

WORLD TRADE ORGANIZATION

RESTRICTED

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Working Party on the
Accession of Chinese Taipei

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ACCESSION OF CHINESE TAIPEI

Responses to questions concerning document WT/ACC/TPKM/8 and 9

Addendum

The following additional responses to questions raised by members concerning document WT/ACC/TPKM/8 and 9 (regarding notifications) have been received from the Representation of the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (hereinafter referred to as "Chinese Taipei").

A. TAX CREDITS OR TAX EXEMPTIONS FOR DESIGNATED ENTERPRISES

Five-year Tax Exemption for Designated Enterprises

Question 1.

Assistance under this programme is applied to "an important technology-based enterprise" or "an important invested enterprise". What is the definition of such enterprises?

Answer:

To qualify for "important technology-based enterprises", the following three criteria should be met:

- (i) products to be produced under the investment plan should belong to the ten emerging industries;
- (ii) the paid-in or increased paid-in capital for the investment plan should be over NT\$ 200 million, and
- (iii) the amount of the fund available for the purchase of brand-new machinery/equipment in the investment plan should be over NT\$100 million.

"Important invested enterprises" include enterprises in the manufacturing as well as services industries. In other words, the products to be produced under the investment plan are not limited to those of the ten emerging industries. The criteria for paid-in or increased paid-in capital and the amounts of funds for purchasing brand new equipment/machinery are different from industry to industry:

Unit: NT \$ billion

Industries	Paid-in capital \$ or increased paid-in capital \$	Machinery purchase \$
Manufacturing	2	2
Shopping mall	2	2
Transportation	2	2
Audio-visual service	0.2, 0.3, 0.6 or 1.2 for different enterprises	0.2, 0.3, 0.6 or 1.2 for different enterprises

Tax Credits for the Creation of Internationally Recognized Brands

Question 2.

Could the representative for Chinese Taipei explain why no amount is available for this programme? To what extent has the programme been used?

Answer:

The statistics of tax credits for the creation of internationally recognized brands are as follows:

Year	No. of Cases	Tax Deduction Amount
1994	16	16,304
1995	31	31,574
1996	34	18,987
Total	81	66,865

Tax Deduction for Self-designed Automobile Components

Question 3.

Is the purpose and/or effect of this programme to replace imported goods with domestically-produced goods?

Answer:

This measure is intended to encourage self-design of automotive engine, body and chassis, rather than import substitution.

B. LOANS FOR SMALL AND MEDIUM ENTERPRISES (SME'S)

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.

Question 4.

Could the representative for Chinese Taipei please clarify the dates provided in question 2 "period covered by the notification" for this programme.

Answer:

The period covered by the notification is fiscal years 1995-1997 (July 1994 to June 1997).

Question 5.

Please explain what criteria are used in deciding to provide urgent financing for the provision of working capital during periods of significant financial crisis and recession?

Answer:

The pretext of applying for urgent financing of working capital is when the "Taiwan economic indicator" has revealed the "blue light*", i.e. signs of economic recession for nine consecutive months.

(* The Taiwan economic indicator uses four colours – red, yellow, green and blue – to illustrate the strength of the economy. The different colours indicate different economic strength. Each colour refers to a threshold number calculated from statistics, such as money supply, loans/credits, negotiable instruments paid through the clearing-house, stock and shares index and so forth. When the number is below 16, the economy is predicted to be sliding into recession, this is when the economic indicator reveals the blue light.)

Specific Loans for Mutual Cooperation

Question 6.

What type of "mutual cooperation" is envisaged by this programme?

Answer:

"Mutual cooperation" envisaged by this program refers to two or more small and medium enterprises implementing cooperation plans approved by a review group. The types of mutual cooperation include, among others, R&D, marketing/distribution network, purchasing, accepting orders. The review group consists of representatives from relevant government agencies, academics and industries, and is responsible for reviewing the feasibility of the applied plans.

C. DUTY AND TAX EXEMPTIONS GRANTED TO ENTERPRISES LOCATED WITHIN A DESIGNATED ZONE

Duty and Tax Exemptions for High-technology Industries

Question 7.

The program on pages 14 and 15 (WT/ACC/TPKM/9) Duty and tax exemptions for in-zone enterprises would appear to be an export subsidy. These appear to be special areas for export purposes where duty and tax exemptions go beyond the allowed exemption of import charges and indirect taxes borne by the like product or inputs consumed in the production process. Could Taiwan explain why these are not being repealed?

Answer:

In 1997, the Statute for Establishment and Administration of Exporting Processing Zones was amended. After the amendment, export performance is not a condition on the producers located in the zone. The program thus does not constitute export subsidy and does not need to be cancelled.

Question 8.

Are foreign-owned companies eligible for assistance under this programme?

Question 9.

What sectors benefit from this programme?

Question 10.

Why are amounts not available for this programme? When will amounts be available?

Answer:

The Statute for the Establishment and Administration of a Science-Based Industrial Park does not discriminate against foreign-owned firms. As long as a firm is a Park enterprise, it is eligible for the assistance under the program.

Up to the end of year 1997, there were 245 companies admitted to the Park, 202 local firms and 43 foreign firms. By sector, there were 96 integrated circuit companies, 44 computer peripheral companies, 37 telecom companies, 35 opto-electronics companies, 18 precision machine companies, and 15 biotechnology companies. All of these companies are eligible for the assistance, no distinction between firms in different industries, between export and local sales, nor between foreign and domestic firms.

For statistics relating to this program, please refer to Attachment VII.

D. RESEARCH AND DEVELOPMENT

Question 11.

What is the duration of this programme?

Answer:

The program was implemented from 1991 and its not subject to a particular fixed end date.

Question 12.

Is the assistance provided under this programme in conformity with Article 8 of the Agreement on Subsidies and Countervailing Measures? If not, what plans are there to bring the programme into conformity?

Answer:

Chinese Taipei amended its "Measures for Assistance in the Development of New Leading Products" (hereinafter, "Measures") in 1995, so as to conform to Article 8 of the SCM Agreement which provides that assistance for research activities should not exceed 50% of the costs of pre-competitive development activity. Following this amendment, Article 10 of the Measures provides that the total amount of grant and interest-free loan to be allocated to a leading product development plan shall be limited to not more than 50% of the total amount of the budgeted development costs. Therefore since 1995, the program already fully complies with the relevant provisions of the SCM Agreement.

Question 13.

Please provide a breakdown of the assistance provided in the form of grants versus that provided in the form of interest-free loans.

Answer:

Expenditure on R&D Assistance for the Ten emerging industries:

1. Since the programme's inception, the accumulated grant is NT\$5,266,646,560 as at the end of fiscal year 1998 (fiscal years 1992-1998) and the accumulated interest-free loan is NT\$5,484,898,090.
2. For fiscal year 1998: NT\$882,038,000** of grant and interest free loan respectively. A breakdown of the products involved is as follows:

Name of Project (or Sector)	Grant	Interest-free loan
Precision machinery and automation	214,938	214,938
Communication	69,230	69,230
Information	40,670	40,670
Consumer electronics	177,460	177,460
Aerospace	0	0
Medical and health care	0	0
Pollution control	0	0
Advanced materials	59,700	59,700
Semi-conductors	36,250	36,250
Specialty chemicals and pharmaceuticals	223,790	223,790
Total	882,038	882,038

Note:

* In addition to the repayment of the interest-free loan, a manufacturer who received assistance from the program is also required to pay a feedback contribution in an amount equal to 1% to 4% of its sales derived from the sale of the newly developed products.

** Exchange rate on June 1998 is USD1=NT\$34.39