

# WORLD TRADE ORGANIZATION

RESTRICTED

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Committee on Subsidies and Countervailing Measures

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## COMMUNICATION FROM SINGAPORE

The following communication, dated 4 April 1995, has been received from the Permanent Mission of Singapore.

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I attach herewith Singapore's notification of its subsidy programmes pursuant to Article 27 of the Agreement. You will note that although Singapore is not obliged under this Article to make a notification, it is, in the interest of transparency, informing the Committee of its subsidy programmes which could come within the meaning of Article 3 of the Agreement.

SINGAPORE'S NOTIFICATION PURSUANT TO ARTICLE 27 OF THE  
AGREEMENT ON SUBSIDIES AND COUNTERVAILING MEASURES

We hereby notify the following existing programmes:

- (a) International Trade Incentives (ITC) provided under Part VII of the Economic Expansion Incentives (Relief from Income Tax) Act (Chapter 86).
- (b) Double Tax Deduction (DTD) Scheme provided under Sections 14(B) and 14(C) of the Income Tax Act.
- (c) Production for Export Incentive provided under Part VI of the Economic Expansion Incentives (Relief from Income Tax) Act (Chapter 86).

A copy of the law under which the subsidies are granted is attached at Annexes 1 to 3.

1. Policy objectives of each programme, including, if applicable, any sectoral objectives

(a) ITC

This programme may be awarded to any trading company engaged in international trade in Singapore manufactured products or commodities. To qualify, the company must have a trading volume exceeding S\$10 million per annum for manufactured goods or S\$20 million per annum for commodities.

(b) DTD

The DTD Scheme aims to encourage Singapore manufacturers and traders to increase the export of Singapore-made goods.

(c) Production for Export Incentive

The objective of the incentive was to benefit the manufacturers who export the goods they manufactured. The incentive was given in respect of approved manufacturing activities and deep sea fishery. To qualify for the incentive, export sales must be at least 20 per cent of the value of the total sales and must amount to at least S\$100,000 per year. Export performance alone does not automatically qualify the company for the incentive. The incentive is primarily given to manufacturers (who export) and not exporters *per se*.

2. Date of establishment of the programmes and any expiry date provided for therein

(a) ITC

The ITC was established on 20 April 1979. There is no expiry date provided for therein.

(b) DTD

The DTD Scheme was established on 4 June 1977. There is no expiry date provided for therein.

(c) Production for Export Incentive

The Production for Export Incentive took effect from the Year of Assessment 1967. There is no expiry date provided in the law.

3. Level(s) of government involvement in the implementation of the programmes

(a) ITC

The Singapore Trade Development Board (STDB) approves the company's application based on the criteria outlined in the Act. The tax benefit is claimed on the tax computation worksheet which is submitted by the company together with the corporate tax return to the Inland Revenue Authority of Singapore (IRAS). IRAS checks and approves the amount to be exempted.

(b) DTD

STDB approves the company's application on the condition that the company satisfies the requirements. The tax benefit is claimed on the tax computation worksheet which is submitted by the company together with the corporate tax return to the IRAS. IRAS approves the expenses incurred.

(c) Production for Export Incentive

The Economic Development Board is responsible for administering the programme. The approving authority is the Minister for Trade & Industry.

4. Financing instrument(s) used in each programme

(a) ITC

The ITC does not make use of any financing instrument. The programme provides for a tax exemption on 50 per cent of qualifying export profit in excess of a variable base. The variable base is an amount equal to one-third of the export sales for the three immediately preceding qualifying years. The tax relief period is five years. The tax exemption cannot be carried forward.

(b) DTD

The DTD Scheme does not make use of any financing instrument. The programme allows a double deduction of the expenses incurred from gross income, once on the company's financial statement and again on the tax return. Any unused tax deduction may be carried forward.

(c) Production for Export Incentive

The Production for Export Incentive does not make use of any financing instrument. It is a tax incentive programme which grants an exemption of tax on 90 per cent of approved export profits in excess of a specified base.

5. Phase-out/bringing into conformity with the Agreement

The ITC, DTD and the Production for Export Incentive will be phased out accordingly within eight years from 1 January 1995.

Programmes which are not Considered as Subsidies

Notwithstanding our notification of the following programme, we have some doubts that this programme falls under the definition of a subsidy as provided for in Article 1 of the Agreement. We have provided our arguments as to why this programme should not be considered a subsidy in paragraph 4 below. Our notification under Article 27 should not prejudice the status of this scheme, in the event that it is established that it is deemed not to be a subsidy. In the event that it is deemed otherwise, Singapore will act in accordance with Article 27 of this Agreement. In view of the above, we would like the Secretariat to advise us on the status of this programme.

Taking into account the above, we hereby notify the following programme:

MAS Rediscounting Scheme for Pre-Export and Export Bills of Exchange

1. Policy objectives of the programme, including, if applicable, any sectoral objectives

The objective of the MAS Rediscounting Scheme is to provide easy access to short-term export and pre-export financing for small and medium-sized exporters of eligible locally-manufactured products. The MAS Rediscount rate is also used as a monetary policy instrument.

