

WORLD TRADE ORGANIZATION

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Committee on Subsidies and Countervailing Measures

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SUBSIDIES

Replies of SLOVENIA to Questions Posed by the UNITED STATES¹ and POLAND²

The following communication, dated 29 April 1997, has been received from the Permanent Mission of Slovenia.

UNITED STATES

The Development Fund (SKLAD) of the Republic of Slovenia

Question 1

Please describe how the Fund is administered - in particular, the role of the Government of Slovenia and how the Fund interacts with the companies "under its management".

Answer

The Fund is a stock company of which the sole owner is the Republic of Slovenia. The founding capital is SIT 1 billion (US\$6.7 million in current dollars). It was established by a special law which specifies its role, manner of operation, responsibilities. The director of the Fund is proposed by the Government and approved by the Parliament (State Council). The Fund reports to the State Council. In its day-to-day operations the Fund acts autonomously.

The Fund manages securities, other financial instruments and means which were or are paid in the process of privatization and restructuring of companies and banks. Proceeds may come from receiverships and bankruptcy and liquidation proceedings from remaining company assets. The Fund operates in its own name and on its own account and, by law, it must cover its own costs of operation. The Fund may also undertake to manage and restructure a company in the name and on the account of another party.

The Fund, therefore, operates within the means at its disposal. Within these means its functions are to supervise and assist companies undergoing restructuring and privatization (if they have not yet been privatized). Specifically its functions are:

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- to establish a management structure in a company with the assignment to make the company turn a profit or to complete the privatization process;
- by legal means, such as receivership to preserve "healthy" programmes of economic activity in a company and ultimately keep the company in business;
- to negotiate with major creditors of a company a conversion of outstanding debts into equity, a reprogramming of debts, and other means of debt disposal;
- to supply active companies with new capital which allows new economically justifiable activities;
- to dispose of superfluous assets of companies (in the process of streamlining its activities) and to sell privatized and restructured companies to new owners, whether domestic or foreign.

The Fund initially supervised 113 companies in 1992. Since then, 56 companies were sold to new owners, employing approximately 16,000 people. Presently it manages 57 companies employing about 15,500 people. The Fund will cease to exist when the process of privatization in Slovenia will be terminated. Then the Fund itself will be privatized. It is expected that it will be mainly purchased by the banks.

Question 2

Please provide a list of the industrial sectors that include the companies serviced by the Fund.

Answer

The industrial sectors which the Fund services are:

- the steel industry
- non-ferrous metals industry
- machinery manufacturing
- transportation equipment and vehicles production
- electric machinery and equipment production
- basic chemicals industry
- industry related to construction
- wood-processing industry
- paper production
- textile industry
- leather processing
- food processing.

Question 3

What was the amount provided by the Fund to the companies in 1995 either in capital infusions, grants, loans, debt relief, or tax reductions/exemptions? Please provide further information on the types of assistance provided to companies through the Fund (including, for example, an indication of the time-frame for which loans and tax-reductions/exemptions are provided).

Answer

The Fund does not provide any tax reductions or exemptions since it has no authority. In 1995 the Fund provided:

- DM 125 million in short-term credits
- DM 115 million in long-term credits
- DM 33.8 million in credit guarantees
- US\$28.75 million of outstanding debt was written off
- capital infusions amounted to US\$8.75 million.

(calculated at SIT 160 per US\$1.00)

Question 4

4. *Would it be possible to provide any statistical information that would allow an estimation of the potential trade effects of this Fund?*

Answer

Specific statistical information which would allow any reliable estimation of the potential trade effects of the Fund are not available. However, there is one clear indicator of the results of Fund's management. That is the reduction of the level of accumulated losses, generated by the companies under the Fund's management. In 1992 the aggregated losses amounted to DM 675 million, in 1993 they amounted to DM 433 million, in 1994 they were reduced to DM 195 million, in 1995 they amounted to DM 202 million. The reduction of losses is attributable to better management of the companies, to the streamlining of activities, to processing and technological improvements, to better quality of products. Elimination of all losses of the managed companies there will be no necessity to maintain the Fund in its present function.

Question 5

Restructuring of the Steel Industry

Please clarify what is meant by "higher grade products more suited to market demand" and provide a list of steel products produced by the companies associated with the Slovene Steel Corporation.

Answer

The quoted phraseology refers to technical specifications of products which justify a value added treatment of these products in the market, based on special processing and quality demands. The corresponding steel products are:

- cementation steel
- hardening and tempering steels
- spring steels
- semi-processed electrical steels
- stainless steels
- alloyed cold working tool steels
- high speed steels
- welding consumables, coated electrodes for arc welding, wires for automatic submerged welding.

