

WORLD TRADE ORGANIZATION

RESTRICTED

WT/ACC/TPKM/9/Rev.2
7 June 1999

(99-2276)

Working Party on the
Accession of Chinese Taipei

Original: English

ACCESSION OF CHINESE TAIPEI

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

Industrial subsidies

Revision

The following communication has been received from the Representation of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu with the request that it be circulated to members of the Working Party.

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I. TAX CREDITS OR TAX EXEMPTIONS FOR DESIGNATED ENTERPRISES**1. Title of the programme**

Five-year tax exemption for designated enterprises

2. Period covered by the notification

Fiscal years 1995-1997 (July 1994 to June 1997)

3. Policy objective and/or purpose

The primary goal of the tax incentives is to promote the development of hi-tech and high value-added industries.

4. Background and responsible authority**(a) Laws:**

- 1995 amendment to the Statute for Upgrading Industries, Article 8(1) on five-year tax exemption

(b) Responsible authority:

The responsible authorities are the Industrial Development Bureau, the Ministry of Economic Affairs and the Ministry of Finance.

Note: The SUI was promulgated on December 29, 1990, followed by an amendment on January 10, 1995, and will cease to be effective on December 31, 1999.

5. Form

Tax exemption

6. To whom and how assistance is provided

An important technology-based enterprise or an important invested enterprise may apply within two years from the beginning date for payment of the capital contributions by its shareholders and with the approval of its shareholders meeting, to be exempted from corporate income tax.

To qualify for “important technology-based enterprises”, the following three criteria should be met: (1) products to be produced under the investment plan should belong to the ten emerging industries; (2) the paid-in or increased paid-in capital for the investment plan should be over NT\$ 200 million; and (3) the amount of the fund available for the purchase of brand-new machinery/equipment in the investment plan should be over NT\$100 million. "Important invested enterprises" include enterprises in the manufacturing as well as services industries. In other words, the products to be produced under the investment plan are not limited to those of the ten emerging industries. The criteria for paid-in or increased paid-in capital and the amounts of funds for purchasing brand new equipment/machinery are different from industry to industry:

Unit: NT\$ billion

| Industries | Paid-in capital \$ (or increased paid-in capital \$) | Machinery purchase \$ |
|----------------------|---|---|
| Manufacturing | 2 | 2 |
| Shopping mall | 2 | 2 |
| Transportation | 2 | 2 |
| Audio-visual service | 0.2, 0.3, 0.6 or 1.2 for different enterprises | 0.2, 0.3, 0.6 or 1.2 for different enterprises |

In the case of a newly incorporated enterprise, the tax exemption is for a period of five consecutive years from the date on which it begins to market its products or to render services.

In the case of the expansion of an existing enterprise, the exemption applies to the corporate income tax levied on the increased income derived as a result of such expansion for a period of five consecutive years from the date the newly added equipment starts to operate or the rendition of services begins; provided, however, that the exemption applies only to an expansion in the form of the establishment of additional independent production or service units, or for increase of major production or service equipment.

An eligible enterprise applying the tax exemption may, within two years from the date on which it starts to market its products or to render services, defer, at its own discretion, the commencement date of the tax exemption period. The maximum period of such deferment is four years. Furthermore, the commencement date of such deferred tax exemption period should be the beginning date of a fiscal year.

7. Amount

While the programme was passed by the Legislative Yuan in 1995, the relevant enforcement rules were not announced by the Executive Yuan until 31 January 1996. Furthermore, it normally takes two to three years, or longer, from the enterprise's proposal of investment to the sale of the products. Therefore, there is no official statistics so far with respect to the Programme.

8. Duration

The programme was initiated in 1995. The Statute for Upgrading Industries will expire in 1999, at which time Chinese Taipei will conduct a review of the Programme.

9. Trade effects or related statistical data

In light of the scope and nature of the programme, it is not possible to determine what, if any, trade effects may result from this programme.

1. Title of the programme

Accelerated depreciation against fixed assets

2. Period covered by the notification

Fiscal years 1995-1997 (July 1994 to June 1997)

3. Policy objective and/or purpose

The measure is intended to encourage structural adjustment by labour-intensive industries through automation of their operation.

4. Background and responsible authorities

(a) Laws :

- Statute for Upgrading Industries (hereinafter referred to as the “SUI”) Sub-paragraph (2), Paragraph 1 of Article 5

(b) Responsible authorities:

- the Industrial Development Bureau, Ministry of Economic Affairs
- Ministry of Finance

Note: The SUI was promulgated on December 29, 1990 and an amendment on 10 January 1995, and will cease to be effective on December 31, 1999.

5. Form

Accelerated appreciation against ~~profit-seeking enterprise~~ **corporate** income tax.

6. To whom and how assistance is provided

In order to facilitate the adjustment of industrial structure and improvement of the economic scale of operation and process of production, companies which are incorporated pursuant to the Company Law and belong to the designated industries can have the service life of their machinery and equipment accelerated by one-half of the number of years set forth under the Income Tax Law. If the period so derived is short of a full year, the portion short of a full year should not be counted.

In case of under-depreciation during the accelerated service life, asset depreciation may continue for one year or several years within the service life of such asset as specified by the Income Tax Law until permissible depreciation is fully made.

The scope of industries eligible for this tax benefit and the duration of the measure is prescribed by the Executive Yuan and subject to review once every two years.

7. Amount

The Programme has never been operational because the scope of the “specifically designated industries” has not been defined by Chinese Taipei since the promulgation of this provision; also, it is because the current Schedule of Fixed Assets Service Life has been constantly adjusted downward by

the Ministry of Finance. As a result, there has been no application for the tax benefit under the Programme.

8. Duration

The programme was initiated in 1991. The Statute for Upgrading Industries will expire in 1999 at which time Chinese Taipei will conduct a review of the Programme.

9. Trade effects or related statistical data

In light of the scope and nature of the programme, it is not possible to determine what, if any, trade effects which may result from this programme.

1. **Title of the programme**

Tax credit for investment in disadvantaged region.

2. **Period covered by the notification**

The fiscal year 1997 (July 1996 to June 1997).

3. **Policy objective and/or purpose**

With the aim of achieving balanced economic growth within the territory of Chinese Taipei, the means of tax credit is used to encourage investment in disadvantaged geographic regions.

4. **Background and authority**

(a) **Law:**

Statute for Upgrading Industries (hereinafter referred to as the "SUI"), Article 7.

(b) **Responsible authority**

The Industrial Development Bureau, Ministry of Economic Affairs.

Note: The SUI was promulgated on 29 December 1990 followed by an amendment on 10 January 1995, and will cease to be effective on December 31, 1999.

5. **Form**

Tax credit against corporate income tax.

6. **To whom and how assistance is provided**

Any company incorporated under the Company Law, which makes investment in designated industries in a region with scanty natural resources or with slow development, may gain credits of up to twenty per cent of the total amount of its investment against the corporate income tax levied in the then current year, provided it meets the threshold of capital or the threshold number of employees. If the amount of corporate income tax levied in that year is less than the tax credit, the balance of the tax credit may be applied against the corporate income tax levied in the ensuing four years.

The eligible geographical regions are the last ranking eight counties in Chinese Taipei in terms of population, employment rate, communication facilities, tax revenue, average regular income per household, infrastructure, and other indices, plus Kinmen County and Lien-chiang County. The latter two Counties are two small offshore islands with slow economic development. They would always be eligible if the aforementioned criteria are applied on them.

The designated industries referred to above include all manufacturing industries and several service industries.

The threshold capital means the total amount used in procuring brand-new machinery, equipment and building aggregates to NT\$25 million. The minimum number of employees

means the monthly average of the number of newly employed employees in a full year amounts to fifty (50) persons or more.

The criteria used by Chinese Taipei are more stringent than those under Article 8 of the SCM Agreement. The reason for Chinese Taipei's adoption of factors other than the two economic indicators prescribed by the SCM Agreement is mainly based on the consideration that these criteria reflect the real condition of scanty resources and the slow economic development in the areas concerned. If the SCM's index were applied, more regional zones would be eligible for tax credits.

7. Amount

(a) Since the programme's inception, the total accumulated amount is:

NT\$700,929,000 (fiscal years 1993-1997) (US\$1=NT\$27.81, June 1997 rate)

(b) For the fiscal year 1997:

NT\$316,056,000

(c) Statistical data available for the three most recent years:

| FY 1995 | FY 1996 | FY 1997 |
|--------------------|--------------------|--------------------|
| 239,173,000 | 143,173,000 | 316,056,000 |

8. Duration

The programme was initiated in 1993. The Statute for Upgrading Industries will expire in 1999, at which time Chinese Taipei will conduct a review of the Programme.

