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ACCESSION OF CHINESE TAIPEI

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

The following 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").

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**WT/ACC/TPKM/8: NOTIFICATION PURSUANT TO ARTICLE 28.1 OF THE
AGREEMENT ON SUBSIDIES AND COUNTERVAILING MEASURES**

Question 1

Chinese Taipei states that the notified programme, tax credits for the purchase of automation and environmentally-friendly equipment, will be eliminated upon Chinese Taipei's accession to the WTO. Can more detail be given about the modalities of eliminating this scheme- for instance, how will the scheme be repealed and how will outstanding credits be dealt with?

Reply:

Chinese Taipei is committed to eliminate the existing discrepancy of the rate of investment credit between the procurement of domestic and foreign equipment, upon its accession to the WTO.

Question 2

Which other schemes under the Statute for Upgrading Industries are contingent upon the use of domestic goods, in that they provide more generous benefits to recipients which domestic goods rather than imported ones?

Reply:

Apart from the differential tax credits for the purchase of automation equipment notified under Article 28.1 of the SCM Agreement, the Statute for Upgrading Industries has no other measures that are contingent upon the use of domestic goods.

**WT/ACC/TPKM/9: NOTIFICATION PURSUANT TO ARTICLE XVI.1 OF THE
GATT 1994 AND ARTICLE 25 OF THE AGREEMENT ON SUBSIDIES AND
COUNTERVAILING MEASURES**

A. TAX CREDITS OR TAX EXEMPTIONS FOR DESIGNATED ENTERPRISES

Five-year Tax Exemption for Designated Enterprises

- Statute for Upgrading Industries

Question 3

The investment tax credit provided under Article 6 of the Statute for Upgrading Industries (SUI) that Chinese Taipei has notified provides a higher credit (20 per cent) for domestically manufactured equipment and only 10 percent for foreign manufactured equipment. This appears to be a violation of Article III of GATT 1994 as well as Article 3 of the Agreement that will be eliminated upon Chinese Taipei's accession to the WTO. We welcome this commitment and suggest that it be reflected in the draft working party report.

On the issue of specificity, we understand that under the scope of application and the tax credit rate is prescribed by the Executive Yuan and is subject to adjustment every two years. What are the criteria and standards used by the EY to decide these issues?

Reply:

During the bi-annual review of the scope of application and tax credit rate, the Executive Yuan will consider the existing economic climate, including economic outlook and inflation rate, as well as factors such as government revenue, level of investment by enterprises and whether the incentives adopted are generally acceptable by small and medium enterprises.

Question 4

We note that Chinese Taipei has not notified the investment tax credit under Article 7 of the SUI. What is the purpose and scope of this measure and if it relates to providing support for distressed regions, please provide additional information on the nature of the program and criteria for qualification for this subsidy.

Reply:

Chinese Taipei agrees to notify the investment tax credit provided under Article 7 of the SUI. The draft notification is enclosed as herewith as Attachment III.

Question 5

Investors in "important technology-based enterprises", "important invested enterprises", and "venture capital investment enterprises" benefit from investment tax credits under Article 8 of the SUI, credits that appear to be intended to increase the demand for and price for relevant stock issues. Such price increases appear to benefit the stock-issuing company. Chinese Taipei should, therefore, notify these investment tax credits.

Reply:

The legislative intent of Article 8 of the SUI, which provides for shareholder's tax credit, was to account for the numerous hurdles faced by emerging industries, such as high uncertainty, market risks and the difficulty of raising the needed capital. In order to assist these industries in raising capital in the capital market, Article 8 of the SUI provides that an investor who holds their stocks for more than two years may enjoy the benefit of tax credit. However, according to the statistics of the Securities and Futures Commission, the Ministry of Finance, the turnover rate of shares is 400 per cent for Chinese Taipei in 1997, which is far above the 65 per cent for New York and 43 per cent for Tokyo during the same period. These figures show that investors in Chinese Taipei buy and sell stocks frequently for higher returns, and these decisions are not dictated by tax credit incentives based on long-term holding. Under these circumstances, it is difficult to assess the real effects of such incentives.

The SCM Agreement regulates government's provision of subsidies specific to enterprises, and the definition of a subsidy as provided in Article 1.1(a)(1)(ii) of the Agreement includes equity infusion by the government. It should be noted that Article 8 of the Statute for Upgrading Industries is to provide tax deduction for stocks held by the shareholders, rather than for the stock issuing company. Such tax deduction should not be considered as a subsidy in nature and therefore, not included in the notification.

Question 6

Article 8-1 of the SUI refers to "important technology-based enterprises," "important invested enterprises," and "venture capital investment enterprises," terms, the scope of application of which Article 8 states shall be prescribed by the Executive Yuan and subject to review every two years. In Chinese Taipei's notification of Article 8-1 benefits, Chinese Taipei states that it is

not possible to determine trade effects of these benefits. However, Article 8-1 benefits are tied to new production or expansion of existing production. We request detailed information on (i) the specific industries that benefit under Article 8-1 and (ii) the market -- domestic or global -- to which any increased in production may be marketed. Have exports of these products increased since receipt of Article 8-1 benefits.

Question 7

Are there any objective criteria of "important technology-based enterprise" and "important invested enterprise" for the purposes of this programme or the criteria of eligibility are subject of arbitrary decision of the responsible authority?

Replies 6 and 7:

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

The information on exports of specific industries that benefit under Article 8-1 and the market - domestic or global - to which any increase in production may be marketed before and after receipt of Article 8-1 benefit are not available.

Question 8

Please explain why the merger (tax) benefits under Article 13 of the SUI are not included in the notification?

Reply:

The relevant measures provided under Article 13 of the SUI are not reserved for specific enterprises or industries and are therefore not included in the notification. Provisions in this Article are applicable to any mergers between companies established under the Company Law of Chinese Taipei, whether it is in the agricultural, industrial or services business. This is not limited to any specific enterprise and therefore, has no specificity as required by the SCM Agreement.

In addition, the objective of Article 13, "[w]here a company specifically approved by the Ministry of Economic Affairs to go into merger or consolidation..." is to deter the possibility that companies will evade tax by claiming false mergers. Therefore, although companies are required to seek approval from the Ministry of Economic Affairs for approval of the merger, the Ministry does not have specific criteria for the review of company mergers, since the aim of the approval process is to prevent tax evasion.

Question 9

What are the terms and conditions attached to loans provided under Article 21 of the SUI? In 1996, Chinese Taipei extended \$400 million in loans on preferential terms to two large semiconductor producers. Were these loans granted under Article 21 of the SUI, or were they granted to these producers as part of Chinese Taipei's Strategies and Measures for the Development of the Top Ten Emerging Industries?

Reply:

According to Article 21 of "Statute for Upgrading Industries", the Development Fund of the Executive Yuan provides loans to all industries with a focus on functions and "external" economies; as the scheme does not require the purchase of domestically produced goods or services, it does not constitute an incentive or inducement to purchase domestically goods or services over imported goods or services. The loans granted include loans for the procurement of automation equipment, loans to assist in the upgrading of small and medium enterprises and loans to private enterprises for the procurement of pollution control facilities. All of these loans provided are medium to long term financing and are provided at lower interest rates. With the exception of the rate difference, the terms and conditions of these loans are generally the same as other medium and long-term loans that are commercially available.

