

WORLD TRADE ORGANIZATION

G/SCM/Q2/TPKM/3
23 October 2002

(02-5807)

Committee on Subsidies
and Countervailing Measures

Original: English

SUBSIDIES

Replies to Questions Posed by the UNITED STATES¹ and AUSTRALIA² Regarding the New and Full Notification of THE SEPARATE CUSTOMS TERRITORY OF TAIWAN, PENGHU, KINMEN AND MATSU³

The following communication, dated 21 October 2002, has been received from the Permanent Mission of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu.

QUESTIONS FROM THE UNITED STATES

II. FISHERY

Fishing Vessel Buy-Back Programme

Q1. Please explain in greater detail how this programme works. In your response, please address the following:

- (a) **What are the specific eligibility criteria? Why were the 5 fishing vessels that received funds during the reporting period selected over other applicants? Are vessels that are not currently or actively used eligible for purchase?**
- (b) **Describe any monitoring mechanism associated with this programme. For instance, what happens to the vessels that are bought back? Are there any restrictions on the use of funds received in these buy-backs?**

Reply

The programme is drawn up by the government in order to promote the conservation and management of fishery resources, and to take care of fishermen's livelihood and welfare.

1. Eligibility criteria

- (1) In the order of priority, the vessels eligible for the buy-back programme are:
 - (a) Long liner larger than 100 tons.

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² G/SCM/Q2/TPKM/2

³ G/SCM/N/71/TPKM

- (b) Trawler.
 - (c) Other types of fishing vessels
- (2) The method of calculating the buy-back value:
 - (a) The buy-back value is based on the tonnage of the vessel purchased, in principle it is calculated at NT\$15,000 per gross tonnage;
 - (b) The buy-back value for per gross tonnage is NT\$18,000 for those fishing vessels that had been in operation for more than 60 days in the previous year;
 - (c) The ceiling value for the buy-back programme is NT\$7,000,000 per vessel.
- 2. For the purpose of promoting a sustainable fisheries industry, the number of fishing vessels has been controlled by a licensing system in accordance with our Fisheries Law and related regulations. The license itself has become a valuable good, because the owner of the license can sell it to other fisherman who may use it to build a new vessel. The value of the license sold to other fishermen has usually been more favorable than the buy-back programme offers. This is the reason why there were only 5 fishing vessels purchased back by the fund during the reporting period.
- 3. Vessels that are eligible for the buy-back programme are those in poor condition or at a loss situation.
- 4. Purchased vessels will be remodelled into artificial reefs or taken apart for scrap.
- 5. There is not any restriction on the use of funds received from the buy-back programme.

Marine Insurance on Fishing Vessel and Fisherman

Q1. Please explain in greater detail how this programme works with regard to coverage of fishing vessels. For example:

- (a) What are the eligibility criteria?
- (b) What portion of insurance costs for a given vessel is covered under this programme?

What types of damage are covered and not covered (i.e. do these funds cover extraordinary disasters only, or is more routine damage also covered)?

Q2. Of the average total NT amount you have listed for this programme, how much of this represents benefits to fishing vessels (rather than to fishers)?

Reply

- 1. Eligibility criteria: Powered vessels operating in fishery with the tonnage less than 100 tons which are licensed by the competent authorities in accordance with related laws and regulations.
- 2. The range of premium to be subsidized is between 20 per cent and 70 per cent, depending on the tonnage of the vessels.

3. The types of damage covered in the insurance depend on the clauses of insurance policy. It normally includes disasters occurred in navigable waters, fires, and explosions.

4. The benefit of the programme is granted to fishing vessels. Its purpose is to encourage fishermen to insure against marine disasters so that a stable livelihood can be secured. The total amount of insurance granted by the government was NT\$97,108,000 in 2001.

Aquaculture Facilities Loan Programme

Q1. Please explain in greater detail how this programme works. In your response please address the following:

- (a) What are the eligibility criteria?
- (b) Are there certain aspects of the aquaculture industry this programme intends to promote, or is it more general. For example, do these funds cover regular working capital costs in the industry, or can these funds be used only to finance expansions or new projects?