II. LOANS

- Loans for Small and Medium Enterprises

1. Title of the programme

Specific and urgent financing and loans intended for promoting competitiveness, for plant site relocation, for working capital needed during periods of economic crisis and recession, and for recovery plans from damage caused by major natural disasters.

2. Period covered by the notification

Fiscal years 1995-1997 (~~May 1992 to June 1998~~ **July 1994 to June 1997**)

3. Policy objective and or/purpose

The qualified SMEs which meet the following conditions are entitled to apply for the financing and loans:

- (a) Specific financing is provided for management plans to enhance competitiveness, expand R&D, prevent environmental contamination, invent new products, and upgrade product quality, etc.
- (b) Urgent financing is provided for the provision of working capital during periods of significant financial crisis, recession, and major natural disasters.
- (c) The loans are provided for helping enterprises restructure during periods of economic crisis and recession, replace machinery, and purchase new automated equipment.

4. Background and responsible authorities

- (a) Laws:
 - Statute for the Development of SMEs (Articles 9,15,16,17,18)
 - Regulation for Collection and Payment, Management and Operation of the Fund for the Development of SMEs
 - The Fund for the Development of SMEs was established Based on Article 9 of Statute for the Development of SMEs.

- (b) Responsible authorities:

The responsible authority is the Ministry of Economic Affairs.

Note: While the SME Development Fund was planned to be NT\$12 billion, its accumulated amount reached 9.1 billion as of the end of fiscal year 1997.

5. Form

Financing and loan.

6. To whom and how assistance is provided

All enterprises which meet the Criteria for Identification of SMEs set by the Executive Yuan are eligible for application.

According to the “Standards for Recognition as SME”, published by the Ministry of Economic Affairs, SME refers to an enterprise which is a company or commercial enterprise registered in accordance with the law with capitalization or business volume below the following thresholds:

- (a) for enterprises engaged in manufacturing, construction, mining, or excavating business, paid-in capital of less than NT\$60 million.
- (b) 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 business volume of less than NT\$80million in the previous year.

The loan granted is shared by the SME Development Fund and other participating banks on a 25/75 per cent basis. The ceiling interest rate is 1 per cent above the prime rate of Bank of Taiwan.

7. Amount

Statistics for Specific Programmes: Loaned by the Fund for the Development of SMEs

Unit: million NT

| Title of Programme | FY 1994 1995 | FY 1995 1996 | FY 1996 1997 |
|---|--------------------|-----------------|-----------------|
| Specific financing for enhancing competitiveness | 922 | 834 | 879 |
| Loans for helping enterprises restructure and plant site relocation | 1,002 | 825 | 578 |
| Urgent financing for the provision of working capital during periods of significant financial crisis, recession | 0 | 0 | 0 |
| Urgent financing for major natural disasters | 111 | 0 | 35 |

8. Duration

The programmes are not subject to any fixed completion date.

9. Trade effects or related statistical data

Given the fact that in Chinese Taipei 98 per cent of enterprises can meet the criteria set by the Executive Yuan and be termed as SMEs, it is difficult to estimate the trade effects of these programmes.

1. Title of the programme

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

2. Period covered by the notification

Fiscal years 1995-1997 (July 1994 to June 1997)

3. Policy objective and or/purpose

Those programmes are implemented with the purpose of providing SMEs with financial assistance in exploring new markets for their machinery and equipment, in investing and establishing plants in foreign countries, and in undertaking the overseas contracts for construction projects.

4. Background and responsible authorities

(a) Laws:

- Statute for the Development of SMEs (Articles 9,15,16)
- Regulation for Collection and Payment, Management, and Operation of the Fund for the Development of SMEs (it is stipulated in Article 9 of Statute for the Development of SMEs)

(b) Responsible authority:

The responsible authority is the Ministry of Economic Affairs.

5. Form

Loan

6. To whom and how assistance is provided

- (a) All enterprises which meet the Criteria for Identification of SMEs set by the Executive Yuan are eligible to apply.
- (b) The approved application for loans are implemented by commercial banks; however, the capital needed is provided entirely by the SME Development Fund.

7. Amount

Loaned by the Fund for the Development of SMEs:

| | |
|---------|-----------------|
| FY 1995 | NT\$23 million |
| FY 1996 | NT\$157 million |
| FY 1997 | NT\$281 million |

8. Duration of subsidy

The programmes are not subject to any fixed completion date.

9. Trade effects or related statistical data

Given the fact that in Chinese Taipei 98 per cent of enterprises can meet the criteria set by the Executive Yuan and be termed as SMEs, it is difficult to estimate the trade effects of these programmes.

1. Title of the programme

Specific loans for mutual cooperation

2. Period covered by the notification

Fiscal years ~~1996~~1995-1997 (July ~~1996~~1994 to June 1997)

3. Policy objective and/or purpose

The programme is implemented to encourage SMEs' prosperity through their mutual cooperation.

4. Background and responsible authority

(a) Law

- Statute for the Development of SMEs (Articles 7, 9, 25)
- Regulation for Collection and Payment, Management, and Operation of the Fund for the Development of SMEs

(b) Responsible authority

The responsible authority is the Ministry of Economic Affairs.

5. Form

Loan

6. To whom and how assistance is provided

All enterprises which meet the Criteria for Identification of SMEs set by the Executive Yuan are eligible to apply.

The granted loans are provided by the SME Development Fund and other undertaking banks on a 50/50 basis. The interest rate is 1 per cent lower than the prime rate of Bank of Taiwan.

7. Amount

No loan has been granted during fiscal years 1995-1997.

8. Duration

The programme is not subject to any fixed completion date.

9. Trade effects or related statistical data

No data available

- **Loans for Private Enterprises**

1. Title of the programme

Loans at lower market interest rates for small and medium enterprises and private enterprises

2. Period covered by the notification

The year of 1998 (Jan. 1998 to Dec. 1998)

3. Policy objective and/or purpose

The programmes are implemented with the purpose of improving production technology and product quality, promoting industrial upgrading and achieving environment protection through lower interest rate loans for the procurement of automation equipment, pollution control facilities, energy-saving facilities and to assist in the upgrading of small and medium enterprises.

4. Background and authority

(a) Laws and regulations:

Statute for Upgrading Industries (hereinafter referred to as the "SUP"), Sub-paragraphs(2)(3), Paragraph 1 of Article 21.

(b) Responsible authorities:

- the principle of the loan is made by the Development Fund, Executive Yuan
- the loan is granted by public/private banks

5. Form

Lower interest rate loans: the financial sources of the loans are the Development Fund (25 per cent) and the bank (75 per cent) for each loan.

6. To whom and how assistance is provided

(a) These lower interest rate loans are available to all enterprises and are not limited to a specific industry or enterprise.

(b) Different ceilings are set for different types of loan. In addition, only a percentage of the total procurement amount is eligible for the loan. The amount of the granted loan is decided by the bank, based on the financial situation of the applicant.

7. Amount

There are no official statistics with respect to the programme.

8. Duration

The projects will be implemented until the expiration of the SUI.

9. Trade effects or related statistical data

(a) Trade effects:

The programme is mainly used in promoting industry upgrading, in light of the scope and nature of the programme, it is not possible to determine what, if any, trade effects which may result from this programme.