Question 6

Aid to the Paper Industry

Please explain in more detail the policy implemented by this programme. What is meant by "special papers"?

Answer

The aid to the particular producer of paper was a single incidence of assistance aiming to infuse additional capital into the plant (in exchange for equity). There was no further aid in 1996. In the course of 1997 the industry will be privatized.

"Special papers" are paper products which are used in the printing of currency, in the printing of stock and other certificates and in the printing of special documents and for other special purposes.

Question 7

Please explain in more detail your response on the duration of the subsidy. How does the market position of the company affect the amount of assistance received? Is the market position the same as market share?

Answer

As replied above, there was no further aid to the paper plant in 1996. Additional capitalization of the company significantly reduced its losses and helped it to regain its previous "market position", which includes its market share, and especially to reestablish relations with buyers of its products.

Question 8

Restructuring of Mines

Is there more than one programme under this heading? If so, please explain and provide all information requested under Article 25 for each programme.

Answer

It is in fact one programme, under the auspices of the Ministry for Economic Affairs, with the same objectives, but pertaining to different mining operations and legislated separately. The main objective is the closure of sub-bituminous coal mines, lignite-producing mines, the mercury mine, the zinc and lead mines, the uranium mine.

In the case of the mercury mine (closure operations began in 1987) and the zinc and lead mines (closure operations began in 1988), which in 1995 had no production funds were provided for work required for dismantling of the equipment, filling of shafts, removal of slag and other environmental restoration work.

In the case of sub-bituminous coal and lignite mining, the energy policies of the Government changed in 1995 and subsidization of these mines was necessary to keep them operating until the end of the year for reasons of maintaining employment. In 1996 subsidies were limited to the decommissioning of the mines and reemployment. All subsidies for lignite mining ended in 1995.

In the case of the uranium mine all expenditures were used for decommissioning purposes.

Question 9

Restructuring of the Manufacturing Sector and Technological Development of Industry

Please indicate the industrial sectors that received assistance from this programme in 1995.

Answer

There were three types of assistance: subsidization of interest rates on commercial credits, credit guarantees through the Ministry of Economic Affairs and technological development assistance through the Ministry of Science and Technology. In all cases public invitations to apply for assistance were published, with defined criteria and eligibility requirements.

The sectors receiving assistance were:

- food processing and tobacco industry
- textiles industry
- leather and leather processing industry
- wood processing industry
- paper industry, printing and publishing
- chemical industry
- mineral products industry
- metals processing industry
- machinery and production of industrial equipment
- production of electrical and optical equipment
- production of vehicles and vessels
- processing on the basis of recycling
- rubber and plastics industry (credit guarantees only).

Question 10

Please describe the application and selection process for companies receiving assistance under this programme.

Answer

The application and selection process of eligible companies requesting assistance is standardized by regulations. Competent ministries publish a public invitation to submit applications in the Official Gazette. A special commission to receive and examine applications is formed, including independent experts. In the public notice the policy objectives of the assistance are indicated (such as assistance to support employment) and other conditions such as justification for assistance and the required documentation and proof of eligibility.

Generally, companies had to demonstrate that they have a restructuring programme and they need assistance or temporary relief to implement it and that in this context they are starting new production and product lines, that they are introducing cleaner technology and processing methods, that they are able to meet environmental and employment criteria.

In substantiation of the above, sufficient documentation is requested, including feasibility studies, financial reports, proof of credit arrangements with commercial banks, independent expert assessments of environmental, technical and technological and other conditions. Applications which were not sufficiently documented were not taken into consideration.

Regarding applications processed by the Ministry of Science and Technology projects were assessed and reviewed according to their specific characteristics: in the area of applied industrial research technological and economic merits of the projects were examined; in the area of innovation schemes intellectual property aspects were taken into account, such as patentability; for research scientists, the condition was their first employment.

Similar procedures, as described above, were followed in cases of applications for credit guarantees. A public invitation was published to attract applications from companies. Only companies with a good credit rating were taken into consideration. Companies had to show that they are pursuing specific development programmes and targets and that they have sufficiently qualified management to implement the programmes. In 1995 only 25% of the applications received were approved.

Question 11

Explain how research grants are provided. What is the percentage of the costs of the project that the Government underwrites? What is the type of research conducted? What types of costs does the Government underwrite? Who are the recipients of research grants?

Answer

Research grants are provided for applied industrial research for a specified duration of the project. Grants are paid in instalments. The Government covered up to 10% of the total cost of a research project and up to 50% of the cost of the initial research and development phase. The recipients of grants were individual companies, applicants.

