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SUBSIDIES

New and Full Notifications Pursuant to Article XVI:1 of
the GATT 1994 and Article 25 of the SCM Agreement

LATVIA

The following communication, dated 4 March 1999, has been received from the Permanent Mission of Latvia.

NOTIFICATION ON PUBLIC AIDS IN LATVIA: YEAR 1997

Introduction

Due to financial constraints and liberal approach to economic policies (the policy of minimum intervention in business activities), the Republic of Latvia provides very limited financial support to its business sector even for internationally accepted goals of regional development, environmental protection, research and development. Therefore the possibility of distortion of competition as a result of state aids is minimum.

This survey covers all the assistance to the industry and agriculture. Public expenditures, credit programmes or tax measures are included in this survey without prejudging whether the subsidy measure is specific or whether it can be qualified as a general policy measure.

This survey includes financial measures provided at the national level by the Republic of Latvia and local governments, though it is obvious that public aid measures are mostly performed at the national level.

In cases where aid amounts are very small to have an impact on international trade of goods and services or where the nature of aid allows one to presume that respective measure will not distort international competition, only general information is provided.

This notification under Article XVI(1) of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures is comprehensive in order to contribute to transparency of public aids of all kinds. Measures reported here are not necessarily subsidies according to the criteria of the Agreement on Subsidies and Countervailing Measures.

PUBLIC AID TO INDUSTRY

I. AIDS FOR PRIVATIZATION

General remarks: With respect to privatization, it must be said that state aid to privatization can in most respects be compared to aid to industry, because the possibilities which are available (extension of the term for tax payment by a period of up to three years, capitalization of tax debt) are mostly used by industrial companies. That is because it was precisely industrial firms which incurred major debt in connection with the transformation of the Latvian economy to market principles (agricultural enterprises did not suffer as much, and they were privatized much more quickly; the service sector was not well developed at the beginning of the transition period).

In the area of privatization, companies can receive the following types of support linked to taxation:

- Extension of the term for payment of principal tax debt (as incurred prior to the moment of privatization) by as much as three years. Late fines¹ (up to 100 per cent) and punitive fines which have been calculated as the result of an audit can also be reduced in connection with these extensions (normally this type of state aids is used if enterprise cannot apply for tax debt capitalization for objective reasons). /This is described below/
- Capitalization of tax debt. Privatized companies can capitalize the tax debt that was incurred prior to privatization (for companies which are put up for privatization, the tax debt which occurred prior to the filing of the application for capitalization may be capitalized). Along with capitalization of the tax debt (the principal debt and the sum of the increase of the principal debt²), previously calculated late fines and punitive fines calculated during an audit can be written off.

1. Tax extensions for the period up to three years for enterprises under privatization and privatized enterprises

Level of government: Central government

Policy objective: 3-year tax extensions are applied as a one-off measure to help enterprises overcome consequences of the former economic system.

Legal basis: Law On Taxes and Duties, Cabinet of Ministers Regulations No. 81 dated from 31 March, 1995.

Form of the subsidy: tax extensions

Mechanism: The Commission for tax debt payment deferment formed by the Cabinet of Ministers³ has a right to take a decision to defer tax debt payment for the period up to three years, not

¹ Taxpayers who fail to pay their taxes on time are charged a **late fine** - 0.5% of the delayed principal tax sum for each day that the payment is delayed.

² The sum of delayed taxes and other payments (including punitive fines) (principal debt) is increased in concert with the refinancing rate specified by the Bank of Latvia for the period of delay.

³ Commission includes representative of the Ministry of Finance, Ministry of Economy, Ministry of Agriculture, Ministry of Transport, Ministry of Welfare, State Revenue Service and Privatization Agency. Division of tax payments application (Ministry of Finance) supports the work of the Commission.

calculating the percentage of the fines as well as reducing previously calculated fines up to 100 per cent (see point 3).

Applicant enterprises have to submit audited financial statements, information on creditors and debtors, current number of employees as well as planned changes in the number of employed, strategic development plan, proposed tax debt payment schedule, etc.