(b) Related statistical data:

Total amount of loans granted in 1998

Unit: hundred million NT\$

| Name of Project | Number of granted cases | Total amount of granted loans |
|--|-------------------------|-------------------------------|
| Loans for the procurement of automation equipment | 895 | 686.72 |
| Loans to assist in the upgrading of small and medium enterprises | 3,179 | 228.77 |
| Loans to private enterprises for the procurement of pollution control facilities | 126 | 56.01 |
| Loans for the procurement of energy-saving facilities | 39 | 44.29 |

Loans Provided for the Procurement of Automation Equipment (the Eighth Term* - October 1998 to December 1998)

Unit: thousand NT

| Industry | | Total | |
|---|---|-------|------------|
| | | Cases | Amount |
| Manu- facturing | Machinery | 28 | 1,047,294 |
| | Electronics Information | 230 | 17,570,343 |
| | Precision Machinery | 3 | 84,289 |
| | Transport Parts | 24 | 2,014,943 |
| | Metal | 43 | 4,719,605 |
| | Chemicals & its Processed Products | 67 | 4,595,413 |
| | Petrochemical | 3 | 280,290 |
| | Textiles & Processing | 46 | 4,968,049 |
| | Paper & Paper Products | 18 | 715,496 |
| | Utility (includes water, electricity and gas) | 0 | 0 |
| | Wood & Bamboo Products & Furniture | 1 | 33,600 |
| | Foods | 21 | 1,282,641 |
| | Other Manufacturing | 22 | 3,301,868 |
| Sub Total | | 506 | 40,613,831 |
| Transport, Warehousing and Communications | | 8 | 1,249,000 |
| Mining | | 3 | 14,600 |
| Construction | | 2 | 50,900 |
| Commerce | | 4 | 143,014 |

* The eighth term is still on-going.

| Industry | Total | |
|---|------------|-------------------|
| | Cases | Amount |
| Industry & Business, Social and Individual Services | 1 | 400,000 |
| Other Industries | 0 | 0 |
| Total | 524 | 42,471,345 |

Note 1: The granted loan is provided by the Development Fund (25 per cent) and the bank (75 per cent) for each loan.

Note 2: The numbers provided above clearly indicate that funding is granted to all types of industry and is not limited to a particular type of industry.

Loans Provided to Private Enterprises for the Procurement of Pollution Control Facilities
(the Fifth Term* - November 1998 to December 1998)

Unit: thousand NT

| Industry | | Total | |
|---|---|-----------|------------------|
| | | Cases | Amount |
| Manu-facturing | Machinery | 3 | 16,600 |
| | Electronics Information | 8 | 551,526 |
| | Precision Machinery | 0 | 0 |
| | Transport Parts | 0 | 0 |
| | Metal | 3 | 58,292 |
| | Chemicals and its Processed Products | 6 | 755,564 |
| | Petrochemical | 4 | 803,790 |
| | Textiles and Processing | 5 | 85,002 |
| | Paper & Paper Products | 0 | 0 |
| | Utility (includes water, electricity and gas) | 0 | 0 |
| | Wood & Bamboo Products & Furniture | 0 | 0 |
| | Foods | 1 | 8,900 |
| | Other Manufacturing | 2 | 13,300 |
| Sub Total | | 32 | 2,292,974 |
| Transport, Warehousing and Communications | | | |
| Mining | | 1 | 3,300 |
| Construction | | 0 | 0 |
| Commerce | | 0 | 0 |
| Industry & Business, Social and Individual Services | | 1 | 119,200 |
| Other Industries | | 2 | 245,000 |
| Total | | 36 | 2,660,474 |

Note 1: The granted loan is provided by the Development Fund (25 per cent) and the bank (75 per cent) for each loan.

Note 2: The numbers provided above clearly indicate that funding is granted to all types of industry and is not limited to a particular type of industry.

* The fifth term is still on-going.

Loans for the Procurement of Energy-Saving Facilities
(the First Term* - April 1995 to December 1998)

Unit: thousand NT

| Industry | | Total | |
|---|---|-------|-----------|
| | | Cases | Amount |
| Manu- facturing | Machinery | 0 | 0 |
| | Electronics Information | 6 | 746,700 |
| | Precision Machinery | 0 | 0 |
| | Transport Parts | 0 | 0 |
| | Metal | 1 | 28,000 |
| | Chemicals and its Processed Products | 5 | 1,287,111 |
| | Petrochemical | 3 | 888,000 |
| | Textiles and Processing | 5 | 1,517,154 |
| | Paper & Paper Products | 2 | 770,000 |
| | Utility (includes water, electricity and gas) | 6 | 1,245,400 |
| | Wood & Bamboo Products & Furniture | 0 | 0 |
| | Foods | 1 | 175,000 |
| | Other Manufacturing | 0 | 0 |
| Sub Total | | 29 | 6,657,365 |
| Transport, Warehousing and Communications | | 42 | 2,866,859 |
| Mining | | 0 | 0 |
| Construction | | 0 | 0 |
| Commerce | | 0 | 0 |
| Industry & Business, Social and Individual Services | | 0 | 0 |
| Other Industries | | 1 | 400,000 |
| Total | | 72 | 9,924,224 |

Note 1: The granted loan is provided by the Development Fund (25 per cent) and the bank (75 per cent) for each loan.

Note 2: The numbers provided above clearly indicate that funding is granted to all types of industry and is not limited to a particular type of industry.

* The first term is still on-going.

III. Duty and Tax Exemptions Granted to Enterprises Located within a Designated Zone

1. Title of the programme

Duty and tax exemptions for high-technology industries

2. Period covered by the notification

Fiscal year 1995-1997

3. Policy objective and/or purpose

This programme is implemented with a view to stimulate the research and innovation of industrial technology and to promote the development of advanced technology industries in Chinese Taipei. The “Science-Based Industrial Park”(“the Park”) has been established by introducing the sophisticated industries and personnel with advanced technological background within a designated zone.

4. Background and the responsible authorities

(a) Law and regulation:

- Statute for the Establishment and Administration of a Science-Based Industrial Park (Articles 15 and 17);
- Implementing Regulation of Statute for the Establishment and Administration of a Science-Based Industrial Park

(b) Responsible authorities:

- The Park is managed by the Park Administration;
- The policy-making body is the National Science Council of the Executive Yuan.

5. Form

The subsidy programme will be implemented in the form of duty and tax exemptions

6. To whom and how assistance is provided

(a) All high-tech industries located in the Park are exempted from Corporation income taxes for five consecutive years from any date selected by them within their first two profit making year.

(b) All park enterprises are entitled to the following exemptions:

- (i) customs duties, commodity tax, and business tax on imported machinery and equipment, raw materials, commodities, fuel, and semi-finished products; and
- (ii) commodity tax and business tax on exported goods or labour services.

Note 1: Park enterprises include high-tech industries and other enterprises in the Park relevant to the production and sale of high-tech products. Such enterprises may include businesses dealing

with storage and transportation, packing, maintenance, leases on machinery and equipment, and managerial or technological consultation and services.

Note 2: According to Section 2, Paragraph 1, Article 3 of the Commodity Tax Statute and Article 7 of the Business Tax Statute, exports can be exempt from commodity tax, and the business tax rate on exported goods is zero. These tax treatments are not specific to enterprises located in the Park, as they are generally available for exported goods, regardless of whether the manufacturers are located in the Park.

7. Amount

Not available

1995-1996 Corporate Income Tax Exemption in Science-Based Industrial Park (By Sectors)

Unit: USD 1 million

| Sector | FY1995 | FY1996 |
|--------------------|------------|------------|
| Integrated circuit | 314 | 182 |
| Computer | 7 | 22 |
| Telecom | 6 | 3 |
| Opto-electronics | 1 | 2 |
| Machinery | 0.27 | 2 |
| Biotechnology | | |
| Total | 328 | 211 |

1995-1996 Tax Credit against Corporate Income Tax in Science-Based Industrial Park (By Sectors)

Unit: USD 1 million

| Sector | FY1995 | FY1996 |
|--------------------|-----------|-----------|
| Integrated circuit | 70 | 59 |
| Computer | 16 | 15 |
| Telecom | 2 | 2 |
| Opto-electronics | 0.23 | 1 |
| Machinery | 0.15 | |
| Biotechnology | | |
| Total | 89 | 77 |

Note: The assistance hereof is granted based on Article 6 of the Statute for Upgrading Industries. Therefore, the assistance is not available only for Park Enterprises. All firms meeting the requirements of the said Article 6 are eligible for the assistance. However, the amount provided hereof only represents the tax credit enjoyed by Park enterprises under such assistance.

**1995-1997 Duty & Business Tax Exemption for
Imported Machinery and Equipment**

Unit: USD 1 million

| Fiscal Year | Import Value for M&E | Amount of Import Duty Exemption | Amount of Business Tax Exemption |
|-------------|----------------------|---------------------------------|----------------------------------|
| 1995 | 1,513 | 113 | 76 |
| 1996 | 3,287 | 247 | 164 |
| 1997 | 3,359 | 252 | 168 |

Note: The amount of import duty exemption for various tariff lines other than machinery and equipment is not available because of the lack of statistics for imports into the Park by tariff line. Since the duty rate applied against each tariff line differs, we can not calculate the exempted duty amount for all the imports into the Park unless we have the import statistics of the Park by tariff line.