Q2. Please clarify whether the total amount figure you have reported reflects the total value of the loans made under the programme or, instead, only the gap between the “guaranteed loan rate and the commercial bank interest rate.”

Reply

1. How the aquaculture facilities loan programme works:

- (1) Eligibility criteria: In terms of qualification for application, all members of the first grade category of any regional fishermen’s association or of any agriculture association, registered and licensed for aquaculture industry are eligible to apply for the loan.
- (2) The objectives of the loan programme: In Taiwan, there are three major types of aquaculture, namely, fresh water pond aquaculture, brackish water pond aquaculture and marine aquaculture. This programme covers all three types of aquaculture. The loan is limited to the purchase of production equipment for operating in aquaculture in general; therefore, it does not cover regular working capital costs in the industry.

2. The annual budget of the loan programme is NT\$100 million. Due to economic depression in recent years, fishermen have not been interested in applying for the loan. The total amount of loans granted was only NT\$17.55 million for the first 5 months in 2002. The reported total amount was the total value of the loans made under the programme during the reported period, not just the difference of loan rate and interest rate.

III. INDUSTRY

Five-year tax exemption for the emerging, important and strategic industries

Q1. Can you please explain which industries or sectors qualify as “emerging, important or strategic”?

Reply

The term “emerging, important and strategic industries” includes both manufacturing and technical service enterprises. The scope of products to be produced by manufacturing enterprises or of the technical services to be provided are defined as follows:

- 3 C (computer, communication and consumer electronics) industries
- Precision electronic elements industries
- Precision mechanical equipment industries
- Aerospace industries
- Biomedical and special chemical industries
- Green-technology-based industries
- High-grade material industries
- Technical service business

Q2. How many companies took advantage of this exemption during the notification period?

Reply

There was no application during the notification period.

Q3. Is this programme in any way contingent upon exporting? Do industries receive incentives for using locally produced goods in their products?

Reply

This programme is applicable to any companies established under the Company Law of Taiwan. There is no difference between companies using locally produced goods and imported goods in their products. Therefore, this programme is not in any way contingent upon exporting.

Five-Year tax credit for investment in disadvantage region

Q1. How many companies benefit from subsidies under this programme?

Reply

There has been 62 cases which received subsidy benefit under this programme during the period of July 1999 to December 2000.

Q2. What are the principal industry sectors that benefit from this programme?

Reply

In order to promote balanced development of industries in various geographical areas, if a company makes investment up to a specific amount of its capital or employs a specific number of employees in any industries of a county or township area with scanty natural resources or with slow development, it may credit up to twenty percent of the total amount of its investment against the amount of the for-profit enterprise income tax payable for the then current year. If the amount of the for-profit enterprise income tax payable for that year is less than the deductible amount, the balance may be used for further deduction in the following four years.

This programme is applicable to any companies established under the Company Law of Taiwan. The beneficiaries are not limited to any specific industry sectors.

LOANS

Medium and long term loans for product marketing, and loans for overseas investment and construction projects

Q1. Explain how the terms of these loans differ from the terms of typical commercial loans in Taiwan.

Reply

1. Typically, there is no de facto difference between commercial loans and these loans in Taiwan.
2. The capital of these loans is supported entirely by the SME Development Fund for providing loans for export, overseas investment and construction projects. Approved loan applications are implemented by Export-Import Bank of the Republic of China.
3. The interest rates of these loans are in line with the rates set by LIBOR (London Interbank Offered Rates).

Q2. What are the principal industry sectors that benefit from this programme?

Reply

1. All enterprises which meet “the Standards for Identifying a Small and Medium-Sized Enterprise” set by Executive Yuan are eligible for application.

According to “the Standards for Identifying a Small and Medium-Sized Enterprises,” SME refers to an enterprise which is a company or commercial enterprise registered in accordance with the law with capital or operating revenue below the following thresholds:

- (1) For enterprises engaged in manufacturing, construction, mining, or excavating business, paid-in capital of less than NT\$80 million, or
- (2) For enterprises engaged in agriculture, logging, fishing, the raising of livestock, utilities, commerce, transport, warehousing, communications, finance, insurance, real estate, commercial, social or individual services, with annual operating revenue of less than NT\$100 million.

