

WORLD TRADE ORGANIZATION

G/SCM/N/114/PNG
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Committee on Subsidies
and Countervailing Measures

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SUBSIDIES

Extension Under SCM Article 27.4 of the Transition Period for the Elimination of Export Subsidies Pursuant to the Procedures in Document G/SCM/39

Updating Notification

PAPUA NEW GUINEA

The following communication, dated 13 September 2004, is being circulated at the request of the Department of Trade and Industry in Papua New Guinea.

Pursuant to the decision taken at the Fourth WTO Ministerial Conference in November 2001 in Doha, concerning the extension of the transition period for the elimination of certain export subsidy programmes provided for under Article 27.4 of the SCM Agreement and, as contained in G/SCM/39 and paragraph 10.6 of the Decision on Implementation-Related Issues and Concerns, the Government of Papua New Guinea hereby presents its updating notification in respect of Section 45(b) Under Division 1A – Export Incentives of the Income Tax Act.

The legislation to which this notification refers is contained in document G/SCM/N/74/PNG. Since Papua New Guinea's last report, there have been no changes to the applicable subsidy programme in terms of the provision of any additional benefits or modification of the definition or requirements of the programme. Thus, there have not been any changes in the scope, coverage or intensity of the benefits of the programme since 1 September 2001.

1. Title of the subsidy programme, if relevant, or brief description or identification of the subsidy

Section 45B under Division 1A – Export Incentives of the Income Tax Act of Papua New Guinea.

2. Period covered by the notification

The period covered is calendar year 2003.

3. Policy objective and/or purpose

Section 45B of the Income Tax Act is an export incentive provided to the companies by the Government, which aims to attract export-oriented manufacturing and foreign investment through the provision of export incentives. It provides for exemption from income tax, of profits resulting from new export sales. The amount exempted is the total net income from export sales for the first three years after exports have started. For another four years thereafter, increases in net export income, measured over the rolling average of the previous three years net export income, are exempted. Given the company tax rate of 25 per cent, the subsidy provided is 25 per cent of net profits derived from export sales, for the periods and to the extent shown above.

4. Background and authority

Section 45B is under "Division 1A – Export incentives" of the Income Tax Act. The indirect subsidy was introduced in 1984 and is administered by the Internal Revenue Commission, the government agency responsible for taxation and customs matters in Papua New Guinea.

Section 45B(2), part of the Income Tax Act and mentioned in document G/SCM/N/74/PNG, is no longer valid.

5. Form

Income tax exemption for up to 100 per cent of net income derived from export sales of a variety of goods (mainly mining and petroleum products) for three years. After this period, any export income which is in excess of the average of the prior years can be treated as exempt income, up to and including the seventh year.

6. To whom and how the subsidy is provided (whether to producers, to exporters, or others; through what mechanism; whether a fixed or fluctuating amount per unit; if the latter, how determined)

This subsidy, provided through the income tax system, is to promote exports of goods manufactured in Papua New Guinea. To date, not many companies benefited from this programme. The programme remains the same as previously notified¹, with no changes on the coverage, amount of subsidies and the position of the government on the duration of the subsidy.

¹ G/SCM/N/71/PNG, G/SCM/N/74/PNG & Suppl.1, G/SCM/N/99/PNG & Suppl. 1.

7. Amount/subsidy per unit, or in cases where this is not possible, the total amount or the annual amount budgeted for that subsidy (indicating, if possible, the average subsidy per unit in the previous year). Where provision of per unit subsidy information (for the year covered by the notification, for the previous year, or both) is not possible, a full explanation.

The company tax in Papua New Guinea is 25 per cent and the subsidy provided is 25 per cent of net profits derived from export sales. The cost of this subsidy is between US\$25,000 and US\$100,000 per annum. There are no statistics available to more precisely update the costs of this indirect subsidy to the Government for the year 2003.

8. Duration of the subsidy and/or any other time limits to it, including date of inception/commencement

PNG is expecting that this request for extension will be granted for 2005 and the subsequent years as per the requirements of the fast-track procedures. Similarly, PNG is aware of the obligation to eliminate the subsidy in 2009, including the final two years referred to in Article 27.4, and intends to undertake, at an appropriate time, a detailed study of possible options in this respect.

9. Statistical data permitting an assessment of the trade effects of the subsidy. The specific nature and scope of such statistics is left to the judgement of the notifying Member. To the extent possible, relevant and/or determinable, however, it is desirable that such information include statistics of production, consumption, imports and exports of the subsidized product(s) or sector(s):

- (a) for the three most recent years for which statistics are available;
- (b) for a previous representative year, which, where possible and meaningful, should be the latest year preceding the introduction of the subsidy or preceding the last major change in the subsidy

The statistical data for this period is not available as most companies targeted by the Government for this subsidy did not apply for assistance under this programme to export. One project, the Ramu Nickel/Cobalt, which the Government provided this incentive of indirect subsidy to mine the resources and through this tax exemption on export income, assist/develop that region of the country, remains under development and is not yet in full production. Papua New Guinea wants to reassure WTO Members that at this stage there is no evidence of trade effects as a result of this subsidy.