1995-1997 Business Tax Exemption for All Imports

Unit: USD1million

| Fiscal Year | Total Import Value | Total Amount of Business Tax Exemption |
|-------------|--------------------|--|
| 1995 | 4,478 | 224 |
| 1996 | 8,020 | 401 |
| 1997 | 7,462 | 373 |

Note: Exchange rate in FY 1995: USD1=NT\$26.16

FY 1996: USD1=NT\$27.08

FY 1997: USD1=NT\$27.52

8. Duration

There is no time limit attached to the programme.

9. Trade effects or related statistical data

| | FY 1995 | FY 1996 | FY 1997 |
|-------------------------------------|---------|---------|---------|
| Number of approved park enterprises | 24 | 20 | 42 |
| Total import value (million NT) | 117,153 | 217,182 | 205,017 |
| Total export value (million NT) | 145,273 | 230,025 | 194,124 |

In light of the scope and nature of the programmes granted, it is not possible to determine what, if any, trade effects which may result from this subsidy programme.

Title of the programme

Duty and tax exemptions for in-zone enterprises

1. Period covered by the notification

Calendar year 1994-1996.

2. Policy objective and/or purpose

~~Export~~ **Economic** processing zones have been established for the purpose of promoting investment and international trade.

3. Background and responsible authorities

(a) Laws:

- Statute for Establishment and Administration of ~~Export~~ **Economic** Processing Zones (the EPZ Law)(Article 1,5,13)
- Measures for the Screening of Application for Establishment of Enterprises in ~~Export~~ **Economic** Processing Zones
- Categories of Industry Permissible to be established in ~~Export~~ **Economic** Processing Zones

(b) Responsible authorities

- Export processing zones are managed by the ~~Export~~ **Economic** Processing Zone Administration.
- The policy-making body is the Ministry of Economic Affairs.
- The task of reviewing the eligibility of enterprises established in ~~export~~ **economic** processing zones shall be undertaken by the ~~Export~~ **Economic** Processing Zone Administration together with the other government agencies involved.

Note: In-zone enterprises include industries authorized to be engaged in manufacture, processing, assembly, research and development, trade, consultation, technical services, warehousing, transportation, stevedoring, packing, repair, and other related business approved by the Ministry of Economic Affairs in ~~exporting~~ **economic** processing zones.

5. Form

Duty and tax exemptions

6. To whom and how assistance is provided

All in-zone enterprises industries are entitled to the following exemptions:

- (a) Import duty, commodity tax, and business tax on imported machinery and equipment.

- (b) Import duty, commodity tax, and business tax on imported raw and consumption materials, fuels, semi-finished products, samples, and finished products for transshipment by traders and warehousing operators.
- (c) Deed tax when acquiring a new standard plant building in the ~~export~~ **economic** processing zone or acquiring a building from the ~~Export~~ **Economic** Processing Zone Administration.

It should be noted that all machinery and equipment within five years after import and other imported goods are not entitled to duty and tax exemptions when they are shipped to leviable areas from ~~export~~ **economic** processing zones. Moreover, products manufactured by in-zone enterprises shall be subject to customs duties, commodity taxes, and business taxes ~~on ex-factory prices minus value-added basis~~ when they are shipped to leviable areas. **While customs duties would be applied on the basis of ex-factory prices minus value added resulting from manufacturing or processing activities in the EPZs, other taxes would be based on the ex-factory price.**

7. Amount

Not available

Percentage of EPZ Payable Tax to Export Value

Unit: thousand USD

| Item | Year | 1996(Jan.-Dec.) | 1997(Jan.-Dec.) |
|--|------|-----------------|-----------------|
| Imported Machinery Equipment | | 200,447 | 545,365 |
| Imported Machinery Equipment Custom Duty | | 5,011 | 13,634 |
| Export Value Total | | 6,897,065 | 7,934,118 |
| Percentage | | 0.07% | 0.17% |
| Average Percentage | | 0.12% | |
| Export and Import Value Total | | 10,884,117 | 13,040,026 |
| Percentage | | 0.05% | 0.10% |
| Average Percentage | | 0.08% | |

| Item | Year | 1996(Jan.-Dec.) | 1997(Jan.-Dec.) |
|-------------------------------|------|-----------------|-----------------|
| Raw Material | | 3,786,605 | 4,560,543 |
| Raw Material Custom Duty | | 189,330 | 228,027 |
| Export Value Total | | 6,897,065 | 7,934,118 |
| Percentage | | 2.75% | 2.87% |
| Average Percentage | | 2.81% | |
| Export and Import Value Total | | 10,884,117 | 13,040,026 |
| Percentage | | 1.74% | 1.75% |
| Average Percentage | | 1.74% | |

8. Duration

There is no time limit attached to the programme.

9. Trade effects or related statistical data

| | 1994 | 1995 | 1996 |
|---|-------|-------|-------|
| Number of approved in-zone enterprises | 233 | 235 | 231 |
| Total import value (million US dollar) | 2,801 | 3,777 | 3,987 |
| Total export value (million US dollar) | 4,780 | 6,271 | 6,897 |

In light of the scope and nature of the programmes granted, it is not possible to determine what, if any, trade effects may result from this subsidy programme.

IV. RESEARCH AND DEVELOPMENT

1. Title of the programme

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

2. Period covered by the notification

The fiscal year 1997 (July 1996 to June 1997)

3. Policy objective and/or purpose

In order to encourage research and development of new leading products and upgrade the technical capability of new leading industries, the programme grants funds for private enterprises.

4. Background and authority

(a) Laws and regulations:

Measures for Assistance in the Development of New Leading Products, is promulgated on April 26, 1991, and is amended on June 30, 1995.

(b) Responsible authority:

The Industrial Development Bureau, Ministry of Economic Affairs

5. Form

~~Fund~~ **Grant and interest-free loan**

6. To whom and how assistance is provided

- (a) Any company incorporated under the Company Law with sound financial standing, possessing a research and development department with sufficient R&D specialists in Chinese Taipei, which have actually made R&D achievements, may apply for the assistance fund relating to the development of a product within the scope of one of the ten (10) newly emerging industries, i.e., communication, information, consumer electronics, aerospace, medical and health care, pollution control, advanced materials, semi-conductors, specialty chemicals and pharmaceuticals, and precision machinery and automation. **The ten new leading industries were selected based on six selection criteria:**

1. **Great market potential**
2. **High linkage with other industries**
3. **High added value**
4. **Advanced technical level**
5. **Low pollution**
6. **Less dependence on energy supply**

- (b) **In light of the broad nature of the industries, it is not possible to list the specific products covered by the ten new leading industries. However, the general scope of each industry is provided in Attachment I.**

- (c) To encourage the development of the goods/products covered by the ten new leading industries, Chinese Taipei formulated the “Programme for the Development of Critical Component and Parts.” The Programme is an illustrative list of the goods/products covered by the ten new leading industries and it involves assistance measures only under the “Measures for Assistance in the Development of New Leading Products.” For the corresponding relation of the goods/products under the Programme to the ten new leading industries, please see Attachment II.
- (d) The assistance funds granted total no more than fifty percent (50 per cent) of the amount of the following expenses incurred exclusively for the development of new leading products:
1. Personnel costs incurred for full-time and/or part-time research personnel;
 2. Costs of consumable instruments and raw materials;
 3. Costs for use and maintenance of R&D equipment;
 4. Costs for technology transfer; and
 5. Domestic and overseas travel expenses.
- (e) In 1995, Chinese Taipei amended the “Measures for Assistance in the Development of New Leading Products”. The amended Article 10 provides that: “the total amount of assistance and matching funds to be allocated to a leading product development plan shall be limited to no more than 50 per cent of the total amount of the budgeted development costs.” While the assistance fund may be defined as a grant, the matching fund is an interest-free loan, whose repayment must be started upon the first anniversary of the completion of R&D. In addition to the repayment term (two to five years) for the matching fund, a private enterprise receiving the matching fund must, starting from the sale of the funded product, pay a quarterly feed-back fee, in an amount ranging from 1 per cent to 4 per cent of the sales amount of such product. The total amount of the budgeted development costs should be expended exclusively on the following items:
1. Personnel costs for research personnel, technical personnel and other assistants employed exclusively for performing research work;
 2. Costs of instruments, equipment, land and buildings exclusively and permanently used for research activities except those used for commercial basis;
 3. Costs of consultation solely for the purpose of research activities and the same services, including expenditures for purchase of research results, technical know-how, patents, etc.;
 4. Indirect costs arising directly from research activities; and
 5. Running expenses for materials, supplies and similar expenditures arising directly from research activities.