According to information provided by banks, to build a semiconductor plant usually costs more than US\$400 million. For these plant-building projects, banks offer medium to long-term loans on commercial terms and conditions, and each semiconductor producer can apply for preferential-rate loans only to the extent of NT\$400 million. Therefore, the statement referring to the US\$400 million loan to two large semiconductor producers should be referring to loans made on commercial terms and conditions rather than preferential rates.

In addition, all loans with preferential rates provided by the Development Fund are granted under Article 21 of "Statute for Upgrading Industries" rather than granted under "the Strategies and Measures of the Development of the Top Ten Emerging Industries," and therefore are not provided only to the ten emerging industries.

Tax Credits for the Creation of Internationally Recognized Brands

Question 10

Chinese Taipei has notified tax credits for the creation of internationally recognized brands. Based on the objective of this measure, we are concerned that the tax credits effectively constitute an incentive to export. Please provide information on the specific products that have benefited from this subsidy and trade data for these products before and after the subsidy was granted.

Reply:

The regulation on creation of international brands will be amended to be consistent with WTO requirements, upon accession, without any recourse to a transition period. Any future programme in this area would be consistent with WTO requirements and would not reintroduce prohibited subsidies.

Question 11

This subsidy appears to be directly linked to improving export performance and may therefore be prohibited by Article 3.1(a). When does Chinese Taipei have any comments on this assertion and does intend to remove it?

Reply:

The regulation on the creation of international brands will be amended to be consistent with WTO requirements, upon accession, without any recourse to a transition period. Any future programme in this area would be consistent with WTO requirements and prohibited subsidies will not be introduced.

Tax Deduction for Self-Designed Components of Automobiles

Question 12

Please explain in detail the eligibility conditions for receipt of this subsidy. To what extent are the components in questions required to be designed and manufactured locally?

The tax deduction is applied to automotive engine, body or chassis. The eligibility for this tax incentive is approved jointly by the Ministry of Finance, the Ministry of Economic Affairs, the Industrial Technology Research Institute, the Automotive Research and Testing Center, and the Society of Automotive Engineers. The approval is based on the evaluation of the design/development process, including the engineering design, computer simulation, prototype testing, and certification to determine whether it meets the self-design requirement.

Chinese Taipei will repeal the relevant provisions of its laws relating to the tax incentives provided for domestic design and use of certain automotive parts by December 31, 2000.

Question 13

Program on commodity tax reduction for the design and manufacturing of auto parts appears to be an import substitution subsidy and thus could constitute a prohibited subsidy.

Reply:

This Strategy was designed to encourage the R&D of local automotive industries regarding new types of automobiles and engines. In Chinese Taipei's view, the R&D programs fall under non-actionable subsidies of the SCM Agreement. However, Chinese Taipei will repeal the relevant provisions of its laws relating to the tax incentives provided for domestic design and use of certain automotive parts by 31 December 2000.

Question 14

The policy includes measures to support vehicle and component parts export programs. Please provide additional information on the types of measures that are used to support these export programs.

Reply:

The measure promoting the export of automobiles and their parts/components, as stipulated in the Automobile Industry Development Strategy, is part of the development strategy toward achieving scale economy. The main feature of the measure is to publish the names of the top three domestic manufacturers through news media once every three months based on sales by domestic auto manufacturers to Japanese companies which had originally provided the technologies. No financial/tax incentive or other similar measure is provided in the Strategy.

Question 15

Our reading to the policy indicates that it includes significant R&D funding of component parts development and government funding of worker training that benefits the auto industry that should be included in the notification.

Reply:

The Automobile Industry Development Strategy is merely a policy statement to encourage the development of Chinese Taipei's auto industry. The financial/tax incentives mentioned therein are those generally provided for in the Statute for Upgrading Industries, Statute of Commodity Tax, and Measures for Assistance in the Development of New Leading Products, which have been included in the notification. The incentives provided are not specific subsidies for the auto industry.

The R&D funding for auto parts/components, as referred to by the United States, was applied to only one case - the engine development project of China Engine Co., Ltd., in which case R&D was jointly funded by the government and the company, with the results transferred to the company. All other R&D funding is provided according to the Measures for Assistance in the Development of New Leading Products, which has been included in the notification.

To improve the technical skills of workers as well as labour employment condition, Chinese Taipei provides both pre-job and on-the-job training. A variety of training classes are made available to employees of the manufacturing, agricultural and services businesses with interest in attending the courses. The funding of worker training is allocated pursuant to the "Industrial Technical Human Resources Development Program" and given directly to the trainees. The funding is not a subsidy to the auto industries only, nor is it a specific subsidy within the meaning of the SCM Agreement.

Question 16

On what terms and conditions did ITRI transfer the engine and transmission designs/technology to China Engine Co. Ltd.? What other Projects/components have been or will be funded?

Reply:

The terms and conditions on which the engine and transmission design/technology was transferred to China Engine Co., Ltd. were:

- the government holds equity interest in China Engine Co., Ltd. To the extent of NT\$89 million; and
- China Engine Co., Ltd. paid the government 1 per cent of its annual sales as royalty.

Chinese Taipei does not have other projects similar to the China Engine Co., Ltd. case.

Question 17

Assistance under the Industrial Technical Human Resource Development Program for "pre-job" and on-the-job training in product development, quality upgrades, industrial design, production automation, and manufacturing.

Reply:

To improve the technical skills of workers as well as labour employment condition, Chinese Taipei provides both pre-job and on-the-job training. A variety of training classes are available to employees of the manufacturing, agricultural and services industries with interest in attending the courses. The funding is given directly to the trainees. The "Industrial Technical Human Resources Development Program" is part of the vocational training and is not a subsidy to the auto industries, nor is it a specific subsidy within the meaning of the SCM Agreement.

Question 18

Please provide additional information on these programs and include them in your notification.

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

Question 19

What is the definition of an SME?

Reply:

According to the "Standards for Recognition as SME", published by the Ministry of Economic Affairs, SME refers to an enterprise which is a company or commercial enterprise registered in accordance with the law with capitalization or business volume below the following thresholds:

- for enterprises engaged in manufacturing, construction, mining, or excavating business, paid-in capital of less than NT\$60 million.

- for enterprises engaged in agriculture, logging, fishing, the raising of livestock, utilities, commerce, transport, warehousing, communications, finance, insurance, real estate, commercial, social or individual services, business volume of less than NT\$80million in the previous year.

Question 20

Regarding loans to SMEs, Chinese Taipei's notification explains that all enterprises meeting the definition of "SME" are eligible for loans, and that 98 per cent of all enterprises in Chinese Taipei meet the definition. What is the number and range of enterprise/industries that do, in fact, receive these loans?

Reply:

The numbers and a breakdown of the enterprises that have received these loans are enclosed herewith as Attachment IV.

Medium and Long Term Loans for Product Marketing and Loans for Overseas Investment and Construction Projects

Question 21

Are the subsidies available for the establishment of sales subsidiaries in third countries? With regard to any foreign investments, is there any requirement to export a certain percentage of goods sold or components used?

Reply:

The current medium and long-term export loans are not available for the establishment of sales subsidiaries in third countries. There is no requirement of local content on loans for overseas investment.

