

WORLD TRADE ORGANIZATION

RESTRICTED
G/SCM/Q2/SGP/10
27 May 1999

(99-2142)

**Committee on Subsidies
and Countervailing Measures**

Original: English

SUBSIDIES

Replies to Follow-Up Questions from the EUROPEAN COMMUNITY¹ Regarding the New and Full Notification of SINGAPORE²

The following communication, dated 25 May 1999, has been received from the Permanent Mission of Singapore.

Q1. Pioneer incentive

A condition for receiving this incentive is that either there are no companies in Singapore performing a similar activity, or that those companies performing a similar activity are/have been awarded a pioneer incentive.

This would seem to imply that if there are already companies in Singapore performing a certain activity which have not received this incentive, no other company operating in this sector is eligible. On this basis, the criteria for eligibility are not objective, but depend, in a purely arbitrary manner, on the sector of activity concerned. Singapore is requested to explain why there is no specificity under Article 2 of the Agreement in such circumstances, since access to the subsidy is clearly limited to certain enterprises i.e. those engaged in the eligible sectors, and it is known in advance that certain enterprises will be ineligible, due to the nature of their activities.

Reply

The pioneer incentive is not specific within the meaning of Article 2 of the Agreement on Subsidies and Countervailing Measures ("the Agreement"). The objective of the pioneer incentive is to encourage creation of industries not yet established in Singapore or not established on a scale adequate for Singapore's economic needs. It has two criteria:

1. Project introduces into an industry technology, know-how or skills which are substantially more advanced than the average industry level.
2. There are either no companies in Singapore performing a similar activity, or companies performing a similar activity are/have been awarded a pioneer incentive.

Criterion 1 is economic in nature and applies horizontally to all companies. There is no limitation whatsoever. Consequently, any project that introduces "technology, know-how or skills"

¹ G/SCM/Q2/SGP/9

² G/SCM/N/38/SGP

that is substantially above the average industry level qualifies. Criterion 2 is logically derived from the objective of the incentive. It states that when no company performing a similar activity exists in Singapore, then the benefit should be granted. Therefore it is clear that the pioneer incentive is not only available to new industries but also to all existing industries in Singapore.

Based on the above, the EC's stated premise that "if there are already companies in Singapore performing a similar activity which have not received the incentive, no other company operating in this sector is eligible" is inaccurate. The term "similar activity" is used in reference to the level of technology, know-how or skills introduced by the company, and not just on the sector of activity. As long as a company introduces "technology, know-how or skills" that are substantially more advanced than the average industry level, it will be eligible for the incentive.

It is therefore clear that the pioneer incentive does not discriminate between industry sectors, but serves to encourage enterprises that substantially advance the level of "industry technology, know-how or skills" in that industry in Singapore.

Q2. Local enterprise technical assistance and finance schemes (LETAS and LEFS)

Access to this subsidy is limited to certain enterprises i.e. those with not more than 70 per cent foreign shareholding. Can Singapore explain why this criteria is objective, in accordance with footnote 2 of the Agreement?

Reply

The Local Enterprise Technical Assistance Scheme (LETAS) and the Local Enterprise Finance Scheme (LEFS) are consistent with Singapore's obligations under footnote 2 of the Agreement.³

The condition of "not more than 70 per cent foreign shareholding" falls within the definition of "objective" as defined in footnote 2 of the Agreement. Such a condition is economic in nature (i.e. based upon shareholder data and investment) and applies horizontally to all industries in Singapore. There is no "enterprise or industry or group of industries" that is favoured in the application of the condition. All are subject to the same "neutral" condition.

The EC's question suggests that any condition that separates certain enterprises into those that qualify and those that do not result in a specific subsidy. Obviously, this cannot be the meaning of "objective criteria or conditions". The two examples provided in footnote 2 illustrate that the EC's question is misplaced. A programme that establishes a minimum "number of employees" or "size of enterprises" obviously also segregates enterprises into those that qualify and those that do not. This is not the basis for finding that a programme is specific. These two examples highlight that a condition of "not more than 70 per cent foreign shareholding" is similar in that it is neutral, does not favour certain enterprises, and is economic in nature and horizontal in application.

³ Footnote 2 of the Agreement states that "objective criteria or conditions, mean criteria or conditions which are neutral, which do not favour certain enterprises over others, and which are economic in nature and horizontal in application, such as number of employees or size of enterprise".