

SUBSIDIES

Replies to Questions Posed by the UNITED STATES¹
Regarding the Updating Notification of TURKEY²

The following communication, dated 10 May 2000, has been received from the Permanent Mission of Turkey.

I. CREDIT PROGRAMMES

Under section 1: Title of the Subsidy Programme:

Q1. Under the explanation of short-term export credits in “Credit Programmes”, please explain whether the short-term export credits offered by the commercial banks are offered on the same terms as those offered by the Türk Eximbank.

Reply

Short-Term Export Credits are extended both directly by Türk Eximbank and indirectly using selected Turkish commercial banks as intermediaries. In using commercial banks Türk Eximbank is able to transfer both the buyer's risk and a proportion of the operational burden, thereby increasing the volume of business it can process.

In 1998, 65 per cent of Short-Term Credits offered by Türk Eximbank have been extended via intermediary Turkish commercial banks, which are allocated credit lines following an evaluation process. These commercial banks are responsible for the default risk of the borrowers. The Bank therefore assumes bank risk rather than that of the exporter or manufacturer. Commercial banks selected must be financially sound and deemed to be active in the foreign trade business according to Türk Eximbank's standards.

Türk Eximbank determines interest rates based on money market rates, loan repayment periods and the cost of funding. Commercial banks can add interest spreads to these rates offered by Türk Eximbank. As mentioned above there are also credits extended directly by Türk Eximbank whose terms are different than the credits extended via commercial banks.

Q2. In the explanation for the “Islamic Development Bank (IDB) Export Financing Scheme” under “Credit Programmes - Medium and Long-Term Export Credits,” it appears in the first

¹ G/SCM/Q2/TUR/13

² G/SCM/N/48/TUR

paragraph as though the IDB has approval authorization for credit. However, in the second paragraph, it says that the Türk Eximbank has credit approval authorization.

- (a) Please explain the loan application and approval process under the ‘Export Financing Scheme’.**
- (b) Does the credit approval authorization of the Eximbank apply only to limiting the amount of funds available? In that case, would it be accurate to say that the Eximbank, instead of the IDB, essentially has control over the credit approval?**

Reply

Türk Eximbank acts as an intermediary agency for the Export Financing Scheme (formerly known as Longer-Term Trade Financing Scheme) of the Islamic Development Bank (IDB), in accordance with the agreement signed in 1988 between the two parties. This programme entails financing on buyer credit basis, and provides credit facilities to importers that reside not only in member countries of the Organization of Islamic Conference, but also in member countries of the OECD for their imports from Turkey. Credits are extended in terms of USD, GBP, FFfr, DM and JPY, in addition to Islamic Dinars under this programme. The mark-up rate is LIBOR+spread per annum where spread is determined on transaction basis. The IDB has the credit approval authorization and the buyer's (importer's) risk for the transactions mediated by Türk Eximbank is borne by the IDB.

The exporter should submit their application for financing through Türk Eximbank as designated National Agency of the IDB in Turkey. Applications are reviewed by Türk Eximbank and if it is found suitable to the Export Financing Scheme, it is forwarded to the IDB to provide financial support. If the amount of application is over 3 million Islamic Dinars, it is submitted to the approval of the IDB's Board of Directors. After the approval of application by the IDB, Türk Eximbank prepares the required contracts and due to the opening of letters of credit, disbursements are made to exporters and at these disbursement dates importers are debited to their commitments as to determined due dates.

This scheme also entails a limit amounting to Islamic Dinars 20 million (approximately US\$29 million) provided by the IDB. Under this revolving credit line allocated to Türk Eximbank by the IDB (an exception to general practice), the buyer's risk is borne by Türk Eximbank. The terms of the credits used by the importers are in line with the terms applied by the IDB. Türk Eximbank has the credit approval authorization since the buyer's risk is borne by Türk Eximbank. The credibility of the importer's country or the credibility of the bank provided guarantee were taken into account in credit applications which are evaluated on a transaction basis.

Under this line, the applications are submitted to Türk Eximbank, reviewed by Türk Eximbank and after the approval of both IDB and the Board of Directors of Türk Eximbank, the letter of credit is opened and disbursements are made to exporters by the IDB.

Q3. Regarding the explanation of the “Overseas Contractors’ Services Insurance Programme” under the “Medium- and Long-Term Insurance Facilities”, please explain why the programme is currently under review, and whether this means the programme is going to be phased-out.

Reply

This programme is not going to be phased-out. Technical studies still continue in order to diversify the risk so that the Turkish contractors can benefit most. Besides these technical studies, negotiations on policy conditions are still going on with the representatives of the sector.

Additionally, Türk Eximbank is searching for the possible reinsurance alternatives in order to cede part of its risk.

Q4. Regarding the explanation of the “Overseas Investment Insurance Programme” under the “Medium- and Long-Term Insurance Facilities”, you state that the “programme is planned to be implemented in 1999”. Please explain whether or not this programme was implemented and whether it is expected that it will have any trade effects.

Reply

The Overseas Investment Insurance Programme has still not been implemented. The groundwork for this programme has been laid out in coordination with the Multilateral Investment Guarantee Agency (MIGA). In this context, a "Cooperation Agreement" has been signed with MIGA in October 1999. This programme is planned to be implemented in year-2000 according to the annual programme of Türk Eximbank.