Question 22

Could you please define small and medium enterprise providing that such official definition exists in law?

Reply:

According to the "Standards for Recognition as SME", published by the Ministry of Economic Affairs, SME refers to an enterprise which is a company or commercial enterprise registered in accordance with the law with capitalization or business volume below the following thresholds:

- for enterprises engaged in manufacturing, construction, mining, or excavating business, paid-in capital of less than NT\$60 million.
- for enterprises engaged in agriculture, logging, fishing, the raising of livestock, utilities, commerce, transport, warehousing, communications, finance, insurance, real estate, commercial, social or individual services, with annual business volume of less than NT\$80million in the previous year.

Question 23

Could you provide some more details as to the terms of loans under these two programmes?

Reply:

The interest rate on loans for enhancing competitiveness: the maximum interest rate is not to exceed the 1 per cent above the prime rate of the Bank of Taiwan (the current rate is 7.4 per cent, published early November 1998).

The interest rate on loans for plant site relocations under government's guidance: the maximum interest rate is not to exceed 1 per cent above the prime rate of the Bank of Taiwan (the current rate is 7.4 per cent, published early November 1998).

The interest rate on loans for urgent financing for the provision of working capital during periods of significant financial crisis and recession: the maximum interest rate is not to exceed the prime rate of the Bank of Taiwan (the current rate is 7.4 per cent, published early November 1998).

The interest rate on loans for urgent financing for major natural disasters: the maximum interest rate is not to exceed the prime rate of the Bank of Taiwan (the current rate is 7.4 per cent, published early November 1998).

The interest rate on medium and long term loans for financing exports, overseas investment and construction projects: according to the regulation on the publication of interest rate of the Export-Import Bank, different interest rates are applied according to the maturity of the loan. (The interests rates on the various financing programs of the Export-Import Bank and OECD export credit reference rates are enclosed herewith as Attachments V and VI.)

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

Duty and Tax Exemptions for High-technology Industries

- **Statute for the Establishment and Administration of a Science-based Industrial Park**

Question 24

Under our reading of Article 18 of the Statute for the Establishment and Administration of a Science-Based Industrial Park, machinery and equipment procured domestically and sold by suppliers outside of the Park to enterprises inside the Park is considered an export commodity and thus exempt from commodity and business tax. However, if a domestic enterprise outside the Park procures an imported product for sale to an enterprise in the Park, that product is not exempt from these taxes. In our view, this provides a benefit for procuring domestically since it will provide the procuring company a larger margin. We believe that this measure should be notified and discussed.

We note that under Articles 1 and 2 of both the Commodity Tax and the Business Tax Laws, commodity tax and business taxes are, as a general rule, imposed on relevant imports. Moreover, Chinese Taipei's notification of the EPZ tax benefits states that direct imports of machinery and equipment into EPZs are exempt from import duty, commodity tax and business tax. Such exemptions would not be necessary if these taxes were not imposed on imports.

Reply:

In Article 18 of the Statute for the Establishment and Administration of a Science-Based Industrial Park, the second part of Paragraph 1 provides that no refund for "tariff and commodity tax" shall be made. However, the current English translation mistakenly missed the words of "tariff and commodity" in that sentence, which caused some confusion. We would like to clarify and correct the English translation.

Regarding the levy of commodity tax, according to Articles 5 to 12 of the Statute for Commodity Tax, only eight categories of products are subject to such tax: tobaccos & alcoholic drinks, rubbers, cements, soft drinks, flat-glasses, oils, electric appliances, and vehicles. It is clear from these provisions that machinery and equipment is not subject to commodity tax. Thus, "no commodity tax refund shall be made for imported machinery and equipment which have been duly taxed" provided for in Article 18 of the Statute is actually not implemented. Chinese Taipei would consider to amend the provision by deleting the reference to commodity tax to provide greater clarity should the inclusion of the phrase "commodity tax" in the provision give false impression that machinery and equipment are subject to commodity tax.

With respect to the levy of business tax, the business tax is, in fact, exempted on machinery and equipment that is imported for resale. Such imports are covered by the very broad exemption from business tax under Article 41 of the Business Tax Law for goods imported by businesses for "business operations purposes." The provisions of Article 18 of the Statute for the Establishment and Administration of a Science-Based Industrial Park and Article 17 of the EPZ Law are redundant to Article 41 paragraph 2 of the Business Tax Law in respect of the business tax.

Most of the machinery and equipment utilized by Park enterprises tend to be of high technology and of high precision nature which are not manufactured by local manufacturers. Therefore, these machinery and equipment are mostly directly imported from abroad by Park enterprises. To illustrate, in 1997, the total amount of machinery and equipment imported by Park enterprises was US\$3.4 billion and only US\$32 million worth of machinery and equipment are procured locally, which indicates that there is no profit incentive for Park enterprises to procure machinery and equipment locally.

Chinese Taipei does not permit the refund of customs duty unless clearly mandated by the laws in order to ensure the stability and predictability of the tax regime. This is not an uncommon practice in the world. The laws provide for very few situations for duty refund. One example is Article 36 of the Customs Law.

Duty and Tax Exemptions for In-zone Enterprises**Question 25**

Is it a prohibited subsidy within the meaning of Article 3 of the SCM Agreement? If yes, and as there are no time limits attached to the program, we would like to know if Chinese Taipei takes into consideration provisions of Article 27.4 of the SCM Agreement? If no, why it is not a prohibited subsidy?

Reply:

In 1997, the Statute for Establishment and Administration of Export Processing Zones was amended. After the amendment, export performance is not a condition on producers located in the zone. The program thus does not constitute prohibited subsidy as defined in Article 3 of the SCM Agreement.

Question 26

Please provide more details as to the criteria of eligibility under this programme.

Reply:

The restriction on the local sale percentage was lifted on 7 May 1997. Application for establishment in the EPZ should meet the requirements set out in "Category of Industry Permissible to be Established in Export Processing Zones" and be reviewed for approval in accordance with "Measures for the Screening of Application for Establishment of Enterprises in Export Processing Zones". A screening panel will be established to review the proposal submitted by the applicant. The panel will take into account the following factors, which will be used in setting the priority: high-tech, high-production value, economical use of land, water, and electricity, and pollution-free.

Question 27

In the context of this scheme, commodity and business tax are exempted on exported goods. Are these exemptions specific to enterprises located in the zones?

According to Section 2, Paragraph 1, Article 3 of the Commodity Tax Statute and Article 7 of the Business Tax Statute, exports can be exempt from commodity tax, and the business tax rate on exported goods is zero. These tax treatments are not specific to enterprises located in the designated zones, as they are generally available for exported goods, regardless of whether the manufacturers are located in the zones.

Do companies located in the zones have to meet any export obligations?

Reply:

There are no export obligations for companies located in the zones.

Question 28

If a company is located in an export processing zone, what percentage of its output is required to be exported? List all the eligibility criteria which have to be met if a company wishes to locate in such a zone.

Reply:

The restriction on the local sale percentage was lifted on 7 May 1997 through amendment to the Statute for Establishing the EPZs. Following the amendment, manufacturers in EPZs are free to decide whether their products are to be exported or sold on the local market.