7. Amount

(1) ~~Since the program's inception, the accumulated assistance fund by the end of fiscal year 1997 is NT\$5,375,348,560(Fiscal years 1992-1997)~~

(2) ~~the fiscal year 1997:
NT\$327,128,000 and a breakdown of those products are as follows:~~

Unit: thousand NT

| Name of Project (or Sector) | Amount |
|------------------------------------|--------|
| Precision Machinery and Automation | 72,008 |
| Communication | 26,290 |
| Information | 7,440 |

| | |
|---|---------|
| Consumer electronics | 17,390 |
| Aerospace | 0 |
| Medical and health care | 0 |
| Pollution control | 0 |
| Advanced materials | 59,700 |
| Semi-conductors | 15,970 |
| Specialty chemicals and pharmaceuticals | 128,330 |

- (a) Since the programme's inception, the accumulated grant is NT\$ 5,266,646,560 as at the end of fiscal year 1998 (fiscal years 1992-1998) and the accumulated interest-free loan is NT\$5,484,898,090.
- (b) For fiscal year 1998: NT\$882,038,000** of grant and interest free loan respectively. A breakdown of the products involved is as follows:

Unit: thousand NT

| Name of Project (or Sector) | Grant | Interest-free loan |
|---|---------|--------------------|
| Precision machinery and automation | 214,938 | 214,938 |
| Communication | 69,230 | 69,230 |
| Information | 40,670 | 40,670 |
| Consumer electronics | 177,460 | 177,460 |
| Aerospace | 0 | 0 |
| Medical and health care | 0 | 0 |
| Pollution control | 0 | 0 |
| Advanced materials | 59,700 | 59,700 |
| Semi-conductors | 36,250 | 36,250 |
| Specialty chemicals and pharmaceuticals | 223,790 | 223,790 |
| Total | 882,038 | 882,038 |

Note:

- * In addition to the repayment of the interest-free loan, a manufacturer who receives assistance from the Programme is also required to pay a feedback contribution in an amount equal to 1 per cent to 4 per cent of its sales derived from the sale of the newly developed products.

** Exchange rate on June 1998 is USD1=NT\$34.39

8. Duration

There is no time limit attached to the programme.

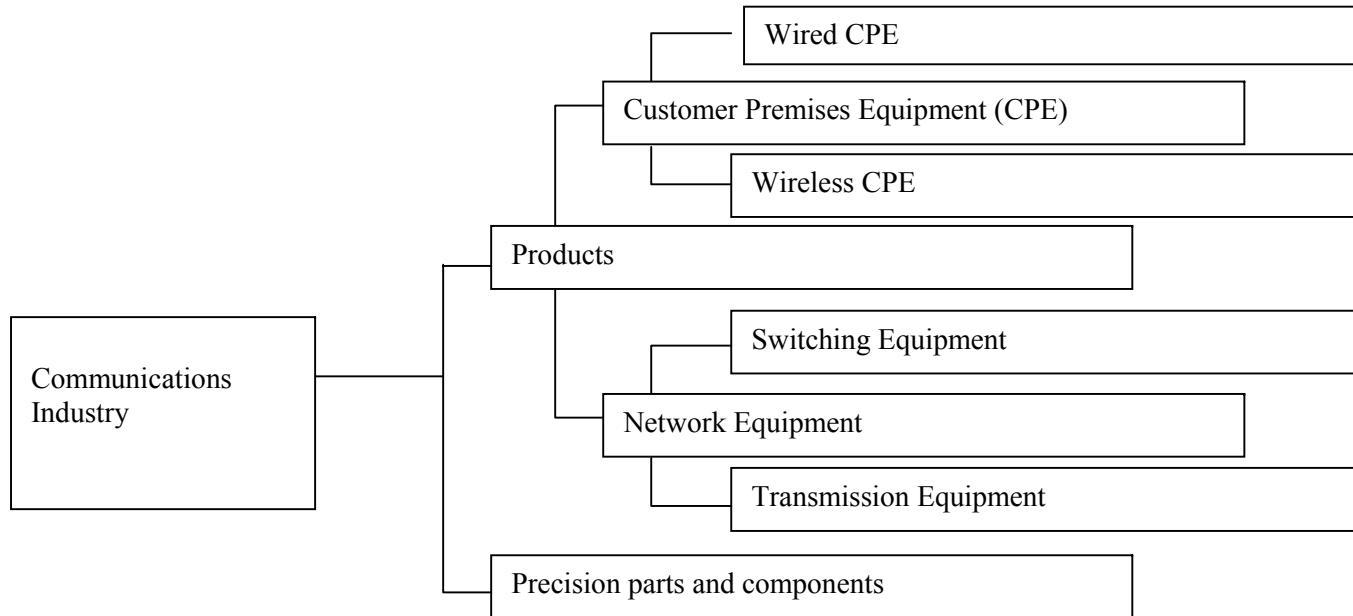
9. Trade effects or related statistical data

It is not possible to determine what, if any, trade effects may result from this subsidy programme.

ATTACHMENT I

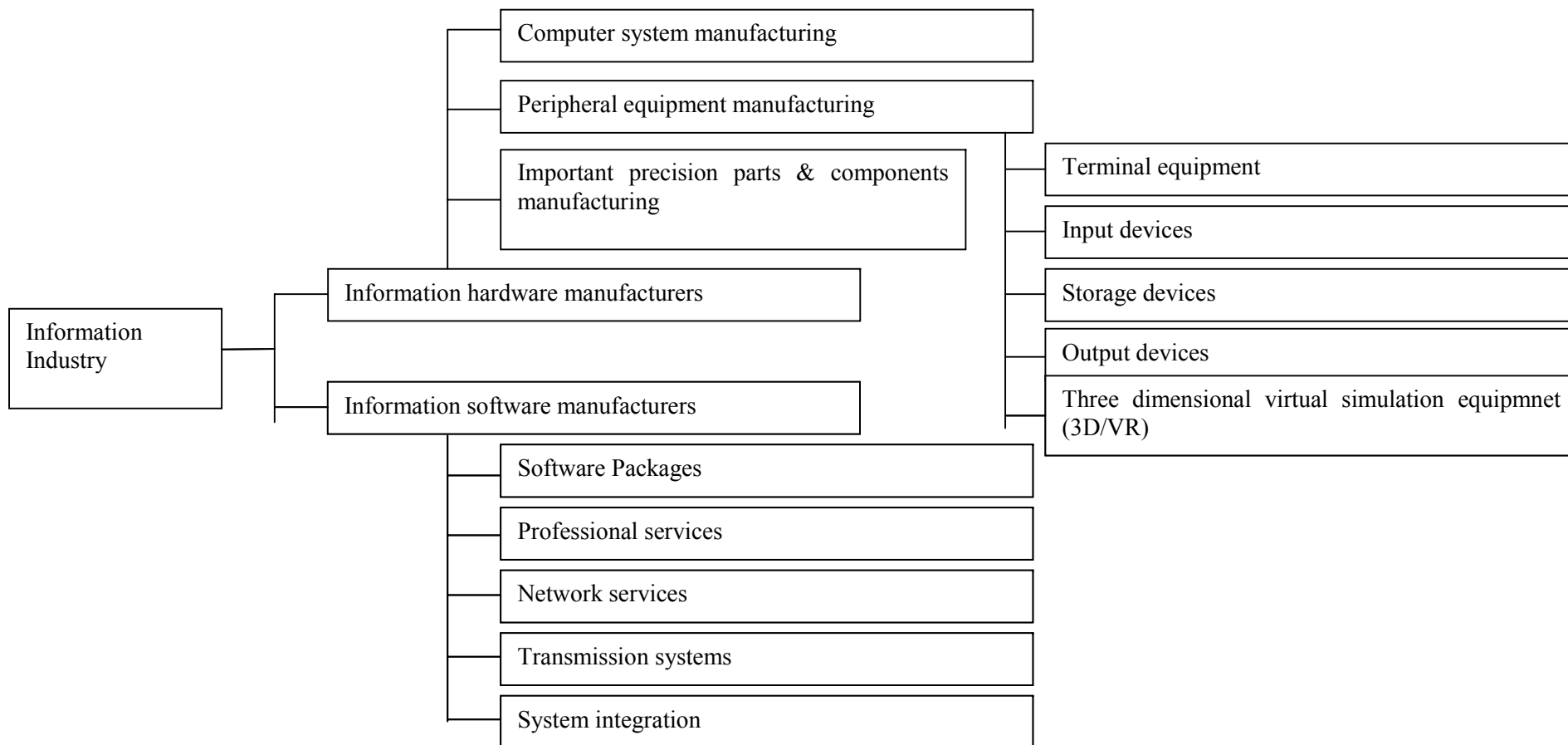
1. Communications Industry

General Scope:



