

Agreement on Trade in Services (TISA)

Tuesday, 2 December 2014

Geneva

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Presentation by Switzerland

EXPORT SUBSIDIES

Definition of (Export) Subsidies

- The WTO Agreement on Subsidies and Countervailing Measures (ASCM) provides a definition. A subsidy shall be deemed to exist, if there is a measure by a (member) Party:
 - in the form of a financial contribution (i.e. direct transfer of funds); or
 - in any form of income or price support; and
 - if a benefit is conferred by such a measure.

- We are talking about subsidies in the meaning of Article I of the ASCM, which are **in law or in fact**

« contingent upon export performance ».

- «**in fact**» is a standard that is met, when the facts demonstrate that the granting of a subsidy is in fact tied to actual or anticipated exportation or export earnings.
- The fact that a subsidy is granted to exporting enterprises shall not for that reason alone be considered to be an Export Subsidy.
- Furthermore, **measures as not constituting Export Subsidies** and which therefore are not prohibited shall not form part of this presentation. An example would be: **Export Credits (OECD)**.

- To summarize:
- we are talking about Export Subsidies contingent upon export performance;
- Annex I of the ASCM contains a list with examples of Export Subsidies;
- not all support programmes automatically represent Export Subsidies.

Examples of Export Subsidies (4 Modes)

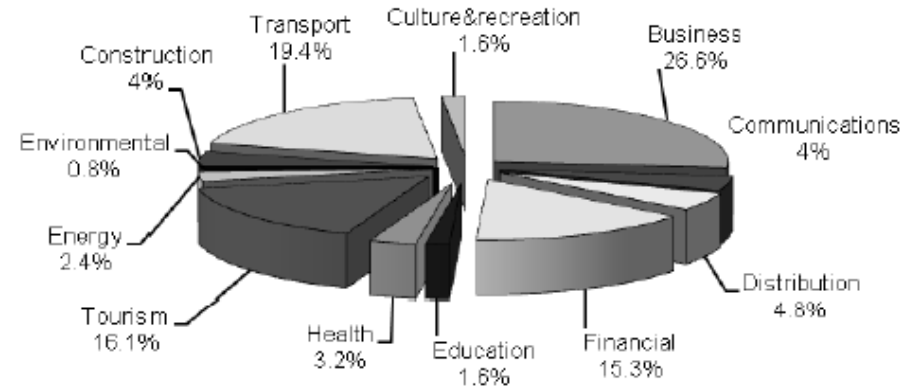
(Source: OECD; TAD/TC/WP(2007)15/FINAL)

- Mode 1: A resident who exports business services benefits from income tax reductions based on the ratio of export turnover to total turnover.
- Mode 2: A tour operator receives cash grants on the basis of the number of tourists it brings into its country.
- Mode 3: A tax exemption is available on profits from construction projects executed outside the country.
- Mode 4: An employee of a computer software company is exempted from taxes on remittances from exports.

Export Subsidies by Sector

(Source: OECD; TAD/TC/WP(2007)15/FINAL)

Figure 5. Export subsidies and offshoring by sector



Note: Where a country subsidises a range of service sectors each sector is counted separately.

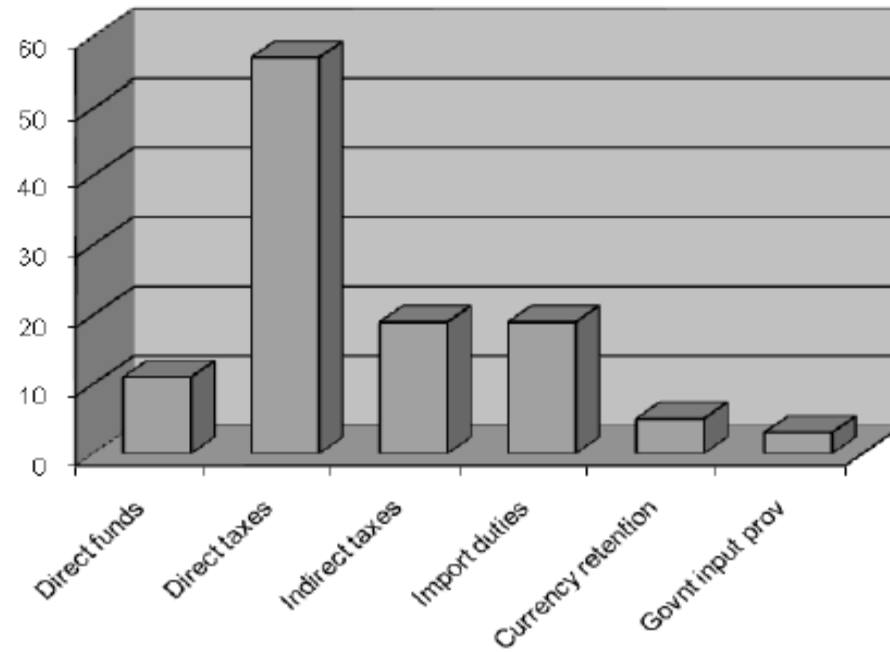
Source: OECD based on the WTO TPRs.

- To summarize:
- Export Subsidies are not limited to the «cross-border modes of supply».
- Also Mode 3 and 4 can be a target of export support programmes.
- Mode 3 shows a significant sensitivity for export supports.

Frequency of Export Subsidies

(Source: OECD; TAD/TC/WP(2007)15/FINAL)

Figure 6. Frequency of export subsidies and offshoring by measure



Source: OECD based on the WTO TPRs.

Forms of Export Subsidies

- Exemption schemes for income or profit taxes
- Tax exemptions for international logistic operations conducted by registered companies
- Tax exemptions on assets and property for services exporters
- Discounts on land leases
- Exemptions from VAT for investments related to services exports
- Direct transfer of funds

Concrete Examples

- Indian resident tax payers engaged in exports of computer software may receive deduction from profit taxes.
- Domestic Indian firms engaged in hotel and travel agency business can enjoy an exemption of 50% on the profits derived from services provided to foreign tourists.
- Furthermore, a 50% tax exemption is available on profits from construction projects executed outside the country.
- Enterprises in Lithuania receive a 50% discount on land leases and write-offs for investments.
- In Venezuela, services exporters are entitled to recover all taxes paid on goods and services inputs in connection with export activities.

Concrete Examples (2)

- Exporting enterprises in Tunisia may import their inputs needed for production free of all duties and taxes, including customs duties and VAT.
- Overseas shipping operators in the Philippines benefit from duty exemption on the importation of certain vessels.
- In India, the government has set up centres providing infrastructure in order to support IT and software exports (provision of infrastructure).
- Etc.

Summary

- During the last few minutes we were talking about the **most harmful** subsidies: Export Subsidies.
- We learned that the WTO Agreement on Subsidies and Countervailing Measures (ASCM) provides a definition for Export Subsidies.
- Thus, we are able to tackle the issue.
- Export Subsidies also matter in the world of services and all four Modes of Supply can benefit from such measures.
- Mode 3 can be a target of Export Subsidy Programmes. Most measures are hidden benefits and therefore particularly obscure.

- Export Subsidies may generally undermine the value of preferential trade agreements.
- Export Subsidies create commercial uncertainties and provoke trade distortive effects, affecting service suppliers.

Thank you for your attention.