Question 12

Aid to Small- and Medium-Business and Post Privatization Assistance

Please describe the application and selection process for companies receiving assistance under this programme.

Answer

In 1995 the Ministry of Economic Affairs issued its last public invitation to apply for assistance under this heading and that was limited to subsidization of interest rates. The procedure followed for the selection of companies was a procedure that is standard for government assistance, i.e. through a public invitation to file applications with required documentation. A commission, which includes outside experts, selects eligible companies on the basis of transparent, publicly notified criteria.

Question 13

Please explain how research grants are provided. What is the percentage of the costs of the project that the Government underwrites? What is the type of research conducted? What types of costs does the Government underwrite? Who are the recipients of research grants?

Answer

See the reply to question 11. There is no specific treatment of small and medium business in funding of research.

Question 14

Please elaborate on how the less-developed regions and the demographically-depressed areas were selected. Describe criteria used in this process.

Answer

The basic legislation in this area was adopted in 1990 and this is the Law on the Promotion of the Development of Demographically Endangered Areas in the Republic of Slovenia (RS 48-2306/90), which came into force on 1 January 1990. The law was further elaborated by rules and decisions for specified forms of assistance (mainly infrastructure). For the period 1994 to 1996 the Decree on Areas Designated as Demographically Endangered came into force on 25 May 1994. This Decree included criteria for the special treatment of certain local communities. The criteria were a combination of generally recognized demographic indicators and economic indicators which define development, such as communications development, geographic remoteness, employment possibilities, economic viability of the community as a whole and migration patterns, local income levels, etc.

Question 15

Slovene Export Corporation (SID)

15. *Please explain how SID operates and how the assistance is provided. Indicate whether revenues are sufficient to cover the operating costs of this activity in the long run, specifying the period in which this would be measured. If the revenues are not sufficient, please indicate what other sources of income may be used to finance this programme.*

Question 16

16. *Please describe the process that companies must follow to receive assistance under this programme.*

Answer

The attached supplementary information paper explains in a detailed manner the operations of the Slovene Export Corporation and contains replies to the above questions (see attachment).

Question 17

Transport Service Subsidies

Please indicate the industrial sectors which benefit from this type of assistance in 1995.

Answer

The assistance in the area of transport is designed to stimulate multi-modal transport rather than benefit any particular industrial sector or sectors. The policy objective is to support more efficient transport. The assistance was generally available to companies making use of containerized shipping.

POLAND

Question

Aid to Small and Medium Business and Post Privatization Assistance

Could Slovenia please define small and medium enterprises, provided that such definitions exist in Slovenia's legal system?

Answer

The Law on the Development of Small Business (Official Gazette No. 18/1991) defines small business as:

1. Companies employing up to 125 persons in the following economic sectors:
 - transport and communications
 - wholesale trade
 - catering and tourism
 - small manufacturing and similar activities
 - limited trades and services provided by single proprietors or partnerships
 - civil engineering, architectural, financial, technical and business services.
2. Companies which employ up to 50 persons in industry, mining and construction.
3. Trades cooperatives.
4. Self-employed persons in the area of licensed commercial activities.

Replies to Questions Nos. 15 and 16 - Slovene Export Corporation (SEC)

Ad 15

(a) The Slovene Export Corporation, Inc. was established in autumn 1992. It is a joint-stock company, the major shareholder being the Republic of Slovenia. The remaining shareholders are the banks, insurance companies, broker firms and other companies. The paid-in founding capital of SEC at the end of 1996 amounted to US\$60 million and the SEC's guarantee capital as of the same day amounted to US\$67 million.

The principal activities of the SEC are:

- export credit and investment insurance against commercial and non-commercial risks,
- refinancing of short-term and long-term export credits (supplier's/buyer's credits)
- issuing of bonds (service guarantees), especially for capital goods suppliers.

The above-mentioned activities are carried out by SEC on its own account, except the insurance against medium-term commercial risks and non-commercial risks, where the SEC acts on the state account. For its contractual obligations the SEC guarantees with its guarantee capital.

For the settlement of its liabilities towards insurees and for covering losses arising from insurance against medium-term commercial risks and non-commercial risks, which SEC performs on its own account, one can use also SEC's security reserves. The latter are formed out of insurance premiums and the share of profit, which the corporation generates from insurance business against medium-term commercial and non-commercial risks.