If the enterprise, which was granted tax extension, doesn't fulfill commitments in respect to payment of deferred taxes (a payment schedule), the enterprise commits an offence in the area of taxation, or the increase of debt to the state budget is observed, Commission takes a decision cancelling tax deferment, and all due fines are calculated.

Net subsidy equivalent for this state aid measure is calculated as for a soft loan, i.e. refinancing rate of the Bank of Latvia is compared to the market interest rate (average commercial bank lending rate in Latvia).

$$NSE = \text{sum of principal debt} \times (\text{commercial interest} - \text{refinancing rate of the Bank of Latvia}).$$

For the year 1997 NSE of tax extensions measure for privatized companies and for companies that are up for privatization is SDR 144,200 (data concern extensions of the term for tax payment that were granted in 1997). The effect in 1997 of tax extensions awarded in earlier years has not been calculated yet.

2. *Tax debt capitalization for enterprises under privatization and privatized enterprises (thereafter - eligible enterprises).*

Level of government: Central government

Policy objective: Debt capitalization is realized as a one-off measure to assist eligible enterprises to overcome consequences of the former economic system.

Form of the subsidy: tax debt capitalization

Legal basis: Tax debt capitalization is governed by the Law on Taxes and Duties, Cabinet of Ministers Regulations No.265 of 16 July 1996. On June 1997, the regulations were replaced by the Cabinet of Ministers Regulations No.200 of 3 June 1997.

Mechanism: For eligible enterprises tax debts (including interest due calculated according to the refinancing rate of the Bank of Latvia), accrued till the moment of privatization or till the moment of submission of capitalization application (depending on the status of eligible enterprise) are being capitalized. For private companies, where state share previously exceeded 50 per cent only debts accrued when state had a control over enterprise are capitalized.

The following tax debts can be capitalized: VAT, Corporate income tax, excise tax debts as well as social tax debts if accrued till year 1996.

Capitalization can not be done repeatedly. No capitalization of debts can take place if the decision on liquidation of the company is taken.

As a result of capitalization, the equity capital of the respective company is increased by the sum of the capitalized taxes, and the institution which conducts the capitalization becomes the owner of the respective capital shares. This gives the state a realistic opportunity to recoup its investment by selling the capital shares on the open market.

The debts are capitalized if the value of assets of enterprise exceeds value of liabilities (except for capitalized tax debts) and company's liquidity coefficient is not less than 1.0, and own funds coverage is not less than 0.1.

Only audited financial statements are used for the purposes of tax capitalization.

In case of privatized enterprises the capitalization of debts is refused if during the period between privatization and submission of capitalization application tax debts increased by more than 10 per cent.

The decision on capitalization of debt is respectively taken by the Ministry of Agriculture or Privatization Agency (i.e. institution which performs/performed privatization of the enterprise).

In 1997 the tax debt of privatized companies and companies that are up for privatization was capitalized at a total sum of **SDR 5.7** million

3. *Reduction of previously calculated late fines (up to 100 per cent) for privatized companies and companies up for privatization*

Level of government: Central government

Policy objective: fine write-offs are applied as a one-off measure to assist eligible enterprises to overcome consequences of the former economic system.

Legal basis: Law On Taxes and Duties, Cabinet of Ministers Regulations No. 81 dated from 31 March, 1995 and Cabinet of Ministers Regulations No. 265 of 16 July, 1996. On June 1997, the regulations were replaced by the Cabinet of Ministers Regulations No. 200 of 3 June 1997.

Mechanism: Tax-related fines are being written off simultaneously with 3 year tax extensions and tax capitalization.

For the year 1997 reduction of previously calculated fines in connection with tax extensions is SDR 2,289.0 thousand.

Reduction of previously calculated fines in connection with tax debt capitalization is SDR 4,254.6 thousand.

II. STATE GUARANTEES FOR LOANS

Level of government: Central government

Policy objective: alleviation of access to financing for enterprises

Form of the subsidy: loan guarantees

Legal basis / Mechanism: Planned amount of state guarantees as well as beneficiary companies are included in the annual Law on State Budget (normally these are guarantees included in public investment programme). No additional guarantees could be given without amending annual Law on State Budget. The Minister of Finance is entitled to sign guarantee agreements on the side of the government.