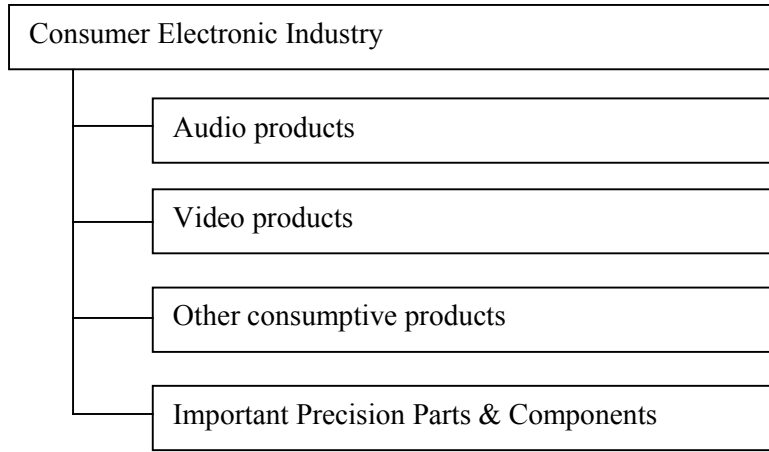
2. Information Industry

General Scope:



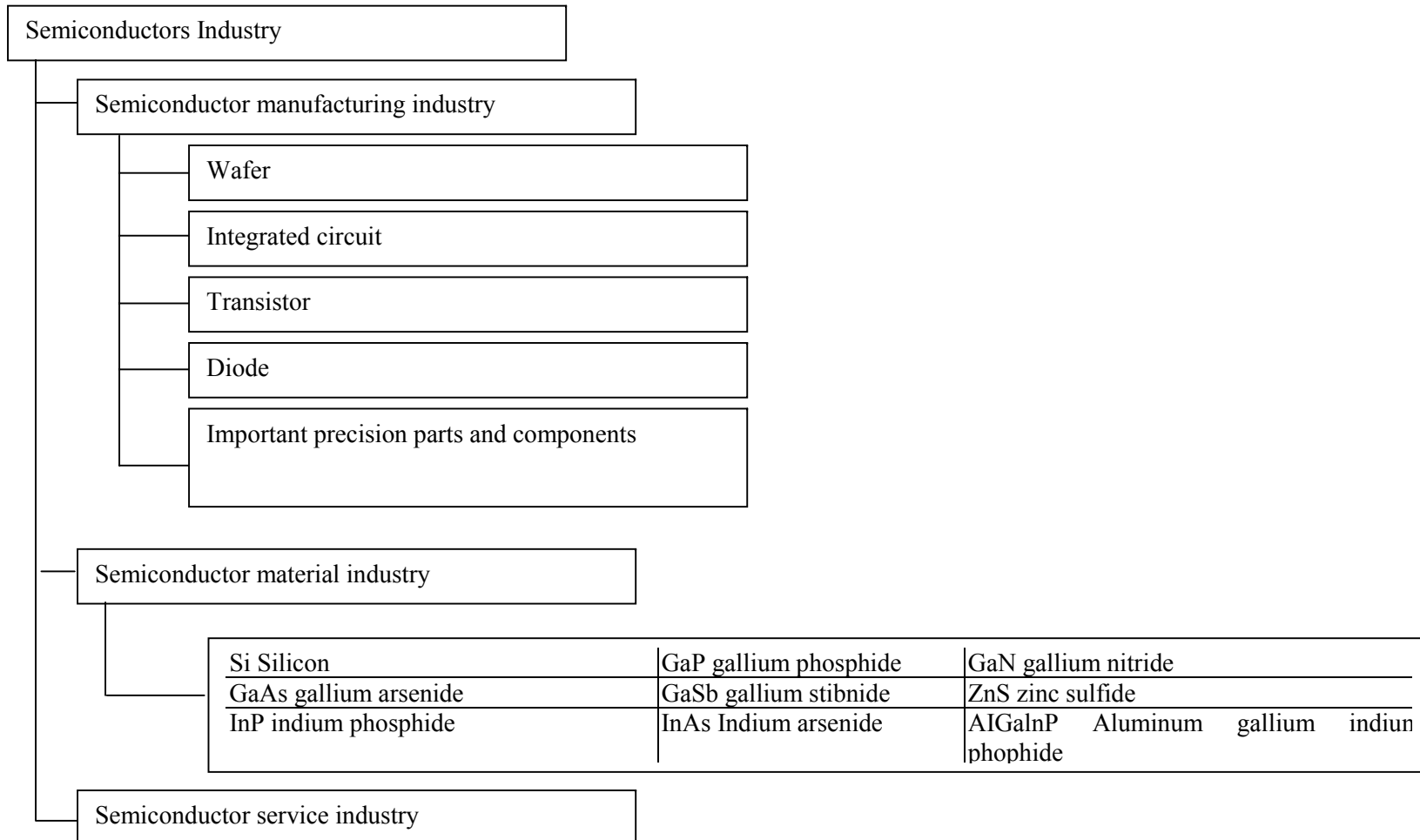
3. Consumer Electronics Industry

General Scope:



4. Semiconductors Industry

General Scope:



5. Precision Machinery and Automation Industry

General Scope:

Flexible manufacturing cell (FMC), flexible manufacturing system (FMS), computer integrated manufacturing system (CIM)

