

WORLD TRADE ORGANIZATION

G/SCM/N/71/BRB

1 March 2002

(02-1025)

**Committee on Subsidies
and Countervailing Measures**

Original: English

SUBSIDIES

New and Full Notification Pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures

BARBADOS

The following communication, dated 27 February 2002, has been received from the Permanent Mission of Barbados.

This notification is submitted by the Government of Barbados in accordance with Article 27.4 of the Agreement on Subsidies and Countervailing Measures and the provisions contained in document G/SCM/39.

Barbados submitted an initial notification (G/SCM/N/74/BRB) on 28 December 2001 requesting an exemption for a number of programmes. It has been determined that certain programmes referred to in the initial notification for which extension was sought are of a form other than tax or duty exemption. The programmes for which exemption is now being sought under Article 27.4 and the provisions of document G/SCM/39 are as follows:

- (i) Fiscal Incentive Programme
- (ii) Export Allowance
- (iii) Research and Development Allowance
- (iv) International Business Incentives
- (v) Societies With Restricted Liability

Details of these programmes are contained in Section I of the attachment to this correspondence.

Section II of the attachment contains details of the following programmes which are being notified under Article 27.4 :

- (i) Export Grant and Incentive Scheme
- (ii) Export Rediscount Facility
- (iii) Export Credit Insurance Scheme
- (iv) Export Finance Guarantee Scheme

It has been determined that Article 27.4 is not relevant to those programmes notified in G/SCM/N/74/BRB but not now referred to in Section I or Section II of this notification.

It is to be noted that this notification is made taking account of Article 25.7 of the Agreement on Subsidies and Countervailing Measures.

SECTION I

Programme 1

1. Title of Programme

Fiscal Incentives Programme.

2. Period covered by Notification

As of September 2001.

3. Policy Objective

To stimulate greater levels of production of selected products required for domestic use and in demand extra-regionally, as well as to utilize raw materials or skills in Barbados.

4. Background and Authority of Subsidy

Fiscal incentives are provided under the authority of the Fiscal Incentives Act and are administered by the Barbados Investment and Development Corporation.

5. Form of Subsidy

Approved enterprises are granted exemption from corporation tax, and customs duties on plant, equipment, machinery, spare parts, raw materials or components as well as the 15 per cent Value Added Tax.

6. To whom and how is the subsidy provided

Under the Fiscal Incentives Act Cap 71, Barbadian or foreign owned companies may qualify for benefits under this legislation. A company which satisfies specific criteria may be granted 'Approved Enterprise' status by the Minister responsible for Economic Development. An 'Approved Enterprise' is therefore defined as an enterprise which is approved by the Minister for the purpose of conferring a benefit under the Act and which is or will be engaged in the production of an 'approved product'.

The Act requires that the applicant must produce evidence of the availability of financing, technical expertise and the other resources required to set up a viable operation.

The Minister will declare a product to be an 'approved product' if he considers that it will:

- (a) be of benefit to the island, both economic and non-economic considerations being taken into account; and
- (b) have a beneficial effect on employment in numbers and gross wages.

An 'Enterprise' means any company registered in Barbados. 'Industry' means a manufacturing or processing industry and includes deep-sea fishing and shrimping where they form part of an integrated processing operation but does not include agriculture or tourism (this does not exclude agro-industry).

The main benefits which are offered to prospective investors are exemption from income tax and relief from customs duty over a period of between 11 and 15 years which is referred to as the tax holiday period.

Section 21 (1) of the Act provides that during the period of its tax holiday an approved enterprise will receive relief from customs duty on all imports of plant, equipment, machinery, spare parts, raw materials or components thereof which are required for the following purposes where such articles are not available in the CARICOM region:

- (a) for constructing, altering reconstructing or extend the approved enterprise, or
- (b) for use by the enterprise in the manufacture of an approved product

The Act sets out the maximum number of years tax holiday which an approved enterprise may receive, depending on its classification. The following table shows the maximum number of years for which an approved enterprise may receive relief from income tax and customs duty.

	Local Value Added	Years
Group I	50% and over	15
Group II	25% and under 50%	13
Group III	10% and under 25%	11
Enclave and Highly Capital Intensive Industries		15

Group I Enterprises - these are enterprises whose local value added in respect of the approved products amounts to 50 per cent or more of the value of sales ex-factory of the product.

Group II Enterprises - these are enterprises whose local value added in respect of approved products amounts to 25 per cent but less than 50 per cent of the receipts from sales ex-factory.

Group III Enterprises - these are enterprises whose local value added in respect of the approved products amounts to 10 per cent but less than 25 per cent of the receipts from sales ex-factory.

An Enclave Enterprise is one which manufactures products exclusively for export outside CARICOM.