Normally no premium payments were requested for state guarantees.

Statistical: At the end of 1997, state guarantees in the industrial sector covered credits worth SDR 5,150.3 thousand. State aid in the form of guarantees in 1997 amounted to **SDR 276.0** thousand (calculated as the difference between the commercial interest rate and the interest rate that is being paid, multiplied by the sum of the remaining credit payment in the specific quarter)⁴. Also, state guarantees covered one payment in 1997 in place of the recipient of the credit – a payment of SDR 1,143.3 thousand in place of the state stock company *Dauteks*. It should be noted, however, that in 1998 *Dauteks* has already begun to repay the sum, and on 23 December of this year it had already repaid SDR 899.8 thousand.

It is important to note that foreign credits and guarantees alike have been extended to implement various viable investment projects. The point has not been to offer assistance to companies which are in a crisis situation.

III. STATE CREDITS (GRANTED OUT OF FOREIGN LOANS OF THE REPUBLIC OF LATVIA)

Policy objective: To alleviate access to financing to companies

Form of subsidy: Preferential loans

Legal basis/ Mechanism: Planned amount of state credits as well as beneficiary projects are included in the annual Law on State Budget (normally these are projects included in the Public investment programme).

Statistical: Most of the credits which have been issued with easier terms (meaning a reduced interest rate – between 6 and 10 *per cent*) have been supplied to industry through loans from foreign entities, mostly the World Bank, the IMF and the European Community. The total sum of outstanding credits to industry was SDR 28.7 million at the end of 1997. The element of state aid in 1997 amounted to **SDR 2.09** million. Of course, it must be remembered that this is the maximum theoretical aid figure, because when the net aid equivalent was calculated, it was not possible to determine the interest rates charged to end users of the credits, because credits in Latvia are distributed via a number of channels. The calculation is based on interest rates which are paid by the state or the initial recipient of the credit (usually the bank that is servicing the credit line). The credits were given to such areas of industry as the pharmaceutical industry, wood processing and the food production industry.

In general it has to be mentioned that industry is not a priority area in business sector crediting (in contrast – mostly for enterprises of strategically important infrastructure spheres - energy sector, transport network).

IV. MUNICIPAL CREDITS

Level of government: local governments

Policy objective: to alleviate access to financing to enterprises of local importance

Form of subsidy: preferential loans

Legal basis: Municipal ordinances

Statistical: Credits with reduced interest rates were also given by local government privatization funds – a total sum of SDR 76,000, with net aid of only **SDR 9,800**. These credits

⁴ Guarantee premiums were not required.

usually go to companies of local importance (publishers, apparel and footwear manufacturers, the food industry, wood processing and, to a very limited extent, machinery construction). The sums issued by local governments are much lower than those of credits issued from foreign loans – between SDR 375 and SDR 20,000. All of these, in other words, are *de minimis* credits.

V. SUPPORT TO RESTRUCTURING PROCESS FROM PRIVATIZATION FUND RESOURCES – AD HOC STATE AID CASES

Legal basis: Decision of the Cabinet of Ministers No. 585 “On the programme of expenditures from State Privatization Fund” dated from 30.04.97.

Statistical: This is not a common form of aid in Latvia. Last year this type of aid was given only by the State Privatization Fund, the result of which was a payment of SDR 52,500 for the restructuring of the stock company *Stružānu kūdras fabrika*, SDR 226,300 went toward the restructuring of the state stock company (up for privatization) *VEF*, and SDR 1,007.8 thousand was used for the restructuring of the state stock company (up for privatization) *VEF-KT*.

PUBLIC AIDS TO AGRICULTURE

The purpose of state aid to the agricultural sector is to promote supply to the market with high-quality, domestically produced food products, to promote the competitiveness of Latvian products in the domestic market, to stimulate the strengthening of farmers and to encourage a move from extensive production processes to intensive ones, to improve the scientific aspects of livestock breeding and grain farming, to make credit resources available, and to promote employment in rural regions.

