article 25.2 of the Agreement on Subsidies and Countervailing Measures.**

- A. Reduced Tax Rates under ECIL**
- B. ECIL Section 24 Loans**
- C. Labour Training Grants Investment Tax Allowance**
- D. Dividends and Interest Tax Benefits under Section 46 of the ECIL**
- E. ECIL Preferential Accelerated Depreciation**

**Reply**

We would like to clarify that the benefits mentioned in the US' question (with the exception of the reference to Labour Training Grants Investment Tax Allowance which could not be identified) fall under one piece of legislation, the Law for the Encouragement of Capital Investments, and



therefore have not been notified separately. They were in fact covered in our notification when we noted that reduced rates of taxation are available under this Law.

However, we are pleased to provide the following additional details concerning benefits mentioned by the US:

A. Reduced Tax Rates under ECIL

Regarding reduced tax rates under ECIL, a full tax exemption from corporate tax for a ten-year period is possible if the right to receive grants is waived. This path is available for enterprises located in Zone A, and for a shorter period (six years) in Zone B.

B. ECIL Section 24 Loans

It should be noted that this section refers to approved loans granted by foreign investors only. Presently, there is no longer any difference between tax rates for approved loans given by a foreign investor under Section 24 and other loans by foreign investors and therefore Section 24 does not present any particular advantage.

C. Labour Training Grants Investment Tax Allowance

The Labour Training Grants Investment Tax Allowance could not be identified. Further details on the nature of the assistance allegedly provided is required in order to respond to the US's request for information.

D. Dividends and Interest Tax Benefits under Section 46 of the ECIL

It should be noted that this section refers to approved investment by foreign investors. Tax rates on revenue from an approved investment by a foreign investor under Section 46 are now the same as those on other investments by foreign investors, and therefore there is no tax benefit to such approved investments under Section 46.

E. ECIL Preferential Accelerated Depreciation

An approved enterprise under the ECIL is entitled to accelerated depreciation on its property and equipment, regardless of its location. During the first five years of operation of these assets, the assets may be depreciated at rates of 200% of the ordinary rate of depreciation regarding equipment and up to 400% of the ordinary rate of depreciation for buildings. However, depreciation on buildings shall not exceed 20% per annum. It should be noted that accelerated depreciation at similar rates is also available to industrial companies under other legislation.