Highly Capital Intensive Industries - these are enterprises which involve a capital investment not less than US\$25 million and are eligible for a 10-year tax holiday irrespective of their local value added.

The extent of benefits under the Fiscal Incentives Act to be enjoyed by an approved enterprise is determined by the contribution of the enterprise to the national and regional economy measured in terms of local value added.

7. Subsidy per Unit or the Total Amount Budgeted for that Subsidy

For the period 1999-2001 a total of BDS\$32,797,440 in revenue remitted for fiscal incentives was recorded by the Customs Department.

8. Duration of a subsidy and/or time limits attached to it

Indefinite

9. Statistical data permitting an assessment of the trade effects of a subsidy

For the period 1999-2001 fourteen (14) companies received fiscal incentives.

Programme 2

1. Title of Programme

Export Allowance

2. Period covered by Notification

As of September 2001

3. Policy Objective

To stimulate exports to foreign markets.

4. Background and Authority of Subsidy

Allowances are provided under the authority of the Income Tax Act (section 14A and first schedule of the Income Tax Act) and are administered by the Commissioner of Inland Revenue.

5. Form of Subsidy

Income tax credit is in the form of a tax rebate of tax payable on taxable income.

6. To whom and how is the subsidy provided

Under this Act, enterprises exporting to a non-CARICOM country and which do not obtain benefits under the Fiscal Incentives Act is entitled to a rebate of income or corporation tax on the export profits of the business. This rebate is based on the percentage of export sales to total sales. In computing the tax payable for any income year of such an enterprise an allowance is granted against the tax payable on the taxable income. The rates are as shown below:

Export Profits as % of Total Profits	Rebate of Income Tax as % of Income Tax on Export Profits	Effective Rate of Tax
Up to 20%	35%	26.0%
21 to 40%	45%	22.0%
41 to 60%	64%	14.4%
61 to 80%	79%	8.4%
Over 80%	93%	2.8%

Businesses entitled to this allowance may also claim a 40 per cent investment allowance instead of the normal initial allowance of 20 per cent.

Similarly, companies in the manufacturing and refining of sugar and in the manufacture of products from clay or limestone for the domestic and export markets are also entitled to a 40 per cent investment allowance.

7. Subsidy per Unit or the Total Amount Budgeted for that Subsidy

Income Year	Amount of Export Allowance Granted (BDS\$)
1998	2,907,255
1999	2,723,894
2000	4,277,737

8. Duration of a subsidy and/or time limits attached to it

Indefinite

9. Statistical data permitting an assessment of the trade effects of a subsidy

Income Year	Number of Companies
1998	186
1999	82
2000	51

Programme 3

1. Title of Programme

Research and Development Allowance.

2. Period covered by notification

As of September 2001.

3. Policy Objective

To encourage/facilitate and promote the development of export sales while assisting exporters in penetrating new and existing markets.

4. Background and Authority of Subsidy

Allowances are provided under the authority of the Income Tax Act (Section 12D and Part I of the schedule of the Income Tax Act) and are administered by the Commissioner of Inland Revenue.

5. Form of Subsidy

Deduction from taxable income.

6. To whom and how is the subsidy provided

Under this Act businesses engaged in exporting to a country outside of the CARICOM Common Market which make an expenditure on market research and development for the purpose of promoting the export sales of the business, is entitled to deduct from taxable income an amount equal to 150 per cent of the actual expenditure incurred.

7. Subsidy per Unit or the Total Amount Budgeted for that Subsidy

Unavailable.

8. Duration of a subsidy and/or time limits attached to it

Indefinite.

9. Statistical data permitting an assessment of the trade effects of a subsidy

Information of the trade effects is not available.

Programme 4

1. Title of Subsidy

International Business Incentives.

2. Period Covered by Notification

As of September 2001.

3. Policy objective and/or purpose of the subsidy

One of Barbados' key objectives is the continuing diversification of the economy with an increasing focus on the provision of high quality goods and services from Barbados. The aim is to ensure the creation of employment, the earning of foreign currency and the encouragement of technology transfers.

The International Business Companies (IBC) legislation is intended to encourage this development through the provision to local and international investors of incentives by way of tax reduction, exemptions and benefits for international manufacturing and international trade and commerce from within Barbados.

4. Background and authority of the subsidy

Incentives are provided under the authority of the International Business Companies Act Cap.71 and administered by the Ministry of Economic Development and the Commissioner of Inland Revenue.

5. Form of subsidy

Tax and duty concessions.

6. To whom and how the subsidy is provided?

The incentives/concessions are provided to entities licensed under the International Business Companies (IBC) legislation. Tax on income on a sliding scale is administered through the Department of Inland Revenue when tax returns are filed with that Department. Exemptions from the withholding tax are also administered by the Commissioner of Inland Revenue.