In Latvia, as in the countries of the European Union, agriculture is one of the most extensively supported sectors. Information about state aid to agriculture is grouped according to the effect which various support programmes have on international competition. Data are first presented about those support programmes with the least effect on the terms of competition. Generalized services which are offered in the agriculture sector – control of disease, certification and informative services, agro-chemical programmes, etc, influence competition the least.

I. GENERAL SERVICES

Level of government: Central government

Legal basis: Law on 1997 State budget and Decree of the Ministry of Agriculture No. 13, dated from 16 January 1997 – Decree on utilization of State subsidy fund for development of agriculture in 1997.

Programme type	Description	Cost in 1997 (,000 SDR)	Source of financing
"General services"	Disease control programme in the livestock sector; support for livestock breeders in order to maintain healthy and high-quality herds, to house young animals in proper conditions, to register herds, to protect local genetic resources, to vaccinate animals against leucosis, to promote hybridization and crossing in pig farming, and to improve quality and effectiveness.	4,043.8	Budget
	Diagnostic examination of infectious disease in animals and food product testing services	2,496.5	Budget
	State investments to preserve land cultivation programmes; agro-chemical programmes	1,943.9	Budget
	Research programmes for specific agricultural needs	931.4	Budget
	Financing for the Latvian Agricultural Consultation Center	460.4	Budget
	State investments in the development of rural infrastructure: land cultivation, road construction, electricity supplies	400.2	Budget
	State support for preservation, restoration and supplementation of hybrid grain	381.4	Budget
	Anti-epizootic programmes	250.1	Budget
	An information establishment programme, state support to farms which implement their own bookkeeping and submit data to the State Statistical Committee	162.6	Budget
	Market information, consultation and support for specific products	118.2	Budget
	Assistance to farmers to implement appropriate land use methods, crop rotation, agrotechnology	94.2	Budget
	Support for establishment of the state company "State Pedigree Information Data Processing Center"	73.7	Budget
	Publication of training materials and consultational publications in support of sector development	31.9	Sugar Production Development Fund
Compensation for victims of natural disasters	Compensation for damage caused by natural disasters to crop plantings and agricultural production objects	95.0	Budget
TOTAL		11,483.1	

II. LOCAL SUPPORT

In second place in terms of the influence on competition is so-called local support for agricultural production. Local support is support which is given to all producers of agricultural products in Latvia who meet certain requirements and satisfy specific criteria.

SUBSIDIES FOR THE PRODUCTION OF SPECIFIC AGRICULTURAL PRODUCTS

Level of government: Central government

Legal basis: Decree of the Ministry of Agriculture No.13, dated from 16 January 1997 – Decree on utilization of State subsidy fund for development of agriculture in 1997.

Subsidies were budgeted for the following types of production: flax, cereals, barley, seed material, cattle, potatoes, sugar beets and wheat.

1. Flax: In 1997 payments were made of SDR 112.5 per ton of dew, retied flax stems with a quality index No. 1.0 and 1.25, and SDR 118.8 per ton if the quality index was 1.5 or above.
2. Cereals: Payments were made in order to ensure the production of grain at the necessary level and to equalize differences in grain production conditions. Resources were distributed in regions where the natural conditions for cereal plantings are worse than in other parts of the country (for spring plantings – SDR 11.25 per hectare, for winter grains – SDR 7.5 per hectare in 1997). Of the 26 districts of the state, six – the Alūksne, Balvi, Daugavpils, Ludza, Preiļi and Rēzekne districts – qualified for aid.
3. Barley: Direct payments for barley amounted to SDR 37.5 for each sold ton if the grain met quality standards.
4. Seed material: Payments were made to producers for each ton of high-quality seed that was produced and sold. The support was meant to promote the production of high-quality seed and to increase the use of proper planting schemes. The support was available to almost all arable crops in Latvia, including cereals, legumes, buckwheat, perennial grass, potatoes, sugar beets, flax, fruit and vegetables.
5. Cattle: Support was given for cattle intended for slaughtering, according to weight (between SDR 50 and 150.1 for an animal with a live weight of between 401 and 465 kg, and SDR 68.8 to 162.6 for an animal with a live weight of more than 465 kg). The differential in payments was intended so as to stimulate the breeding of pure breed animals.
6. Potatoes: Support was given in the amount of SDR 2.5 for each ton of sold potatoes, provided that the starch content was at least 15 *per cent*. The payment could be increased if the starch content was even higher, and potatoes had to meet specific quality requirements.
7. Sugar beets: Sugar beet growers could receive SDR 37.5 per hectare if they used agro-technology (their fields were free of weeds and diseases, and there was proper fertilization and water management). The producer could receive additional payments of up to 70 *per cent* of the basic subsidy if he grew and sold to sugar processing plants no less than 25 tons of sugar beets per hectare.
8. Wheat: Aid was given to processing plants so that they could repay part of the interest rate on credits which they had earlier taken to purchase food grains (no more than one-tenth of the interest rate on the credits).

