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**Working Party on the  
Accession of Chinese Taipei**

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## 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

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.

#### I. INTRODUCTION AND GENERAL REMARKS

This notification is made in compliance with obligations of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (hereinafter referred to as "Chinese Taipei") under Article XVI of the General Agreement on Tariffs and Trade (GATT) 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measures (hereinafter referred to as the "Agreement").

Article 25 of the Agreement requires the notification of specific subsidies. The decision whether to report any programme in this notification rests on the sometimes difficult judgment as to whether a particular programme involves a "financial contribution" by a government, a benefit being conferred, while meeting the requirement of being "specific."

In light of Article 25.7 of the Agreement, and the fact that the purpose of the notification requirement is to achieve greater transparency, Chinese Taipei has included certain measures in this notification which arguably are not "specific subsidies" within the meaning of the Agreement. It may also be that not all the subsidies listed hereunder, meet the requirement of specificity. The evaluation of trade effects, if any, also poses a difficult task.

While Chinese Taipei has made considerable efforts to submit a comprehensive notification, there may still be room for supplementation through experience accumulated by reference to Members' practices and comments and the Committee's review of notifications submitted by Members.

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

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A. 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 29 December 1990, followed by an amendment on 10 January 1995, and will cease to be effective on 31 December 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.

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 29 December 1990 and an amendment on 10 January 1995, and will cease to be effective on 31 December 1999.

**5. Form**

Accelerated appreciation against profit-seeking enterprise 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 credits for the creation of internationally recognized brands.

**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 incentive is to encourage private enterprises to create their own internationally recognized brands.

**4. Background and responsible authorities**

(a) Law:

Statute for Upgrading Industries (hereinafter referred to as the "SUI"), Article 6.

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

(b) Responsible authorities:

- Industry Development Bureau, Ministry of Economic Affairs;
- Ministry of Finance.

**5. Form**

Credit against Corporate income tax.

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

All companies invested in the creation of internationally recognized brands are eligible for tax credit. Up to 15 per cent of expenditure spent for promoting in the international market any trademark, service mark or certification mark created by company itself and registered with Bureau of National Standards, MOEA, can be deducted from payable corporate income tax.

If the total expenditure reaches NT\$3,000,000 in the same taxable year, 10 per cent thereof may be deducted from the corporate income tax payable for that year; if such total expenditure reaches NT\$5,000,000 and "Taiwan Exquisite Product Mark" authorized by MOEA is used with the brand, 15 per cent of the total expenditure may be deducted from the income tax payable for that year. In case the amount of corporate income tax levied for the current year is less than the amount of tax credit, the balance of tax credit may be carried over to the ensuing four years.

**7. Amount**

Not available.

**8. Duration**

The programme was initiated in 1991 and will terminate when the Statute expires.

**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 deduction for self-designed components of automobile.

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

The primary goal of the incentive is to encourage self design of automobiles and establish research and development ability of the automobile industry.

**3. The date of establishment of the programme**

The programme was commenced in 1984.

**4. Background and responsible authorities**

(a) Law:

- Statute for Commodity Tax Article 12.II.

(b) Responsible authorities:

- Ministry of Economic Affairs (MOEA);
- Ministry of Finance (MOF).

**5. Form**

For the self-designed components of the automobile (vehicle engines, bodies or chassis) a review will be conducted by the relevant experts commissioned by the MOEA and the MOF. Upon their approval, each item may enjoy a 3 per cent commodity tax reduction.

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

In order to upgrade the independent auto-design capability of Chinese Taipei, the vehicle engines, bodies or chassis designed by its domestic companies may, from the time the first vehicle is out of factory, enjoy a 3 per cent commodity tax reduction, upon the review and approval of the relevant experts, the MOEA and the MOF.

**7. Amount**

FY1995		FY1996		FY1997	
No. of Case	Amount of Tax Reduction	No. of Case	Amount of Tax Reduction	No. of Case	Amount of Tax Reduction
3	425,607	3	340,192	3	264,868

**8. Duration**

Chinese Taipei will repeal the tax incentive provided for domestic design and use of automotive parts by 31 December 2000. Chinese Taipei will not expand the programme through, for example, increasing the parts covered or the amount of the incentive and the grant of incentives to additional companies will be limited to the extent permitted by Chinese Taipei's law.

**9. Trade effects or related statistical data**

Take FY 1997 for example, the production value of whole vehicles in Chinese Taipei was NT\$154.1 billion. The reduced commodity tax was NT\$264,868,000, which was 0.17 per cent of the yearly auto production value.

**B. LOANS FOR SMALL AND MEDIUM ENTERPRISES (SMEs)**

**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).

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

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

Specific financing is provided for management plans to enhance competitiveness, expand research and development, prevent environmental contamination, invent new products, and upgrade product quality and so on.

Urgent financing is provided for the provision of working capital during periods of significant financial crisis, recession, and major natural disasters.

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 Ministry is the Ministry of Economic Affairs.

Note: While the SME Development Fund was planned to be NT\$12 billion, its accumulated amount reached "NT\$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.

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**

(Unit: million NT\$)

TITLE OF PROGRAMME	FY 1994	FY 1995	FY 1996
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% 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 and regulations:

- 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 Ministry:

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**

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 1996-1997 (July 1996 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.

C. 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) Laws 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: 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.

**7. Amount**

Not available.

**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 may result from this subsidy programme.

**1. Title of the programme**

Duty and tax exemptions for in-zone enterprises.

**2. Period covered by the notification**

Calendar year 1994-1996.

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

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

**4. Background and responsible authorities**

(a) Laws:

- Statute for Establishment and Administration of Export processing Zones (Articles 1, 5, 13);
- Measures for the Screening of Application for Establishment of Enterprises in Export Processing Zones;
- Categories of Industry Permissible to be established in Export Processing Zones.

(b) Responsible authorities:

- Export processing zones are managed by the Export Processing Zone Administration;
- The policy-making body is the Ministry of Economic Affairs;
- The task of reviewing the eligibility of enterprises established in export processing zones shall be undertaken by the Export 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 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 processing zone or acquiring a building from the Export 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 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.

**7. Amount**

Not available.

**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

D. RESEARCH AND DEVELOPMENT

**1. Title of the programme**

Fund 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 regulation:

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

(b) Responsible authority:

The Industrial Development Bureau, Ministry of Economic Affairs.

**5. Form**

Fund.

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

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 research and development achievements, may apply for the assistance fund relating to the development of a product within the scope of one of the ten 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 assistance funds granted total no more than 50 per cent of the amount of the following expenses incurred exclusively for the development of new leading products:

- (a) Personnel costs incurred for full-time and/or part-time research personnel;
- (b) Costs of consumable instruments and raw materials;
- (c) Costs for use and maintenance of research and development equipment;
- (d) Costs for technology transfer; and
- (e) Domestic and overseas travel expenses.

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 research and development. 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 to 4 per cent of the sales amount of such product. The total amount of the budgeted development costs should be exclusively on the following items:

- (a) Personnel costs for research personnel, technical personnel and other assistants employed exclusively for performing research work;
- (b) Costs of instruments, equipment, land and buildings exclusively and permanently used for research activities except those used for commercial basis;
- (c) 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.;
- (d) Indirect costs arising directly from research activities; and
- (e) Running expenses for materials, supplies and similar expenditures arising directly from research activities.

## 7. Amount

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