Automatic industrial machinery

Automation parts

Industrial controller

Precision inspection

Automatic engineering service

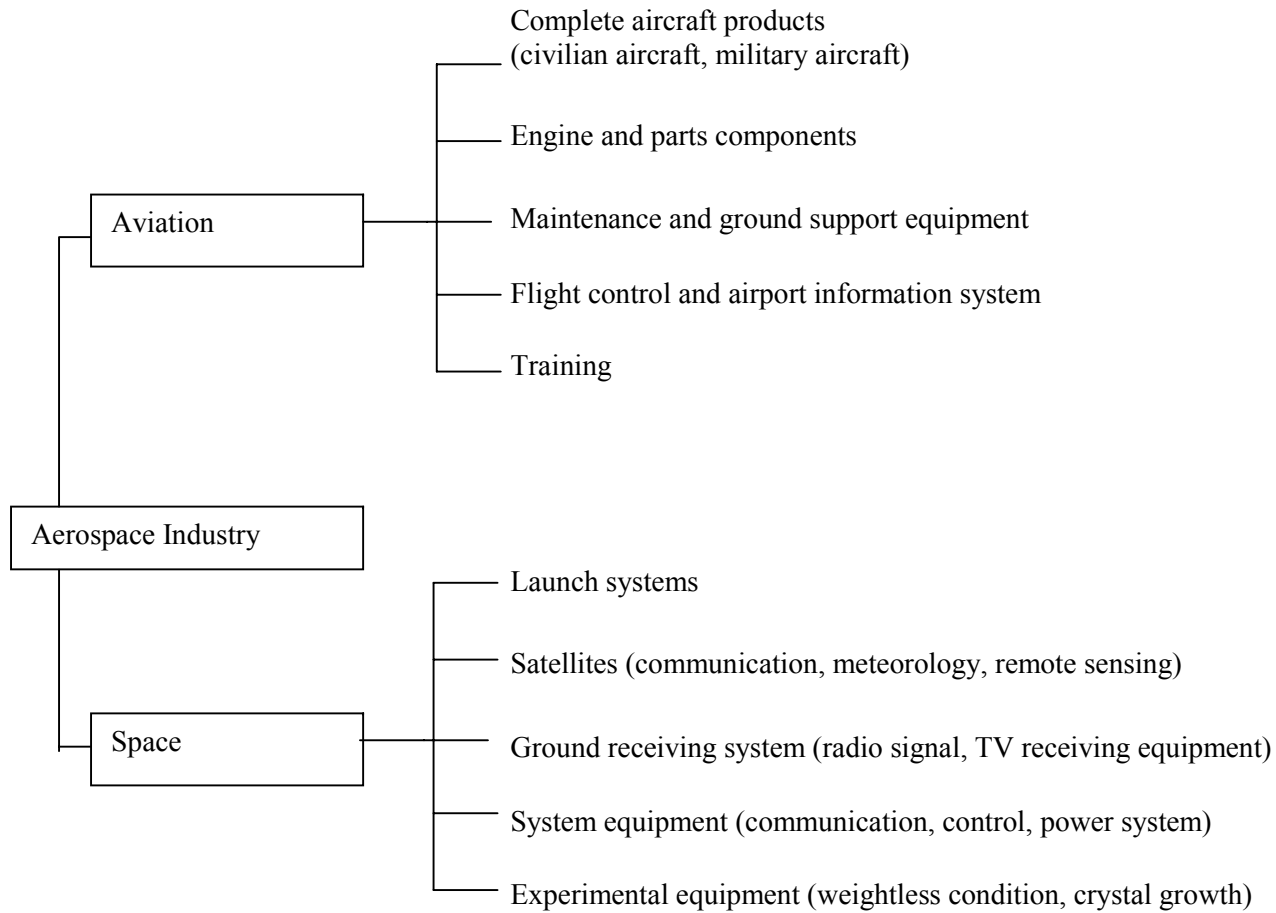
Precision power

Co-generation equipment's

Electrical power equipment manufacturing and system design

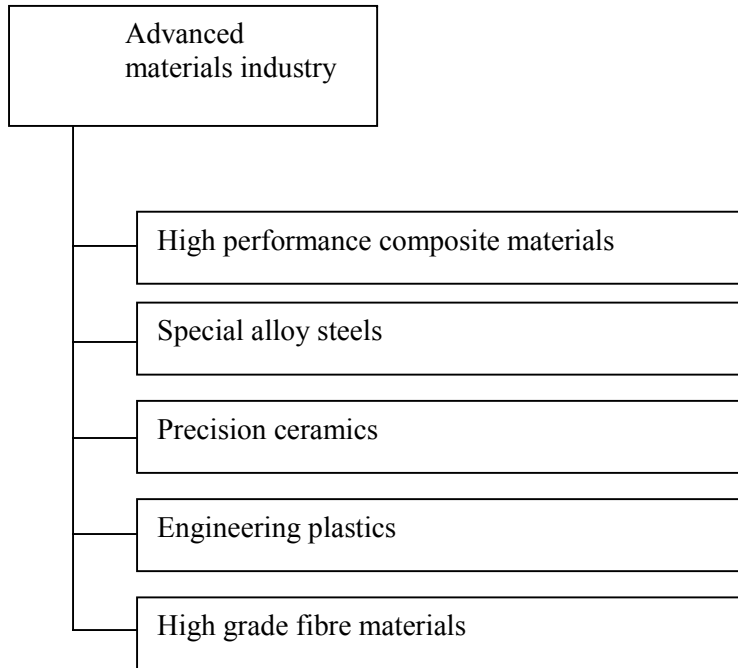
6. Aerospace Industry

General Scope:



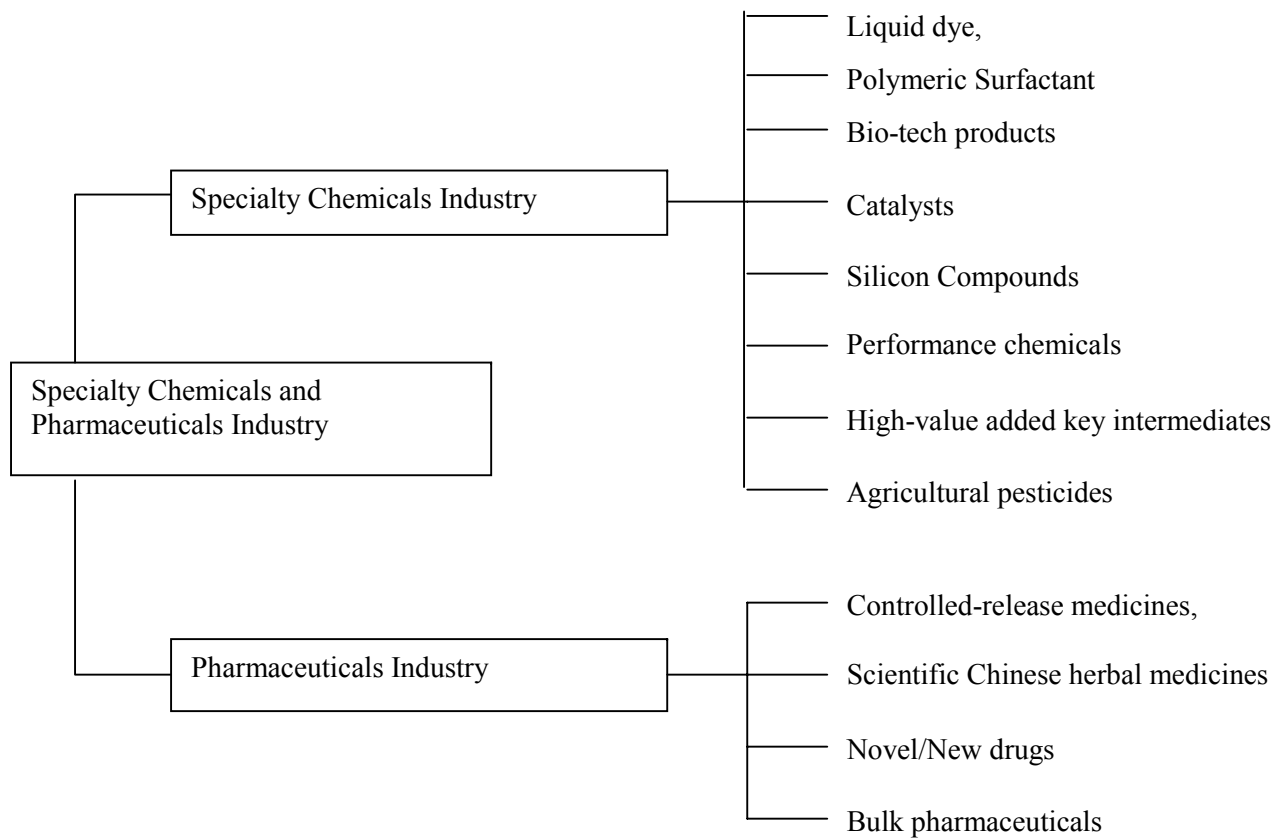
7. Advanced Materials Industry

General Scope:



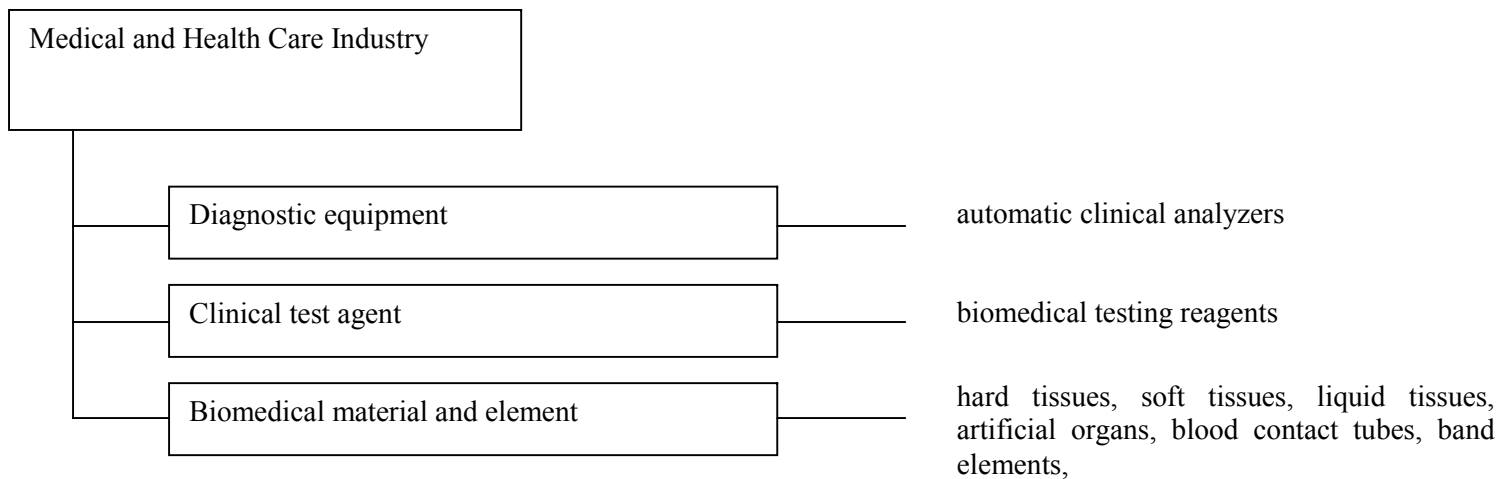
8. Specialty Chemicals and Pharmaceuticals Industry