Product	Support in 1997 (000 SDR)	Source of financing
Flax	384.88	Budget
Cereals	886.93	Grain Production Regional Equalization Fund
Barley	115.07	Budget
Seed material	3,013.42	Budget
Cattle	407.77	Budget
Potatoes	150.82	Budget
Sugar beets	418.03	Budget
Wheat	112.23	Budget
TOTAL	5,489.15	
Share of GDP	0.14%	

SUBSIDIES NOT LINKED TO SPECIFIC FORMS OF AGRICULTURAL PRODUCTION:

Level of government: Central government

Legal basis: Decree of the Ministry of Agriculture No.13, dated from 16 January 1997 – Decree on utilization of State subsidy fund for development of agriculture in 1997.

Type of aid	Amount of aid in 1997 (,000 SDR)	Source of financing
State aid to the purchase of new and efficient machinery and equipment (21% of the used credit /leasing/ sum)	968.15	Budget
Support for purchase of breed animals and sperm material (bioproducts) from abroad*	198.91	Budget
TOTAL	1,167.06	

* Budget resources were distributed on a tender basis according to previously specified conditions. A special commission was established of different representatives from science, administration and other associations for each type of animals. The commission took decisions what kind of breed should be purchased in order to improve the quality of national herd, what kind of crossing and selection would be needed, and where the best genetic resources could be obtained. In order to receive aid, producers had to fulfill so-called “breed keeping farm” requirements.

In 1998 there are plans to award credit subsidies amounting to SDR 7.5 million. The subsidies will basically go toward promotion of agricultural production and technical modernization. The credit subsidies are calculated on a percentage basis from the sum of resources that have been utilized, observing specific criteria (e.g., the average cadastral sample value of land in the respective parish, the age of the owner of the farm, etc.). Credit subsidies can cover up to 35 *per cent* of the credit sum of utilized resources, but it must be noted that the total volume of resources used in programmes toward which credit subsidies are available in 1998 could not exceed SDR 125,000 per year per aid recipient.

Local governments, it must be said, have not offered anything in the way of actual subsidy aid to agriculture.

Tax relief Agricultural Products

Latvia's tax laws provide various types of relief aimed at promoting agricultural production. They are the following:

1. The Excise tax

Level of government: Central government

Legal basis/mechanism: According to the Law On Excise tax, Article 8 farmers can receive repayment of the excise tax on diesel fuel that is used in the agricultural process. In order to avoid fraud, the government has specified that the excise tax repayment can be applied to no more than 120 litres of fuel per year for each hectare of land on which the farm has ownership, permanent use or leasing rights. The land measurements must be affirmed by the chairperson or deputy chairperson of the relevant local government. In 1997 this aid programme cost SDR 6.75 million.

2. The enterprise income tax.

Level of government: Central government

Legal basis/mechanism: The law on the enterprise income tax (Article 18) states that agricultural enterprises can receive tax relief of SDR 12.5 per hectare of land that is used in agricultural production. Of course, the significance of this tax relief is largely dependent on the income which the respective producer earns. If profits are negligible or non-existent, this assistance is of no importance at all.