A 35 per cent income tax exemption may be granted to individuals who meet the criteria of specially qualified individuals and where the IBC is unable to acquire their skills within CARICOM. This concession is administered by the Ministry of Economic Development, which makes recommendations to the Ministry of Finance, the latter having the authority to grant tax concessions under the Act.

The IBC Act also makes provision for duty-free concessions to licensed IBCs for the importation of plant, machinery, equipment, fixtures, appliances, apparatus, tools and spare parts and such raw materials, goods, components and articles, as is necessary for the company to carry on its international business. The grant of a licence allows this concession, which is administered by the Customs Department under the customs legislation.

The Act makes provision for a guarantee period of 15 years, for which timeframe the licensed entity would be guaranteed the concessions.

7. Subsidy per unit, or in cases where it is not possible, total amount or the annual amount budgeted for that subsidy.

Tax Concessions.

Year	Value of Subsidy (BDS\$)
1998	2,244,105
1999	9,986,550
2000	19,215,780

The value of the subsidy was computed by subtracting the tax payable from the total tax payable if the tax rate of 40 per cent were applicable to the companies registered under the IBC Act.

Duty Concessions

The amount of duty forgone annually for companies registered under the IBC Act over the past three years is as follows:

Year	Duty Foregone (BDS\$)
1999	9,236,976
2000	9,057,199
2001	6,761,844

8. Duration of the Subsidy

Indefinite.

9. Statistical data permitting an assessment of the trade effects of the subsidy

Year	No. of Companies
1998	4
1999	8
2000	9
2001	6

Programme 5

1. Title of Subsidy

Tax and Duty Concessions- Societies with Restricted Liability.

2. Period covered by notification

As of September 2001.

3. Policy and objective and/or purpose of subsidy

The Societies with Restricted Liability (SLR) Act was developed in keeping with the Government policy to widen the range of products available to investors in the international business and financial services sectors. In its efforts to harmonize incentives in this sector, the SRL Act makes provisions for similar incentives as those granted in the International Business Companies (IBC) Act.

4. Background and authority of the subsidy

The Societies with Restricted Liability Act was enacted in 1995. This Act created the Society with Restricted Liability as a hybrid entity, which has the features of a company as well as a partnership. Incentives are provided under the authority of the Societies with Restricted Liability Act 1995-7 and are administered by the Ministry of Economic Development and the Ministry of Finance (Department of Inland Revenue and the Customs Department).

5. Form of subsidy

Tax and duty concessions.

6. To whom and how is the subsidy provided?

The incentives are provided to entities licensed under the Societies with Restricted Liability Act. Tax on income on a sliding scale is administered through the Department of Inland Revenue when tax returns are filed with that Department. Exemptions from withholding tax are also administered by the Inland Revenue Department.

A 35 per cent income tax exemption may be granted to individuals who meet the criteria of specially qualified individuals and where the SRL is unable to acquire their skills within CARICOM. This concession is administered by the Ministry of Economic Development, which makes recommendations to the Ministry of Finance, the latter having the authority to grant tax concessions under the Act.

The SRL Act also makes provision for duty-free concessions to licensed SRLs for the importation of plant, machinery, equipment, fixtures, appliances, apparatus, tools and spare parts and such raw materials, goods, components and articles, as is necessary for the company to carry on its international business. The grant of a licence allows this concession, which is administered by the Customs Department under the customs legislation.

One of the characteristics of the SRL is that it has a maximum life of 50 years, so that the concession will not exceed that period. The Act however makes provision for a guarantee period of 30 years, for which timeframe the licensed entity is guaranteed the concessions.

7. Subsidy per unit, or in cases where it is not possible, total amount or the annual amount budgeted for that subsidy

Year	Taxes Remitted (BD\$)
2000	16,883
2001	545,839

8. Duration of a subsidy and/or any time limits attached to it

Indefinite.

9. Statistical data permitting an assessment of the trade effects of a subsidy

To date, there is one (1) manufacturing firm registered under the SRL Act.

Section II

Programme 1

1. Title

Export Grant and Incentive Scheme (EGIS)

2. Period covered by Notification

Measure as of September 2001.

3. Policy Objective

To facilitate the export marketing efforts of companies.

4. Background and Authority of Subsidy

The scheme is provided under the authority of the Fiscal Incentives Act and is administered by the Barbados Investment and Development Corporation (BIDC) whose responsibility is to encourage, promote and facilitate the development of export trade.

5. Form of subsidy

Grant

6. To whom and how is the subsidy provided

The EGIS is a reimbursable grant scheme which provides assistance to manufacturers and service companies undertaking the following activities: trade missions, participation in international exhibitions, market research, and advertising and sales promotion.