General Scope:



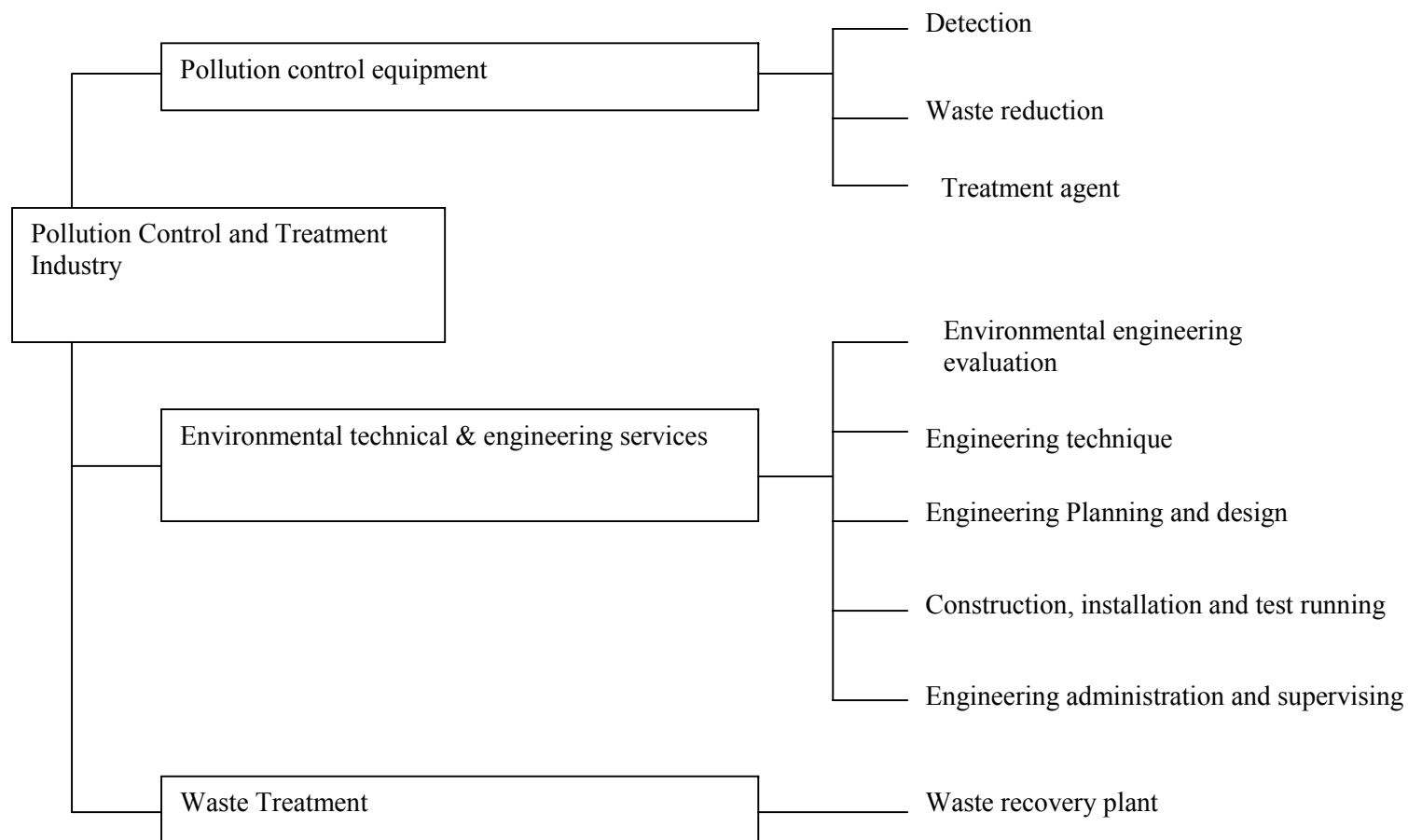
9. Medical and Health Care Industry

General Scope:



10. Pollution Control and Treatment Industry

General Scope:



ATTACHMENT II

| | |
|-----------|---|
| 1 | Communications industry |
| 2 | Information industry |
| 3 | Consumer electronics industry |
| 4 | Semiconductors industry |
| 5 | Precision machinery and automation industry |
| 6 | Aerospace industry |
| 7 | Advanced materials industry |
| 8 | Specialty chemicals and pharmaceuticals industry |
| 9 | Medical and health care industry |
| 10 | Pollution control and treatment industry |

Critical Components and Products List

1. Critical Products

| Name of Critical Products | | Corresponding industry |
|---------------------------|---|------------------------|
| 1. | Improved/Enhanced Definition TV | 3 |
| 2. | Digital Audio Tape Recorder | 3 |
| 3. | Projection TV | 3 |
| 4. | Electronic Still Camera | 3 |
| 5. | Multifunction Clinical Automatic Analyzer | 9 |
| 6. | Ultrasonic Automatic Diagnostic & Medical Equipment | 9 |
| 7. | Engineering Workstation | 2 |
| 8. | Multi-processor System | 2 |
| 9. | High Resolution Page Printer | 2 |
| 10. | Optical Disk Drive | 2 |
| 11. | Micro Disk Drive | 2 |
| 12. | Digital Mobile Phone | 1 |
| 13. | Aircraft | 6 |
| 14. | IC Memory | 2 |
| 15. | Digital Storage Oscillator, >100M | 5 |
| 16. | Wire Cutting Machines | 5 |
| 17. | Robots | 5 |
| 18. | Numerically Controlled Injection Moulding Machines | 5 |
| 19. | Co-generation Equipment | 5 |
| 20. | Multimedia System & Server | 2 |
| 21. | β -carotene | 8 |
| 22. | Breathable Fabric & Product | 7 |

2. Critical Components

| Name of Critical Products | | Corresponding industry |
|---|--|------------------------|
| 1. FUZZY IC | | 4 |
| 2. Converter | | 5 |
| 3. Above 25 inch Cath Ray Tube; 16x9 Widescreen Cathod Ray Tube | | 3 |
| 4. Silicon Wafer | | 4 |
| 5. Liquid Crystal Display | | 3 |
| 6. Digital Audio Tape Recorder Mechanism | | 3 |
| 7. Dynamic RAM, >4M | | 4 |
| 8. Static, RAM, >1M | | 4 |
| 9. Af-zoom Camera Lense | | 3 |
| 10. Watch Movement | | 5 |
| 11. Digital Signal Process IC | | 4 |
| 12. Radio Frequency Module IC | | 4 |
| 13. Parts for Aircraft | | 6 |
| 14. Etching Aluminum Foil | | 3 |
| 15. Thin Film Disk | | 3 |
| 16. Charged Couple Device | | 4 |
| 17. Light Emitting Diode Dice | | 4 |
| 18. High Resolution Laser Engine | | 2 |
| 19. Aspherical Molding Lens | | 3 |
| 20. Built-in Main Spindle | | 5 |
| 21. Jet Engine Compressor Blade/Turbin Blade | | 6 |
| 22. Transmission/Brake System for Bicycle Products | | 5 |
| 23. Electronic Control System for Automobile | | 5 |
| 24. 4-Stroke Gas Engine for Automobile | | 5 |
| 25. Lithium Battery | | 2 |
| 26. Micro Motor | | 2 |
| 27. 32 Bit CPU | | 2 |
| 28. System Software & Software Tool | | 2 |
| 29. Thermal Printer Head | | 1 |
| 30. ISDN Interface IC | | 4 |
| 31. Silicon-Electrical Steel Sheet (in Coil) | | 7 |
| 32. Linear Guide | | 5 |
| 33. Read/Write Head for Disk Driver (Thin Film Head) | | 2 |
| 34. p-Hydroxy Phenyl Glycine | | 8 |
| 35. CNC Controller | | 5 |
| 36. Copper Alloy Plate & Sheet for Lead Frame | | 7 |
| 37. Broadband Communications IC | | 4 |
| 38. Laser Diode Chip | | 4 |
| 39. Scroll Refrigerant Compressor | | 5 |
| 40. IC Packaging Resin | | 8 |