At this time, agricultural enterprises which pay the enterprise income tax are managing approximately 1.1 million hectares of land that can be used for agricultural purposes. This means that the maximum reduction of income from the enterprise income tax due to the tax relief given to agricultural enterprises could be SDR 12.5 million. In truth, of course, the loss of income is much lesser, so when the share which state aid represents in added value in agriculture, this estimate is not taken into account.

3. The personal income tax

Level of government: Central/local government

Legal basis/mechanism: According to the Law On personal income tax, the owners of personal subsidiary farms, household plots, and farms and fisheries which have not been incorporated as legal persons are exempted from paying the personal income tax on income which comes from agricultural production, provided that the income does not exceed SDR 3,751 a year. "Agricultural production" in this case means crop growing, livestock breeding, fishing on domestic waters, and gardening production.

According to a study done by the State Statistical Committee, the amount of personal income tax that is not received from farms each year is between SDR 0.25 and 0.63 million.

4. The value added tax

Level of government: Central government

Legal basis/mechanism: According to the Law On value added tax, producers of agricultural output have the right to receive value added tax relief. If the value of products produced at the farm for sale or for local consumption over the previous 12 months has amounted to at least 90 *per cent* of the total value of supplied goods and provided services, and if the value of taxable supplied goods and provided services in the last 12 months has not exceeded SDR 37,500, the farm is exempt from registering as a payer of the value added tax. In fact this tax relief is significant only if the products which are produced are sold to a person who is not a payer of the value added tax. Otherwise the products are marked up by 18 *per cent* before they get to the final consumer and the sale of agricultural products is not facilitated.

The value added tax is also not applied to services which are provided by joint associations for the processing and sale of agricultural and fishery output, by associations created for the joint use of agricultural machinery, equipment and tools, or by cooperatives, provided that the services are given to producers of agricultural output who are not payers of the value added tax.

5. The property tax

Level of government: Central, local

Legal basis/mechanism: According to the Law on property tax, property which is used for agricultural operations or which is intended for such use is not taxed with the property tax. Budget income from the property tax is reduced by approximately SDR 0.63 million because of this provision.

6. The land tax

Level of government: local governments

Legal basis: On the basis of Cabinet of Ministers Regulation No. 82 (25 February 1997), "Regulations concerning the calculation of the land tax and the application of tax relief", which was issued in concert with the law "On the land tax", local governments can apply land tax relief by applying differentiated coefficients to the land tax at a rate between 0.1 and 1.0. In fact, however, this opportunity is not being used, and the reported sum of land tax relief in 1997 was negligible – only SDR 20,260.

7. Agriculture credit guarantees

Level of government: Central government

Legal basis: Decree of the Ministry of Agriculture no 13, dated from 16 January, 1997 – Decree on utilization of State subsidy fund for development of agriculture in 1997.

Mechanism: Credit guarantees can be awarded to farmers at an amount of up to 50 *per cent* of the credit sum that is taken to purchase machinery, technological equipment or buildings.

Statistical: In 1997, the state provided SDR 562,700 for the credit guarantee fund, and in 1998, of the subsidies awarded by the Ministry of Agriculture, SDR 1,005.4 thousand is intended for an expansion of the credit guarantee fund – SDR 705,260 for producers of agricultural output and SDR 300,110 to restore the Baltic Sea fishing fleet.

8. Credits

Level of government: Central/local government

Legal basis:

- (i) Planned amount of state credits as well as beneficiary projects are included in the annual Law on State Budget (normally these are projects included in the Public investment programme).
- (ii) Municipal ordinances

In 1997 credits for agricultural development were given from local and foreign financial resources. The total sum of outstanding foreign credits to agriculture was SDR 40.2 million. The net amount of state aid provided to agriculture from foreign loans in 1997 was SDR 2.88 million (this includes also "aid element" of loans distributed before 1997. Of course, it must be remembered that this is the maximum theoretical figure, because when the net aid equivalent was calculated, it was not possible to determine the interest rates charged to end users of the credits, because credits in Latvia are distributed via a number of channels. The calculation is based on interest rates which are paid by the state or the initial recipient of the credit (usually the bank that is servicing the credit line).