A copy of the terms and conditions of the MAS Rediscounting scheme is attached at Annex 4.

2. Date of establishment of the programme and any expiry date provided for therein

The Rediscounting Scheme was introduced by the Monetary Authority of Singapore (MAS) in May 1975. There is no expiry date provided for therein.

3. Level(s) of government involvement in the implementation of the programme

MAS administers the Scheme.

4. Financing instrument(s) used in the programme

Under this Scheme, the exporter obtains finance from his own commercial bank, which acts as the intermediary between the exporter and MAS. The interest rate charged to banks for rediscounting bills is set by the Authority and is comparable with the discount rate on commercial bills in the interbank market. Banks are allowed to charge a commission of not more than 1.5 per cent per annum above the rediscount rate charged by the Authority. The current rediscount rate stands at 3.5 per cent per annum. The maximum interest rate the banks can charge their customers is 5 per cent, compared to the prevailing three month commercial bill rate in the money market of 0.75 per cent.

In our view, there is no subsidy, implied or otherwise, in the MAS Rediscounting Scheme as the MAS Rediscount rate, with the bank's spread of up to 1.5 per cent added on, is generally higher than the rediscount rate in the commercial bills market. (See chart attached at Annex 5).

Apart from granting short-term financing to small and medium-sized exporters, the rediscounting of export bills has also been used as a monetary instrument in influencing the liquidity in the banking system.

## ANNEX 1

## Part VII

## INTERNATIONAL TRADE INCENTIVES

45. For the purposes of this Part, unless the context otherwise requires -

"commencement day", in relation to an international trading company, means the date specified in the certificate issued to the company as the date from which that company shall be entitled to tax relief under this Part;

"export sales" means export sales free on board but shall exclude the costs of samples, gifts, test-market materials, trade exhibits and other promotional materials;

"international trading company" means a company which has been issued with a certificate under section 46;

"qualifying commodities" means any commodities other than -

- (a) tin in the form of ore, ingots or slabs;
- (b) natural rubber;
- (c) crude palm oil, palm kernel oil and palm kernels;
- (d) crude coconut oil, copra and coconuts;
- (e) logs including sawn timber;
- (f) crude petroleum and petroleum products;
- (g) spices (raw and unprocessed);
- (h) pepper; and
- (i) such other commodities as may be excluded by the Minister by notification in the Gazette;

"qualifying manufactured goods" means Singapore manufactured goods in respect of which one or more certificates of origin or other documents indicating that the goods are manufactured in Singapore have been issued by the Trade Development Board for the purpose of the export of such goods;

"relevant export sales" means the export sales of an international trading company in respect of qualifying manufactured goods and Singapore domestic produce or in respect of qualifying commodities, as the case may be;

"Singapore domestic produce" means eggs, chicken, orchids and aquarium fish produced in Singapore and such other domestic produce as may be approved by the Minister.

46 (1) Where a company is engaged in -

- (a) international trade in qualifying manufactured goods or Singapore domestic produce and the export sales of those goods or produce separately or in combination exceed or are expected to exceed \$10 million per annum; or
- (b) entrepot trade in any qualifying commodities and the export sales of those qualifying commodities exceed or are expected to exceed \$20 million per annum,

the company may apply in the prescribed form to the Minister for approval as an international trading company.

(2) The Minister may, if he considers it expedient in the public interest to do so, approve the application and issue the company with a certificate subject to such terms and conditions as he thinks fit.

(3) The Minister may issue separate certificates to an international trading company for the purposes of sub-section (1) (a) and (b).

(4) Every certificate issued under this section shall specify a date as the commencement day from which the company shall be entitled to tax relief under this Part.

(5) The Minister may in his discretion, upon the application of an international trading company, amend its certificate by substituting for the commencement day specified therein such earlier or later date as he thinks fit and thereupon the provisions of this Part shall have effect as if the date so substituted were the commencement day in relation to that certificate.

(6) A company shall furnish to the Minister at the time of application to be an international trading company a statement of all its associated companies and export agents and the activities they are engaged in and such other particulars as may be required; and where there is any change in the particulars the company shall notify the Minister as soon as possible of the change.

47. The tax relief period of an international trading company, in relation to any certificate issued to that company, shall commence on the commencement day and shall continue for a period of five years.

48. For the purposes of the Income Tax Act and this Act, the Comptroller may direct that -

- (a) any sums payable to an international trading company in any account period which, but for the provisions of this Act might reasonably and properly have been expected to be payable, in the normal course of business, after the end of that period shall be treated as not having been payable in that period but as having been payable on such date, after that period, as the Comptroller thinks fit and, where that date is after the end of the tax relief period of the international trading company, as having been so payable on that date as a sum payable in respect of its post tax relief trade or business; and
- (b) any expenses incurred by an international trading company within one year after the end of its tax relief period which, but for the provisions of this Act might reasonably and properly have been expected to be incurred, in the normal course of business, during its tax relief period shall be treated as not having been incurred within that year but as having been incurred on such date, during its tax relief period, as the Comptroller thinks fit.