Application for establishment in the EPZ should meet the requirements set out in "Category of Industry Permissible to be Established in Export Processing Zones" and be reviewed for approval in accordance with "Measures for the Screening of Application for Establishment of Enterprises in Export Processing Zones". A screening panel will be established to review the proposal submitted by the applicant. The panel will take into account the following factors, which will be used in setting the priority: high-tech, high-production value, economic use of land, water, and electricity, and pollution-free.

Question 29

If a firm does not export most of its production, what is the rationale for granting it subsidies which are not available to other companies producing the same product?

Reply:

All in-zone enterprises will be granted the same preferential treatments and will not be discriminated by product. As indicated in the draft Working Party Report, after the amendment to the Statute for Establishing EPZs for the adjustment of certain measures, subsidy elements of the EPZ regime have been reduced to the minimum. The purpose of EPZs is to provide a sound and efficient administrative regime for firms located in the zones.

Question 30

In the existing export zones, what percentage of production of the companies currently located there is exported?

Reply:

The export ratio of EPZs declined from 90.55 per cent in 1993 to 80.74 per cent during the Jan-July period of 1998 as a result of the elimination of the export requirement in May 1997. This indicates the gradual decline in the export ratio following the amendment of the Statute for the Establishment and Management of Export Processing Zones.

Question 31

Please provide a list and explanation of the criteria for receiving authorization or approval for locating in an EPZ.

Reply:

Application for establishment in the EPZ should meet the requirements set out in "Categories of Industry Permissible to be Established in Export Processing Zones" and is reviewed for approval in accordance with "Measures for the Screening of Application for Establishment of Enterprises in Export Processing Zones". A screening panel will be established to review the qualification of the proposal submitted by the applicant. The panel will take into account the following factors, which will be used in setting the priority: high-tech, high-production value, economical use of land, water, and electricity, and pollution-free. All in-zone enterprises will be granted the same preferential treatments and will not be discriminated by product, nationality or manufacturing sector.

The selection criteria or the requirements that a firm must meet to locate in an EPZ may include *de facto* export/production requirements. The export/production ratio for EPZ enterprises is consistently high, 96 per cent in 1994 and 93 per cent in 1997.

The export ratio of EPZ declined from 90.55 per cent in 1993 to 80.74 per cent during the Jan-July period of 1998, with the elimination of the limit on sales to the local market. This indicates the gradual decline in the export ratio following the amendment of the Statute for the "Establishment and Management of Export Processing Zones" just over a year ago. Since the amended Statute has only been enforced for a short time, a certain period of time is required to fully prove the effect of the revision. Therefore, the current high export ratio should not be viewed as indication of the existence of export subsidies. The calculation method after amendment is the percentage of export value/production value.

Question 32

Do EPZs account for all domestic production of the goods and products made in EPZs? If the answer is yes, what were the product-specific historical production/export ratios prior to establishment of the EPZs? If no, how do production/export shares of firms in EPZs compare with those outside EPZs?

Reply:

No. Statistics show that in 1996, export/production ratio of EPZ was 89.91 per cent whereas export/production ratio of manufacturing of nation-wide was 52.53 per cent. Alternatively, a better comparison can be made using the top industry in the EPZ, electric and electronics machinery manufacturing, which makes up 82.60 per cent of EPZ business volume. In this area, the export/products ratio of EPZ was 89.51 per cent and the ratio of nation-wide was 75.65 per cent. This clearly shows that there is no significant difference in the export/production ratio between EPZ and nation-wide production.

Question 33

If exporting is not a *de facto* requirement for locating in EPZs, we would like to know what factors give rise to such high, sustained export/production ratios. We are not persuaded that this phenomenon exists only due to the nature of the firms that have applied to locate in the EPZ.

Reply:

The following factors contribute to the high exporting rate of the products manufactured in these zones:

- the restrictions imposed on export ratios in the past, the enterprises set up in the past primarily targeted their products on the foreign market;
- most of the in-zone enterprises take orders and instructions from foreign buyers (OEM). Their products are designed for the foreign market;
- some in-zone enterprises are the subsidiaries of multinational enterprises which in general focused on exports. For example, Philips' export/production ratio is 95 per cent to 96 per cent;
- the export processing zones have the edges of high administrative efficiency, superior location, access to transportation and so on. These factors are great appeals to the investors which are export oriented in design.

Moreover, EPZ has always attracted investments for many reasons. First of all, the application process to establish an in-zone enterprise is essentially a "one-stop" service. This means the EPZ Administration is the sole government agency responsible in processing applications, corporate registration and the issuance of building permit, minimizing bureaucratic red tape.

Second, agencies crucial to trade such as Customs, National Tax Administration and banks all have operations in the zone to facilitate every-day business.

Third, a "satellite" network of technical support is located in and around the EPZ, providing easy access to down and upstream industries for suppliers.

In addition, EPZs are established near ports and airports, providing further convenience with transportation in conducting businesses.

The easy access to government agencies and financial services, as well as conveniences in transportation are key factors which attract local and foreign investors to the EPZ. Currently, there are 223 enterprises established in the EPZ, with 104 owned by local investors, 44 by foreign investors and 75 joint ventures. Local investment accounts for 59.8 per cent, foreign investment 39.8 per cent, and overseas Chinese 0.40 per cent, of the total investment in these zones.

All these factors contribute to the high exporting rate of the products manufactured in these zones.

Question 34

According to Chinese Taipei's notification, in-zone enterprises benefit from duty and tax exemptions on imported machinery and equipment. Since machinery and equipment are not inputs consumed in the production process as specified in the Agreement, the duty and tax exemptions on the machinery and equipment could constitute prohibited subsidies under Chinese Taipei's EPZ regime.

Reply:

Export performance is not a condition for in-zone enterprises to enjoy benefits from duty and tax exemptions on imported machinery and equipment. This practice thus does not constitute prohibited subsidies. In actual practice, in-zone enterprises enjoying tax exemption on imported machinery and equipment are no different from out-zone enterprises. According to Article 7 of the Business Tax Law, an EPZ is not considered to be within national boundaries, hence goods imported into an EPZ are not viewed as imports and are thus exempt from business tax. Moreover, Article 13 of the Statute for the Establishment and Management of Export Processing Zones contains stipulations of business tax exemption. As to businessmen outside the EPZ importing machinery and equipment, they are exempt from business taxes according to Article 41 of the Business Tax Law. However, although machinery and equipment is exempt from business tax at import, a business tax is levied when the imported machinery is resold. Thus, in actual practice at the import stage, in-zone and out-zone enterprises enjoy the same business tax exemption on imported machinery and equipment.

Question 35

We seek additional information on the nature of the exemption from the deed tax. Is the deed tax an indirect tax, such as a VAT, or a direct tax, such as an income tax.

Reply:

According to Article 13 of the "Statute for the Establishment and Management of Export Processing Zones", newly built standard buildings acquired from the EPZ Administration or buildings acquired from the EPZ Administration by the laws are exempted from deed tax. The deed tax is similar to a transaction tax, levied at the time the title of property is transferred; therefore deed tax should be an indirect tax according to the definition of the SCM Agreement. The tax authority of Chinese Taipei, however, treats the deed tax as a direct tax when it does statistics compilation. The amount of exemption of deed tax represents only 0.000414 per cent of the total ex/imported value in 1996 and 1997. The exemption of deed tax is not expected to occur again as all buildings of the Administration have been sold out, and in the future, new buildings will be constructed by means of BOT.