The volume of aid provided from local government resources is insignificant (the net subsidy equivalent in 1997 was only SDR 13,100).

III. EXPORT SUBSIDIES

Level of government: Central government

Legal basis: Decree of the Ministry of Agriculture No 13 dated from 16 January 1997 – Decree on utilization of State subsidy fund for development of agriculture in 1997.

In 1997 the export of dairy products (evaporated milk with and without sugar, fat cheese, dry skim milk, casein and butter). The total volume of subsidies amounted to SDR 628,900.

Product	Year 1997	
	Direct subs. (000 SDR)	Volume of subsidized export (tons)
TOTAL	629.0	
Evaporated milk with sugar	31.1	2,275
Sterilized evaporated milk without sugar	4.5	353
Fat cheese	126.2	1,940
Dry skim milk	167.4	2,213
Casein	132.0	603
Butter with water content to 16%	98.9	763
Butter with water content to 25%	68.9	602

* the sum will be distributed among different dairy products

CROSS – SECTOR PUBLIC AIDS

I. AIDS FOR SMALL AND MEDIUM-SIZED ENTERPRISES

Policy objective: alleviation of tax burden for SMEs

Legal basis: Law on Corporate Income Tax

Form of the subsidy: tax rebate

Mechanism: It is important to note here that under the terms of the law “On the enterprise tax”, support can in fact be received only by micro-companies – those in which the average number of employees does not exceed 25 people, the value of equity resources does not exceed SDR 87,532 and net turnover does not exceed SDR 250,094.

In 1997, the sum of corporate income tax reduction reached **3,706.0** thousand. SDR

II. EXPORT FINANCING AND GUARANTEEING

Legal basis: cabinet of Ministers Regulations No.354 of 17 September 1996 - Regulations on state aid to guaranteeing and financing export and import operations

Form of the subsidy: loan guarantees, credits

Policy objective: to alleviate access to financing to companies

State aid to export is channelled through the state stock company *Latvijas Eksportkredīts*. This institution offers guarantees and credits which can be classified as part of the state's export aid programme. It should be added that the services which *Latvijas Eksportkredīts* provides satisfy the criteria which are set out by the OECD.

When we talk about guarantees, we must make note of the positive fact that *Latvijas Eksportkredīts* in 1997, as in previous years, did not have to make any payments in place of exporters.

The stock company *Latvijas Eksportkredīts* has offered the following types of guarantees:

Type of guarantee	Sum of guarantee obligations as of 31 December 1997 (000 SDR)
Import payment guarantee*	894.8
Import financing guarantee*	199.9
Guarantee of performance of obligations	41.1
Financing guarantee	194.8
Export financing guarantee	582.0
Total	1,912.6

*these are indirectly linked to export as only import of raw materials or equipment are guaranteed and credited

Import financing guarantees can be extended to foreign suppliers to cover the supply of goods or services, with post-payment.

Import financing guarantees are given to banks and other financial institutions in Latvia or abroad which finance import transactions to Latvia. Import guarantees are offered for the import of goods which fall into one of the following categories: raw materials and parts, production equipment.

A guarantee of the performance of obligations is issued in order to ensure that obligations are met even if the provider of services does not meet the obligations which have been undertaken.

Finance guarantees are issued in order to ensure the completion of specific projects (these include both import and export financing guarantees).

Export financing guarantees are issued to banks and other financial institutions in Latvia and other countries which finance export transactions. The guarantee covers the principal sums that are specified in the credit agreement concluded by the loaner and the bank, as well as the interest payments and other payments. The guarantee does not cover the risk that is associated with the buyer or the buyer's country.

Guarantees are usually short-term or medium-term guarantees. The interest rate on short-term guarantees ranges from 2 to 3 *per cent* per year, while the rate on medium-term guarantees is specified for the entire term of the relevant transaction, and the rate depends on the volume of the transaction; the annual rate can be anywhere between 1 and 2 *per cent*.