The scheme funds one company official per activity. An application must be made to BIDC giving full details of the proposed visit and costs two weeks prior to the activity. Approvals and support levels must be determined and a commitment letter issued to the company before the project is implemented.

The level of support is 50 per cent or 75 per cent of the direct cost of each marketing activity. Reimbursable costs include airfare, registration and booth space. A standard per diem is used to calculate the reimbursable expenses relating to hotel accommodation, ground transportation and meals.

7. Subsidy per Unit or the Total Amount Budgeted for that Subsidy

Year	Amount Budgeted (US\$)
1999	65,000
2000	65,000
2001	75,000

8. Duration of a subsidy and/or time limits attached to it

Indefinite.

9. Statistical data permitting an assessment of the trade effects of a subsidy

Year	# of Benefiting Companies	Value of Exports	% of Domestic Exports
2000	29	\$11,149,453	2.94
2001	44	\$52,904,392	15.34

Programme 2

1. Title of Subsidy

Export Rediscount Facility.

2. Period covered by Notification

As of September 2001.

3. Policy and Objective and/or Purpose of Subsidy

To encourage small and medium-sized Barbadian exporters to increase their exports by discounting their export receivables and enhancing their cashflow cycle.

4. Background and authority of the Subsidy.

Central Bank Act.

5. Form of Subsidy

Exporters discount their export bills with commercial banks which in turn rediscount them with the Central Bank.

6. To whom and how is the Subsidy provided?

Exporters who have export credit insurance and guarantee facilities can assign them to their banks and use the discount mechanism to obtain finer raters for their export receivables.

7. Subsidy per unit, or in cases where it is not possible, total amount or the annual amount budgeted for that subsidy

The facility is currently dormant.

8. Duration of a Subsidy and/or any time limits attached to it

Indefinite.

9. Statistical data permitting an assessment of the trade effects of a Subsidy

The facility is currently dormant.

Programme 3

1. Title of Subsidy

Export Credit Insurance Scheme.

2. Period covered by Notification

As of September 2001.

3. Policy and Objective and/or Purpose of Subsidy

To provide insurance coverage for exporters to protect against unforeseen losses in overseas markets.

4. Background and authority of the Subsidy

Section 41 of the Central Bank Act gives the Central Bank the authority to administer export credit insurance.

5. Form of Subsidy

Export credit insurance.

6. To whom and how is the Subsidy provided?

The export credit insurance scheme provides insurance cover directly to exporters to cover them against non-payment by overseas buyers and is available to any person or organization who partly or wholly produces, processes or manufactures goods in Barbados for export. The Central Bank is required to evaluate the commercial and political risks associated with doing business with the individual buyer and/or his country.

The cost of the insurance is borne by the exporter directly or indirectly and varies according to the level of cover required and the duration. The amount of premium paid will also depend on the level of individual buyer and country risks. Premium rates for insurance falls within range of 0.5 per cent of the gross invoice value of goods exported.

7. Subsidy per unit, or in cases where it is not possible, total amount or the annual amount budgeted for that subsidy

Year	Insurance (BDS\$)	Claims
1999	1,110,000	-
2000	800,000	-
2001	270,000	-

8. Duration of a Subsidy and/or any time limits attached to it.

Indefinite.

9. Statistical data permitting an assessment of the trade effects of a Subsidy

Year	No. of Companies
1999	6
2000	5
2001	2

Programme 4

1. Title of Subsidy

Export Finance Guarantee Scheme.

2. Period covered by Notification

As of September 2001.

3. Policy and Objective and/or Purpose of Subsidy

To provide guarantee cover for local financial institutions to protect against unforeseen losses in overseas markets.

4. Background and authority of the Subsidy.

Section 41 of the Central Bank Act gives the Central Bank the authority to administer export finance guarantee schemes.

5. Form of Subsidy

Export finance guarantee.

6. To whom and how is the subsidy provided?

The export finance guarantee scheme provides pre-shipment and post-shipment export finance guarantee cover to commercial banks for loans made to exporters to finance export orders and receivables.

The cost of the guarantee is borne by the exporter directly or indirectly. The amount of premium paid will also depend on the level of individual buyer and country risks. Premium rates for guarantees average 1.5 per cent per annum on the outstanding balance.

7. Subsidy per unit, or in cases where it is not possible, total amount or the annual amount budgeted for that subsidy

Year	Guarantees (BDS\$)	Defaults
1999	120,000	-
2000	260,000	-
2001	270,000	-

8. Duration of subsidy and/or time limits attached to it

Indefinite.

9. Statistical data permitting an assessment of the trade effects of a Subsidy

Year	No. of Companies
1999	1
2000	1
2001	2