D. RESEARCH AND DEVELOPMENT**Question 36**

Chinese Taipei's notification of subsidies to the "top-ten emerging industries" is limited to R&D funding. We request additional detailed information on the nature, scope, objectives and expenditure items of this R&D assistance.

Reply:

Chinese Taipei's land and other natural resources are limited, with a high density of population. In order to resolve development bottle-necks in the manufacturing sector and to assist structural adjustment of the industries, Chinese Taipei has selected, based on six selection criteria, ten emerging industries for industrial development. The six selection criteria are:

- great market potential
- high linkage with other industries
- high added value
- advanced technical level
- low pollution
- less dependence on energy supply

Based on these six selection criteria, Chinese Taipei has selected the following ten emerging industries for development:

- communications
- information
- consumer electronics
- semiconductors
- precision machinery and automation
- aerospace
- advanced materials
- specialty chemical and pharmaceuticals
- medical and health care
- pollution control and treatment

Expenditure as R&D assistance for the ten emerging industries is provided in Attachment I.

Question 37

We understand that these top-ten emerging industries, individually or collectively, also benefit from several other subsidies that Chinese Taipei has not included in its draft notification. These measures include:

- (a) **Low-interest loans to finance machinery and equipment purchases for production automation.**
- (b) **Preferential financing for investment in the production of products like HDTV, LCDs and CRTs is granted to manufacturers under the Program for the Development of Critical Components and Products (of which there are sixty-two). Please provide information on the other components and products covered by this program.**
- (c) **Funding of worker training that is production-process specific, such as plastic processing training, and the training of technicians, under "Human Resources Training Program in the Steel Industry", in refining, rolling and drawing, and the heat treatment, casting, forging and heavy-duty electro-mechanical industries.**

- (d) Assistance to semiconductor producers, under the "Upgrading the Quality and Reliability of Electronic Products Plan," in obtaining certification from the IECQ " to establish an international quality image for products".
- (e) Government guarantee (endorsement) of financing used by airline companies to lease aircraft
- (f) Reduction of the tax rate on key additives used in the production of engineering plastics.

We seek additional information on each of these measures and believe that they should be added to the draft notification. We understand, for example, that Chinese Taipei provides tax credits and preferential financing for companies that purchase domestically produced automatic mechanical equipment. Receipt of tax, interest rate subsidies and other benefits appear to be contingent on the use of domestic over imported goods and thus would constitute import substitution subsidies. We also note that under Article 2.3 of the Agreement import substitution subsidies (and all other prohibited subsidies) are, by definition, specific within what meaning of Article 2.1 of the Agreement.

Reply:

(a) According to Article 21 of the "Statute for Upgrading Industries", the government may provide loans to enterprises with a view to promoting the sound development of industries. The financing is not limited to the producers in the ten emerging industries; instead, it is provided to enterprises of all industries. The loans are granted by financial institutions based on the investment benefit of the concerned products. The "low-interest loans to finance machinery and equipment purchases for production automation" is offered to any public or private enterprise within the territory of Chinese Taipei; this means all firms, no matter in the manufacturing, agricultural or services sector, are qualified for the low-interest loans when purchasing machinery or equipment for automation.

(b) The list of products and components covered by the "Program for the Development of Critical Components and Products" is provided in Attachment II. The 62 items listed fall within the scope of the ten emerging industries. On the other hand, preferential financing under the Program are contained in the "Measures for Assistance in the Development of New Leading Products". The objective of the Program is to help the industries understand the technologies needed in the development of the ten emerging industries and encourage R&D for such technologies.

(c) Chinese Taipei provides both pre-job and on-the-job training in order to improve the technical skills of workers as well as labor employment conditions. A variety of training courses is available to employees of the manufacturing, agricultural and services industries. The funding is given directly to the trainees. The "Human Resources Training Program in the Steel Industry" is one of the many programs under the "Industrial Technical Human Resources Development Program", which in turn is part of the vocational training. The Program is not a subsidy to the steel industries, nor is it a specific subsidy within the meaning of the SCM Agreement.

(d) To assist manufacturing and agricultural enterprises in obtaining international certification, funds are allocated to private associations or organizations to help the industries improve their operational system. The funding available is not limited to a specific industry or enterprise.

The IEC Quality Assessment System for Electronic Components (IECQ) is the only worldwide certification system for electronic components at present. Since Chinese Taipei is currently not a member of the International Electrotechnical Commission, the goal of this program is to encourage participation of Taiwan Electronics Testing Center and Chinese Taipei Electronic Components Certification Board in IECQ. The program consists of sponsoring IECQ seminars, assistance in electronics component certification, assistance in factory diagnosis, providing information of

certification techniques and other relevant areas. The purpose thereof is to help the industries meet international standards.

(e) In the past, the government had intended to introduce a program for providing support to air-transport or air-craft leasing companies which seek to acquire financing for purchase of aircraft, as part of the "Aerospace Industry Development Program". However, due to the lack of financial resources, the regulations required to implement the necessary financing were never established; and the program was never implemented. At present, loans for firms in the aerospace industry are provided in accordance with Article 21 of the "Statute for Upgrading Industries", which is a general provision applicable to all industries.

(f) The wording "tax rate" is a mistranslation of "tariff". The quoted sentence should read as, "Review the overall tariff structure regarding raw materials for engineering plastics and make appropriate tariff (emphasis added) adjustments for key additives." Chinese Taipei offers no preferential tax treatment to the engineering plastics industry.

E. OTHER ISSUES

Question 38

Science-based industrial park (page 16). Export processing zones (page 18). Tax credits for the creation of internationally recognized brands (page 7): why is there no data about the amount of the subsidy provided in the document?

Reply:

Statistics for Science-based industrial park and EPZ are enclosed herewith as Attachments VII and VIII. The statistics of tax credits for the creation of internationally recognized brands are as follows:

Unit: thousand NT

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

Question 39

Regarding the "Regulations Governing Revenue, Expenditure, Custody, and Use of Trade Promotion Fund." What is the nature and scope of expenditures under Articles 5.7, 5.8, 5.11 and 5.13? Which industries/products benefit from these expenditures?

Reply:

The purpose of the trade promotion fund (hereinafter the "fund") is to provide services to exporters/importers. The fees are users' fees and fall on beneficiaries of the services provided under the fund. The amount of the fee charged is 0.0425 per cent of the value of the exported/imported goods. The amount approximates the cost of services rendered and does not represent an indirect protection to domestic products, or taxation on imports or exports for fiscal purposes. The fees collected are used solely for the purpose of providing services to exporters/importers and are therefore, consistent with Article VIII of the GATT.

The fund, as mentioned earlier, is used solely for providing services, available on a non-discriminatory basis to all exporters/ importers of goods. In order to meet the rapidly changing trading environment, services provided under this fund include trade promotion projects, assistance during incidences of unfair trade practices and programs for the protection of intellectual property rights.

Question 40

Chinese Taipei has not notified its regional aid programme. Regional aid is by definition specific. Therefore, even if the programme were to be non-actionable under Article 8.2(b), it should still be notified. Will Chinese Taipei include it in the notification?