Under section 2: Policy objective and/or purpose of the subsidy:

Q5. For “Specific Export Credit Programme”, the last programme under “Medium- and Long-Term Export Credits”, the notification states that it “aims to meet credit demands which cannot be fulfilled within the existing credit programmes of Türk Eximbank”.

- (a) **Please explain why the credit demands cannot be fulfilled under the existing programmes. Is it because the other credits are high-risk?**
- (b) **Please explain more fully the aim of the programme and who is eligible for the programme.**

Reply

- (a) Existing pre-shipment credit programmes are short-term standard credit programmes. However, the Specific Export Credit Programme is designed to support Turkish manufacturers, manufacturer-exporters and exporters in order to meet their specific requirements by providing medium-term financing.
- (b) The aim of the Specific Export Credit Programme is to support manufacturers and exporters producing specific industrial products and constructing factories, plant and ships by providing medium-term financing. Specific industrial products like hi-tech products, durable consumer goods, electronic goods, construction of complete factory and plants and ship-building are eligible for this programme. Eligible applicants are Turkish manufacturers, manufacturer-exporters and exporters. Maximum coverage is up to 80 per cent of f.o.b. value of export commitment. The maximum repayment period is determined on a case-by-case basis. Interest rates and repayment terms are determined specifically for each project.

Q6. Under the “Post-Shipment Export Credit Discount Programme”, please explain what Bank is involved.

- (a) **In addition, please clarify how this Bank is able to channel proportions of commercial banks’ funds to specific purposes?**
- (b) **Does the Bank have control over how the commercial banks allocate their funds?**

Reply

Two leading Turkish commercial banks are involved in the Post-Shipment Export Credit Discount Programme. These banks are T. İş Bankası A.Ş. and Akbank T.A.Ş., since Türk Eximbank has reached specific agreements with both of them.

- (a) One of the primary objectives of Türk Eximbank on implementing such a discount programme is to channel a proportion of the commercial banks' funds to export financing. In accordance with the specific conditions of the mentioned agreements, these Turkish commercial banks would discount the endorsed bills of exchange or assigned letters of credit provided that the relevant shipment(s) were covered under Türk Eximbank's short-term export credit insurance programme.
- (b) Türk Eximbank has control over the commercial banks allocation since the confirmation of Türk Eximbank on the validity of the export credit insurance policy and the buyers' limit approval is required prior to the allocation process. Any insured exporter having a valid policy and a valid buyers' limit approval can apply to these banks for discounting (relevant shipment has to be declared and the premium should be charged beforehand). It would be merely the commercial banks' decision to accept such an application or not. However, these banks have to get a written approval from Türk Eximbank prior to discounting.

However, this programme is not effective, since the commercial banks are reluctant to apply the interest rates offered by Türk Eximbank.

Under section 5: To whom and how is the subsidy provided

Q7. For the “Overseas Chain Store Investment Credit Programme”, please explain who or what entity decides the interest rate for the projects.

Reply

Under the Overseas Chain Stores Investment Credit Programme, which is a supplier credit facility, the interest rates are determined by the Board of Directors of Türk Eximbank according to the credit term, cost of funding and the credibility of the project exporter, on a project basis.

II. AGRICULTURAL PRODUCTS

Q8. In “Decree 98/12 of the Money-Credit and Coordination Council”, part 5, it says that 100 per cent of olive oil and 100 per cent of prepared or preserved fish is eligible for the subsidy. Does that mean that all producers receive 100 per cent debt-reduction for these products? Or does this mean that only certain producers within these categories receive 100 per cent debt-reduction?

Reply

With the Decree 98/12 of the Money-Credit and Coordination Council, export subsidies were paid to the exporters or producer/exporters for their olive oil and preserved fish exports. For both of these products, the quantity threshold rate (the export quantities, which are eligible to receive the subsidy) was determined as 100 per cent. It means all exports benefited fully from the export subsidy rates, \$200/tonne for olive oil exports and \$210/tonne for preserved fish exports. The Quantity Threshold System is used by Turkey in order not to exceed its WTO quantity commitments. If the

quantity commitment for a certain product is less than Turkey's last year export figure and estimated export figure, the percentage of quantity eligible to receive the subsidy is determined below 100 per cent and the quantity threshold rate is determined according to the commitment/estimates exports figures ratio. Hence, exporters of some products; such as frozen fruits and dehydrated vegetables do not benefit fully from the export subsidy rates, which were stated in Decree 98/12. But, with Article 14 of Decree 98/12, only olive oil exports with less than 18 kg. packages were eligible to receive export subsidies.

Q9. For all of the agricultural programmes, please explain how the rate per ton is determined and whether the same calculation is made across all products.

Reply

The export subsidy rates per ton for all products are determined according to Turkey's WTO commitments and internal and external market conditions. The decisions about the export subsidy rates and quantity threshold rates are made according to the quantity and value commitments in comparison to last year's export figures and export figure estimates. Furthermore, in the event that the level of export subsidy payments reach a level of Turkey's WTO commitments, then the Exporters Unions which are authorized to effect export subsidy payments, stop approving new applications for export subsidies.