The security reserves of the SEC amounted on 31 December 1996 to US\$2.7 million. The initial funds for the security reserves were provided by the state. The security reserves are off the SEC's balance sheet and are in the form of long-term SEC's liabilities towards the Republic of Slovenia and are increased or decreased according to the SEC's business results in this particular field of its operations. Should the corporation fail to refund generated losses from the security reserves, the necessary funds for the compensation payments, resulting from the insurance against medium-term commercial and non-commercial risks, are being provided by the Republic of Slovenia, namely its budget.

The insurance against short-term commercial risks, which SEC performs on its own account, is based on the positive results achieved in the past years. Positive are also the operational results of the SEC in the field of insurance against non-commercial risks, which SEC performs, like in 1995 introduced insurance against medium-term commercial risks, on the state account (the premium income from insurance against medium-term commercial risks last year amounted to US\$170,000). Since 1993, when SEC introduced the insurance against non-commercial risks, the yearly premium income has increased (in 1993 - US\$31,000, in 1994 - US\$81,000, in 1995 - US\$359,000 and last year it reached a level of US\$552,000). During all these years SEC paid only one claim in the amount of US\$500,000, which it succeeded to get recovered from the debtor the very same year. The SEC's premiums are fixed for each individual country, on the basis of SEC's country-risk assessment and country classification in five risk categories and are dependent, *inter alia*, on the insurance period and reflect the risk of each individual export business (commercial premium rates are based on the length of insurance period and vary between 0.1% and 3.4%; they may be also increased for concrete deals in a specific individual country). Similarly, SEC in its operation takes into account the established country limits and also

takes into consideration the agreements reached within the framework of the Bern Union and the OECD Consensus.

Irrespective of the fact, that the SEC has had only four years of experience since it started with the insurance against non-commercial risks (and this is a relatively short period for an analysis of perspectives and long-term business results of SEC in the said field), we believe, that the SEC's pricing allows, bearing in mind the premium differentiation with respect to the risk level of the export business deals, considering the SEC's business policy and its insurance conditions, established country limits as well as in the state budget stipulated upper limit for SEC's exposure (last year this exposure was fixed in the amount of US\$350 million), considering also the volume of the security reserves and budgetary means available for covering of possible losses arising from insurance deals, the premium income from the above insurance, will be most probably sufficient to cover the SEC's future operational costs and the settlement of liabilities towards insurees in this domain of the SEC's activities.

(b) SEC is refinancing export credits (supplier's/buyer's credits) particularly in the case of the export of capital goods or quasi-capital goods, construction works abroad as well as the export of consumer durables. The turnover of refinancing in 1996 amounted to US\$179 million (in 1995 US\$106 million). SEC is refinancing export credits with regard to the type of the exported goods and services in the amount of 50-85% of the credit, whereby the average level of refinancing in most credits approved, being 50% in 1996. SEC performs this activity on its own account. The SEC's interest rates for tolar credits were with regard to the tenor of crediting from BIR + 5.5 - 6.25% (BIR: basic interest rate, i.e. average of previous four month inflation). The source for refinancing of export credits is the SEC's paid-in capital which at the present rate of refinancing has been sufficient for the approval of 699 out of 717 submitted requests in 1996.

Last year SEC disbursed for refinancing of supplier's export credits as a government agent SIT 400.2 million from the state budget. The level of subsidies of the tolar real interest rate have been with regard to the tenor of credits and the type of exported goods, between 14-30% (respectively in the second half of the year 21-45%), whereby most of the credits were subject to 14% subsidies (respectively 21% in the second half of the year). The final SEC's subsidized interest rate, for which the borrowers - exporters, as final beneficiaries of the subsidization, were entitled reached BIR + 4.95-7.11%.

The subsidized tolar interest rates are comparable and anyhow lower than the minimum interest rates stipulated in the OECD Consensus. With the envisaged SEC's borrowings on foreign financial markets, SEC will be in a position to ensure the funding sources for export financing in foreign currency, which will diminish the requirement for subsidizing the tolar interest rates.

Ad 16

For the insurance and/or refinancing, the exporter or the bank submits SEC a request application. In line with the business policy and after review of the request applications and the required documentation, on the proposal of the executive directors, responsible for the individual sector, the SEC Board approves the conclusion of the insurance or refinancing contracts. Refinancing business operations which exceed 5% of the SEC's guarantee capital, as well as insurance and guarantee operations which exceed 10% of the Corporation's guarantee capital, must be approved by the Inter-Ministerial Committee. The subsidies are calculated by SEC on a quarterly basis for the past period and on the basis of the calculation of commercial banks which had invoiced interest rates payments to final beneficiaries. The subsidies are credited to the final beneficiaries directly for the whole part of the credit (also for non-refinanced portion of credit which the bank approved to the final beneficiary-exporter).