Reply:

Chinese Taipei agrees to notify the investment tax credit provided under Article 7 of the SUI. The draft notification is enclosed as Attachment III.

Question 41

Chinese Taipei's notification does not contain information on subsidies granted at sub-federal level. Does Chinese Taipei intend to identify any of these and notify them?

Reply:

According to the laws of Chinese Taipei, the assessment, reduction and exemption of tax are within the authority of the central government; the local governments have no authority to enact provisions relating to the reduction or exemption thereof. Therefore, it is not possible for local governments to provide tax incentives to industries. Chinese Taipei is not aware of any instance where governments at sub-central level provide subsidies that fall within the coverage of the SCM Agreement.

Question 42

With regard to the notified subsidies, to what extent does Chinese Taipei have discretion to improve the benefits on offer for companies which undertake to export a certain percentage of their output, or to use domestic goods?

Reply:

With regard to the notified subsidies, Chinese Taipei does not have any discretion to improve the benefits on offer for companies which undertake to export a certain percentage of their output, or to use domestic goods.

ATTACHMENT I

Expenditure of the R&D Assistance for the Ten Emerging Industries

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.

Fiscal year 1998: NT\$882,038,000** of grant and interest free loan respectively. A breakdown of the products involved is as follows:

(Unit: thousand NT)

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 receives assistance from the Program is also required to pay a feedback contribution in an amount equal to 1 per cent to 4 per cent of its sales derived from the sale of the newly developed products.

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

ATTACHMENT II

Critical Components and Products ListCritical Products

1. Improved/Enhanced Definition TV
2. Digital Audio Tape Recorder
3. Projection TV
4. Electronic Still Camera
5. Multifunction Clinical Automatic Analyzer
6. Ultrasonic Automatic Diagnostic & Medical Equipment
7. Engineering Workstation
8. Multi-processor System
9. High Resolution Page Printer
10. Optical Disk Drive

11. Micro Disk Drive
12. Digital Mobile Phone
13. Aircraft
14. IC Memory
15. Digital Storage Oscillator, >100M
16. Wire Cutting Machines
17. Robots
18. Numerically Controlled Injection Moulding Machines
19. Co-generation Equipments
20. Multimedia System & Server
21. β -carotene
22. Breathable Fabric & Product

Critical Components

1. FUZZY IC
2. Converter
3. Above 25inch Catch Ray Tube; 16x9 Widescreen Cathode Ray Tube
4. Silicon Wafer
5. Liquid Crystal Display
6. Digital Audio Tape Recorder Mechanism
7. Dynamic RAM, >4M
8. Static, RAM, >1M
9. Af-zoom Camera Lens
10. Watch Movement
11. Digital Signal Process IC
12. Radio Frequency Module IC
13. Parts for Aircraft
14. Etching Aluminum Foil
15. Thin Film Disk
16. Charged Couple Device
17. Light Emitting Diode Dice
18. High Resolution Laser Engine
19. Spherical Moulding Lens
20. Built-in Main Spindle
21. Jet Engine Compressor Blade/Turbine Blade
22. Transmission/Brake System for Bicycle Products
23. Electronic Control System for Automobile

24. 4-Stroke Gas Engine for Automobile
25. Lithium Battery
26. Micro Motor
27. 32 Bit CPU
28. System Software & Software Tool
29. Thermal Printer Head
30. ISDN Interface IC
31. Silicon-Electrical Steel Sheet (in Coil)
32. Linear Guide
33. Read/Write Head for Disk Driver (Thin Film Head)
34. p-Hydroxyl Phenyl Glycine
35. CNC Controller
36. Copper Alloy Plate & Sheet for Lead Frame
37. Broadband Communications IC
38. Laser Diode Chip
39. Scroll Refrigerant Compressor
40. IC Packaging Resin

ATTACHMENT III

Notification

1. Title of the program

Tax credit for investment in disadvantaged region.

2. Period covered by the notification

The fiscal year 1997 (July 1996 to June 1997).

3. Policy objective and/or purpose

With the aim of achieving balanced economic growth within the territory of Chinese Taipei, the means of tax credit is used to encourage investment in disadvantaged geographic regions.

4. Background and authority

(i). Law:

Statute for Upgrading Industries (hereinafter referred to as the "SUI"), Article 7.

(ii) Responsible authority

The Industrial Development Bureau, Ministry of Economic Affairs.

Note: The SUI was promulgated on 29 December 1990 followed by an amendment on 10 January 1995, and will cease to be effective on December 31, 1999.

5. Form

Tax credit against corporate income tax.

6. To whom and how assistance is provided

Any company incorporated under the Company Law, which makes investment in designated industries in a region with scanty natural resources or with slow development, may gain credits of up to twenty per cent of the total amount of its investment against the corporate income tax levied in the then current year, provided it meets the threshold of capital or the threshold number of employees. If the amount of corporate income tax levied in that year is less than the tax credit, the balance of the tax credit may be applied against the corporate income tax levied in the ensuing four years.

The eligible geographical regions are the last ranking eight counties in Chinese Taipei in terms of population, employment rate, communication facilities, tax revenue, average regular income per household, infrastructure, and other indices, plus Kinmen County and Lien-chiang County. The latter two Counties are two small offshore islands with slow economic development. They would always be eligible if the aforementioned criteria are applied on them.

The designated industries referred to above include all manufacturing industries and several service industries.

The threshold capital means the total amount used in procuring brand-new machinery, equipment and building aggregates to NT\$25 million. The minimum number of employees means the monthly average of the number of newly employed employees in a full year amounts to fifty persons or more.

The criteria used by Chinese Taipei are more stringent than those under Article 8 of the SCM Agreement. The reason for Chinese Taipei's adoption of factors other than the two economic indicators prescribed by the SCM Agreement is mainly based on the consideration that these criteria reflect the real condition of scanty resources and the slow economic development in the areas concerned. If the SCM's index were applied, more regional zones would be eligible for tax credits.

7. Amount

- (i) Since the program's inception, the total accumulated amount is:

NT\$700,929,000 (fiscal years 1993-1997) (US\$1=NT\$27.81, June 1997 rate)

- (ii) For the fiscal year 1997:

NT\$316,056,000

- (iii) Statistical data available for the three most recent years:

FY 1995	FY 1996	FY 1997
239,173,000	143,173,000	316,056,000

8. Duration

The program was initiated in 1993. The Statute for Upgrading Industries will expire in 1999, at which time Chinese Taipei will conduct a review of the Program.