Latvijas Eksportkredīts also issued credits in amount of SDR **1,739.7** thousand. Credits are issued for a time period of up to one year, and depending on the term, the interest rate ranges between 10 and 16 *per cent* per year. For a comparison, we can note that the average interest rate on short-term domestic government obligations in 1997 ranged from 8.9 *per cent* to 11.6 *per cent* at the

beginning of the year and from 3.5 per cent to 7.5 per cent at the end of the year, depending on the type of security that was involved (the average weighted interest rate in 1997 was 8,5 per cent). It should be added also that the volume of credits issued to export has been very low – only 0.14 per cent of the total value of exported goods.

Because the financing available to *Latvijas Eksportkredīts* is fairly modest, it should be said that guarantees and crediting done by *Latvijas Eksportkredīts* did not cover even 1 per cent of Latvian exports (1997 data), which means that the influence of the institution on export development has been quite marginal.

With respects to state guarantees for the operations of *Latvijas Eksportkredīts*, the government undertakes liability for the institution's operations at a total sum of no more than SDR 12,5 million.

III. AIDS FOR EXCEPTIONAL OCCURRENCES

Level of government: Central government

Policy objective: to alleviate tax pressure for enterprises in case of exceptional occurrences

Legal basis: Law on taxes and duties (Article 24), Cabinet of Ministers Regulations No. 81 dated from 31 March 1995;

Form of the subsidy: 1-year tax deferment plus late fees (up to 50 per cent) on delayed tax payments (by municipalities).

Mechanism: Enterprises in exceptional circumstances — in case of fire, natural disasters, thefts, etc. - are eligible for tax deferrals for the period up to one year and reduction of previously calculated tax fines (up to 50 per cent).

In 1997, the following aid was given to companies suffering exceptional conditions:

Late fees (up to 50 per cent) on delayed tax payments were reduced in 1997 at a total sum of SDR 220.9 thousand.

State support in the form of extending the term for tax payment by up to one year amounted to SDR 29,900 (data concern extensions of the term for tax payment that were granted in 1997). The effect in 1997 of tax extensions awarded in earlier years has not been calculated yet.

In general, it must be said that with respect to the state's policy on aid to companies which suffer losses under exceptional situations is not of particular significance in Latvia. All the aid cases are *de minimis*.

IV. AIDS TO COMPANIES WITH FOREIGN INVESTMENT

Level of government: Central government

Legal basis/Mechanism: Pursuant to the law "On Foreign Investment in the Republic of Latvia" if the enterprise was registered till the 12 March 1993 and the foreign investment comprises more than 30 per cent of the capital, the enterprise is entitled to pay 0 per cent corporate income tax for the time period of 2 - 3 years (depending on the kind of activity) and during the following 2 years the enterprise receives 50 per cent rebate on the payable corporate income tax.

If the enterprise was registered from the 12 March 1993 till the 1 April 1995 and the foreign investment comprises more than 30 per cent of the capital, but not less than 50 000\$, the enterprise is entitled to pay 0 per cent corporate income tax for the time period of 2 - 3 years (depending on the kind of activity) and during the following 2 years the enterprise receives 50 per cent rebate on the payable corporate income tax.

If the enterprise was registered till the 1 April 1995 and the foreign investment comprises more than 50 per cent of the capital, but not less than \$1,000,000, the enterprise is entitled to pay 0 per cent corporate income tax for 3 years, for the following 5 years it receives 50 per cent rebate on the payable corporate income tax.

If the enterprise with foreign investment has been registered after the 1 April 1995 the law "On Foreign Investment in the Republic of Latvia" provides for the application of the national laws, which means that no special tax exemptions are applied to foreign investors.

Corporate income tax relief was granted for time periods of up to eight years, beginning with the first year of profit.

It should be added that this aid was meant to promote output in the following areas of industry: the production of paper and cellulose, the production of construction materials, the production of agricultural machines, tractors, agricultural and food machinery and spare parts, the production of flax and wool, the food and pharmaceutical industry, the production of electrical equipment and furniture, and the production of medical equipment.

Unfortunately so far it wasn't possible to gather statistics on state aid sums granted through this state aid programme.