Duty and Tax Exemptions for High-Technology Industries

Q1. Aside from the High Technology industries, what are the other industry sectors that benefit from locating within the “Park”?

Reply

All industries are welcomed by the Science-based Industrial Park. The threshold set up by the Park Supervisory Committee is not by industry sector but by technological level. The science-based industries currently established in the Park include the following business sectors: integrated circuits, computers and peripherals, telecommunications, optoelectronics, precision machinery and

biotechnology. The above-mentioned sectors are segregated for the convenience of statistics. All Park enterprises are entitled to duty free benefit within the bonded area.

Q2. Is this programme in any way contingent upon exporting? Do industries receive incentives for using locally produced goods in their products?

Reply

The programme has nothing to do with any exporting activities. Also, Park enterprises receive no incentives for using locally produced goods in their products.

Duty and Tax Exemptions for In-Zone Enterprises

Q1. What are the main industry sectors that benefit from locating within the “In-Zone”?

Reply

Enterprises made decision to locate within the EPZs based on their commercial consideration. Currently over 80 per cent of the enterprises in EPZs are the industries relate to IC, electronics, optoelectronics, communication and precision machinery. Other industries also include metal products, chemical products, garment and miscellaneous industrial products. All in-zone enterprises are entitled to duty free benefit within the bonded area.

QUESTIONS FROM AUSTRALIA

III. INDUSTRY

A. TAX CREDITS OR TAX EXEMPTIONS FOR DESIGNATED ENTERPRISES

1. Five-year tax exemption for the emerging, important and strategic industries

Q1. Can you please advise whether the programme is contingent in any way on the use of domestic content, or export performance?

Reply

This programme is applicable to any companies established under the Company Law of Taiwan. There is no difference between companies using locally produced goods and those using imported goods in their products. This programme is not in any way contingent upon a company's export performance either.

Q2. Can you please advise what are the type of high value-added industries that have benefited from the scheme during the reporting period?

Reply

This programme is to benefit the following types of industries:

- 3C (computer, communication and consumer electronics) industries
- Precision electronic elements industries
- Precision mechanical equipment industries

- Aerospace industries
- Biomedical and special chemical industries
- Green-technology-based industries
- High-grade material industries
- Technical service business

Q3. How many enterprises have benefited from this scheme during the reporting period?

Reply

There was no application during the notification period.

Q4. How is an “emerging, important or strategic” industry defined?

Reply

The answer is the same as for question 2.

Q5. What will be the maximum amount of funding that an enterprise can be eligible for on an annual basis?

Reply

This programme is a type of tax exemption, and whether for a newly incorporated enterprise or the expansion of an existing enterprise, the tax exemption is for a period of five consecutive years. There is no maximum amount of funding.

B. LOANS

2. Medium and long term loans for product marketing, and loans for overseas investment and construction projects

Q1. We note that the programme provides financial assistance to SMEs to explore new markets for machinery and equipment. Is the funding contingent on the export of these products?

Reply

1. The SME Development Fund provides financial assistance to SMEs not only to explore new markets for machinery and equipment, but also for the purpose of overseas investment and construction projects.

2. All enterprises which meet “the Standards for Identifying a Small and Medium-Sized Enterprise” set by the Executive Yuan are eligible for application. There is no discrimination for any sectors of SMEs.

3. The interest rates of these loans are in line with the rates set by LIBOR (London Inter-bank Offered Rates). The funding will not affect the competitiveness on the export of these products.

IV. RESEARCH AND DEVELOPMENT

Funds granted for development of products of the ten new leading industries.

Q1. What is the maximum level of grant and interest-free loan available per enterprise?

Reply

The average ratio of the granted fund, interest-free loan and self-raised fund are 12 per cent, 12 per cent and 76 per cent respectively.

Q2. Can you please advise whether the programme is contingent in any way on the use of domestic content, or export performance?

Reply

There is no difference between companies using locally produced goods and imported goods in their products, nor is this programme in any way contingent upon company's export performance.