ATTACHMENT IV

Statistics for Specific Programs: Loaned by the Fund for
the Development of SMEs July 1996 to June 1997

Unit: thousand NT

Title of Program	Loans Approved		Loans Executed	
	Number of Cases	Total Amount	Total Amount	Amount provided by the Fund
Specific financing for enhancing competitiveness	241	3,183,304	3,174,975	793,744
Loans for helping enterprises restructure and plant site relocation	185	2,810,458	2,650,849	662,712
Urgent financing for the provision of working capital during periods of significant financial crisis, recession	0	0	0	0
Urgent financing for major natural disasters	23	139,990	139,990	34,998
Specific loans for mutual cooperation	0	0	0	0
Medium and long term loans for product marketing, and loans for overseas investment and construction projects	28	396,134	303,312	303,312
Total	477	6,529,886	6,269,126	1,794,766

Statistics for Specific Programs: Loaned by the Fund for
the Development of SMEs July 1995 to June 1996

Unit: thousand NT

Title of Program	Loans Approved		Loans Executed	
	Number of Cases	Total Amount	Total Amount	Amount provided by the Fund
Specific financing for enhancing competitiveness	268	3,821,080	3,857,813	964,453
Loans for helping enterprises restructure and plant site relocation	264	3,595,715	3,608,715	902,179
Urgent financing for the provision of working capital during periods of significant financial crisis, recession	0	0	0	0
Urgent financing for major natural disasters	10	58,740	78,040	19,510
Specific loans for mutual cooperation	0	0	0	0
Medium and long term loans for product marketing, and loans for overseas investment and construction projects	9	46,210	35,711	35,711
Total	551	7,521,745	7,580,279	1,921,853

Statistics for Specific Programs: Loaned by the Fund for
the Development of SMEs July 1994 to June 1995

Unit: thousand NT

Title of Program	Loans Approved		Loans Executed	
	Number of Cases	Total Amount	Total Amount	Amount provided by the Fund
Specific financing for enhancing competitiveness	226	3,458,662	3,350,722	837,681
Loans for helping enterprises restructure and plant site relocation	299	4,597,424	4,558,034	1,139,509
Urgent financing for the provision of working capital during periods of significant financial crisis, recession	0	0	0	0
Urgent financing for major natural disasters	71	389,740	366,240	91,560
Specific loans for mutual cooperation	0	0	0	0
Medium and long term loans for product marketing, and loans for overseas investment and construction projects	4	54,317	12,518	12,518
Total	600	8,500,143	8,287,514	2,081,267

Statistics by Industry for Specific Programs: Loaned by the Fund for the Development of SMEs July 1996 to June 1997

Unit: thousand NT

Title of Program Industry	Specific financing for enhancing competitiveness		Loans for helping enterprises restructure and plant site relocation		Urgent financing for major natural disasters		Medium and long term loans for product marketing, and loans for overseas investment and construction projects		Total		
	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount	Percentage
A. Manufacturing & Construction	230	3,063,604	178	2,647,868	22	134,990	25	370,526	455	6,216,988	95.21
1. Manufacturing	230	3,063,604	177	2,637,738	20	127,100	24	310,526	451	6,138,968	94.01
(a) Machinery and Metal Products	79	1,012,419	85	1,151,760	2	12,500	20	241,380	186	2,418,059	37.03
(b). Electric Machinery & Electronics	48	626,030	23	243,260	1	1,500	3	56,555	75	927,345	14.20
(c) Plastics	26	423,090	15	171,090	4	22,400			45	616,580	9.44
(d) Other Manufacturing	77	1,002,065	54	1,071,628	13	90,700	1	12,590	145	2,176,984	33.34
2. Construction			1	10,130	2	7,890	1	60,000	4	78,020	1.19
B. Mining & Excavation	1	4,200	2	77,400					3	81,600	1.25
C. Commerce & Service	10	115,500	5	85,190	1	5,000	3	25,608	19	231,298	3.54
1. Commerce	4	25,500	2	39,900	1	5,000	3	25,608	10	96,008	1.47
2. Transport			1	5,000					1	5,000	0.08
3. Warehousing											
4. Communications	1	50,000							1	50,000	0.77
5. Other Services	5	40,000	2	40,290					7	80,290	1.23
D. Others											
Total	241	3,183,304	185	2,810,458	23	139,990	28	396,134	477	6,529,886	100.00

Statistics by Industry for Specific Programs: Loaned by the Fund for the Development of SMEs July 1995 to June 1996

Unit: thousand NT

Title of Program Industry	Specific financing for enhancing competitiveness		Loans for helping enterprises restructure and plant site relocation		Urgent financing for major natural disasters		Medium and long term loans for product marketing, and loans for overseas investment and construction projects		Total		
	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount	Percentage
A. Manufacturing & Construction	263	3,766,000	260	3,563,355	10	58,740	9	46,210	542	7,434,305	98.84
1. Manufacturing	262	3,756,000	260	3,563,355	10	58,740	9	46,210	541	7,424,305	98.70
(a) Machinery and Metal Products	88	1,218,390	134	1,625,950	2	6,000	4	22,999	228	2,873,339	38.20
(b). Electric Machinery & Electronics	72	1,042,830	44	574,220			1	3,210	117	1,620,260	21.54
(c) Plastics	27	371,860	20	318,610					47	690,470	9.18
(d) Other Manufacturing	75	1,122,920	62	1,044,575	8	52,740	4	20,002	149	2,240,237	29.78
2. Construction	1	10,000							1	10,000	0.13
B. Mining & Excavation			1	3,000					1	3,000	0.04
C. Commerce & Service	5	55,080	3	29,360					8	84,440	1.12
1. Commerce	3	38,680	2	15,360					5	54,040	0.72
2. Transport			1	14,000					1	14,000	0.19
3. Warehousing											
4. Communications											
5. Other Services	2	16,400							2	16,400	0.22
D. Others											
Total	268	3,821,080	264	3,595,715	10	58,740	9	46,210	551	7,521,745	100.00

Statistics by Industry for Specific Programs: Loaned by the Fund for the Development of SMEs July 1994 to June 1995

Unit: thousand NT

Title of Program Industry	Specific financing for enhancing competitiveness		Loans for helping enterprises restructure and plant site relocation		Urgent financing for major natural disasters		Medium and long term loans for product marketing, and loans for overseas investment and construction projects		Total		
	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount	Percentage
A. Manufacturing & Construction	220	3,329,062	293	4,532,134	62	277,740	4	54,317	579	8,193,253	96.39
1. Manufacturing	220	3,329,062	293	4,532,134	62	277,740	4	54,317	579	8,193,253	96.39
(a) Machinery and Metal Products	87	1,258,606	156	2,279,124	37	187,880	3	46,980	283	3,772,590	44.38
(b). Electric Machinery & Electronics	35	604,640	29	372,850	2	11,500			66	988,990	11.63
(c) Plastics	21	313,870	30	532,670	3	8,600			54	855,140	10.06
(d) Other Manufacturing	77	1,151,946	78	1,347,490	20	69,760	1	7,338	176	2,576,534	30.31
2. Construction											
B. Mining & Excavation	1	50,000			2	8,500			3	58,500	0.69
C. Commerce & Service	5	79,600	6	65,290	5	74,500			16	219,390	2.58
1. Commerce	5	79,600	6	65,290	4	59,500			15	204,390	2.40
2. Transport											
3. Warehousing											
4. Communications											
5. Other Services					1	15,000			1	15,000	0.18
D. Others					2	29,000			2	29,000	0.34
Total	226	3,458,662	299	4,597,424	71	389,740	4	54,317	600	8,500,143	100.00

ATTACHMENT V

The Interest Rates on Various Financing Programs of the Export-Import Bank

1. On an NT Dollar Basis (Annual Rate):

19 September 1997

Program	Within 3 years	3-7 Years	Over 7 Years	Note
Over 180 to 360 Days Export Credits	B/A Rate Minus			The interest rate will be adjusted on a quarterly basis.
Medium and Long-term Export Credits	6.25 per cent	6.5 per cent	6.75 per cent	The interest rate is on a fixed basis.
Overseas Construction Credits for During The Construction Period Credits and Deferred Payment Credits	7.0 per cent	7.375 per cent	7.625 per cent	During the construction period: The interest rate will be adjusted on a semi-annual basis. After construction: The interest rate is on a fixed basis.
Overseas Investment Credits	6.50 per cent	6.75 per cent	-	The interest rate will be adjusted on a semi-annual basis.
Medium and Long-Term Import Credits	7.75 per cent	8.0 per cent	8.25 per cent	Ditto

2. On a US Dollar Basis (Annual Rate):

24 February 1997

Program	Within 1 Year	1-3 Years	3-5 Years	5-8.5 Years	Over 8.5 Years	Notes
Over 180 to 360 days Export Credits - After Shipment Only	LIBOR PLUS					The interest rate is adjusted on a quarterly basis.
Post-Shipment Short-Term Export Credits	LIBOR					The interest rate is fixed at six-month LIBOR.
Medium and Long-Term Export Credits	-	6.5 per cent	6.5 per cent	7.25 per cent	7.75 per cent	The interest rate is on a fixed basis.
Fixed Rate Relending Facility for Foreign Importers	5.5 per cent	5.75 per cent	-	-	-	The relending bank may charge a maximum spread 2.5 per cent p.a.
Overseas Construction Credits for During The Construction Period Credits and Deferred Payment Credits	LIBOR PLUS					The interest rate will be adjusted on a semi-annual basis.
Overseas Investment Credits	Ditto					Ditto

Medium and Long-Term Import Credits	Ditto	Ditto
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Note: The interest rates shown above are subject to change.

ATTACHMENT VI

OECD Export Credit Reference Rates (US\$)

per cent per annum.

1998	5 years	5 to 8.5 years	8.5 years
1/15 2/14	6.74	6.77	6.83
2.15 3/14	6.38	6.42	6.53
3/15 4/14	6.43	6.49	6.60
4/15 5/14	6.57	6.61	6.71
5/15 6/14	6.65	6.58	6.66
6/15 7/14	6.61	6.63	6.72
Average	6.563	6.583	6.675

ATTACHMENT VII

1. 1995-1996 Corporate Income Tax Exemption in Science-Based Industrial Park (By Sectors)

Unit: US\$ 1 million

Sector	FY1995	FY1996
Integrated circuit	314	182
Computer	7	22
Telecom	6	3
Opto-electronics	1	2
Machinery	0.27	2
Biotechnology		
Total	328	211

Note 1: Exchange rate

FY1995: US\$1=NT\$26.16

FY1996: US\$1=NT\$27.08

Note 2:

FY1995: July 1995 ~ June 1996

FY1996: July 1996 ~ June 1997

Note 3: The assistance hereof is granted based on Article 15 of the Statute for the Establishment and Administration of a Science-Based Industrial Park.

2. 1995-1996 Tax Credit against Corporate Income Tax in Science-Based Industrial Park (By Sectors)

Unit: US\$ 1 million

Sector	FY1995	FY1996
Integrated circuit	70	59
Computer	16	15
Telecom	2	2
Opto-electronics	0.23	1
Machinery	0.15	
Biotechnology		
Total	89	77

Note 1: Exchange rate

FY1995: US\$1=NT\$26.16

FY1996: US\$1=NT\$27.08

Note 2:

FY1995: July 1995 ~ June 1996

FY1996: July 1996 ~ June 1997

Note 3: The assistance hereof is granted based on Article 6 of the Statute for Upgrading Industries. Therefore, the assistance is not available only for Park Enterprises. All firms meeting the requirements of the said Article 6 are eligible for the assistance. However, the amount provided hereof only represents the tax credit enjoyed by Park enterprises under such assistance.

3. 1995-1997 Duty & Business Tax Exemption for Imported Machinery and Equipment

Unit: US\$ 1 million

Fiscal Year	Import Value for M&E	Amount of Import Duty Exemption	Amount of Business Tax Exemption
1995	1,513	113	76
1996	3,287	247	164
1997	3,359	252	168

Note 1: The amount of duty and business tax exemption for imported machinery and equipment are calculated by multiplying the import value of such products with an average duty rate for machinery and equipment at 7.5 per cent and a business tax rate at 5 per cent.

Note 2: Exchange rate in FY 1995: US\$1=NT\$26.16

FY 1996: US\$1=NT\$27.08

FY 1997: US\$1=NT\$27.52

Note 3: The amount of import duty exemption for various tariff lines other than machinery and equipment is not available because of the lack of statistics for imports into the Park by tariff line. Since the duty rate applied against each tariff line differs, we can not calculate the exempted duty amount for all the imports into the Park unless we have the import statistics of the Park by tariff line.

4. 1995-1997 Business Tax Exemption for All Imports

Unit: US\$1million

Fiscal Year	Total Import Value	Total Amount of Business Tax Exemption
1995	4,478	224
1996	8,020	401
1997	7,462	373

Note 1: Exchange rate in FY 1995: US\$1=NT\$26.16

FY 1996: US\$1=NT\$27.08

FY 1997: US\$1=NT\$27.52

Note 2: Business tax is exempted for certain exports according to Article 7 of the Business Tax Statute. Whether exports are from the Park does not affect their eligibility for the exemption. Therefore, we would like to correct the information provided on page 16 of document WT/ACC/TPKM/9, which shall not include the business tax exemption for exports into the assistance of the program.

5. Commodity Tax Exemption for Exports: Amount not available.

Unless Park enterprises sold products to domestic market, the Customs would not levy commodity tax on the products entering or leaving the Park, and therefore there are no statistics compiled for the exempted commodity tax for imports. In addition, there are no statistics compiled for various items imported by Park enterprises. Since the commodity tax rate applied on various items differs, we cannot calculate the exempted commodity tax amount without the statistics for each of the tariff line imported by Park enterprises.

Note: We also wish to correct the information provided on page 16 of document WT/ACC/TPKM/9, which has incorrectly included commodity tax exemption for exports into the assistance of the program. According to Article 3 of the Commodity Tax Statute, all exports are exempted from commodity tax. Whether exports are from the Park does not affect their eligibility for exemption.

ATTACHMENT VIII

Table of Percentage of EPZ Payable Tax to Export Value

Unit:US\$

Item	Year	
	1996 (Jan.-Dec.)	1997 (Jan.-Dec.)
Imported Machinery Equipment	200,446,759.49	545,365,346.82
Imported Machinery Equipment Custom Duty	5,011,168.99	13,634,133.67
Export Value Total	6,897,065,368.00	7,934,117,500.00
Percentage	0.07	0.17
Average Percentage	0.12	
Raw Material	3,786,605,222.51	4,560,542,713.18
Raw Material Custom Duty	189,330,261.13	228,027,135.66
Export Value Total	6,897,065,368.00	7,934,117,500.00
Percentage	2.75	2.87
Average Percentage	2.81	

Table of Percentage of EPZ Export Value to Production Value

Unit:US\$

Item	Year	
	1996 (Jan.-Dec.)	1997 (Jan.-Dec.)
Export Value Total	6,897,065.00	7,934,118.00
Production Value Total	7,671,238.00	8,792,324.00
Percentage	89.91	90.24
Average Percentage	90.07	
