

WORLD TRADE ORGANIZATION

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Committee on Subsidies and Countervailing Measures

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SUBSIDIES

Questions from the UNITED STATES Regarding the New and Full Notification of THAILAND¹

The following communication, dated 27 September 1996, has been received from the Permanent Mission of the United States.

Section I General

Please provide information concerning the following programmes which did not appear to be included within Thailand's notification, yet may meet the notification requirements of GATT 1994 and/or the SCM Agreement. If these programmes are encompassed elsewhere in Thailand's notification, please explain. If not, please include information relevant to the elements requested in the notification format, or explain the basis on which Thailand determined that each programme did not meet the notification requirements referenced above:

1. Tax Certificates for Exports - Under the Tax and Duty Compensation of Exported Goods Produced in the Kingdom Act of 1981 (Tax and Duty Act), the Royal Thai Government (RTG) issues tax certificates to the exporter of record to rebate indirect taxes and import duties on inputs used to produce exports. The rebate rates are computed on the basis of an input/output (I/O) study initially published in 1980 based on 1975 data, and updated in 1985 using 1980 data.
2. Export Packing Credits - Export packing credits (EPCs) are short-term pre-shipment and post-shipment export loans. Exporters apply to commercial banks for EPCs and the commercial banks, in turn, submit the applications to the Bank of Thailand (BOT) for approval. The BOT repurchases promissory notes issued by creditworthy exporters through commercial banks. To qualify for the repurchase arrangement, promissory notes must be supported by a letter of credit, sales contract, purchase order, usance bill or warehouse receipt. The notes are available for a maximum of 180 days and interest is payable on the due date of the loan.
3. International Trade Promotion Fund - This fund is used to finance export promotion activities, such as marketing research and trade fairs.
4. Electricity Discounts for Exporters
5. Repurchase of Industrial Bills

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6. Rediscount of Industrial Bills - The BOT authorizes rediscounts for short-term promissory notes arising from industrial activity. The BOT's "Regulations Governing the Rediscount of Promissory Notes Arising from Industrial Undertakings" permit commercial banks to rediscount short-term promissory notes for industrial purchases. Commercial banks may charge their industrial customers a maximum of 7 per cent per annum, while the rate charged to commercial banks by the BOT is 5 per cent per annum.

7. Export Processing Zones - Under the Industrial Estates Authority of Thailand Act, firms located in designated export processing zones and industrial estates receive tax and import duty exemptions on: (1) machinery used for factory construction and operation; (2) goods imported for use in the production of exports; (3) items produced for export; and (4) items imported for re-export.

8. Reduced Business Taxes for Producers of Intermediate Goods for Export Industries

9. Incentives Under the Investment Promotion Act (IPA)

A. Assistance to Trading Companies under the IPA (Section 16)

- Exemption of business taxes for suppliers
- Exemption of business taxes for subcontractors
- Entitlement to Export Packing Credits
- A double deduction from taxable income of taxes paid by branch offices outside Thailand
- A double deduction from taxable income of foreign marketing expenses
- Permission to maintain foreign currency bank accounts

B. Other Incentives

- Section 28, Exemption on import duties and business taxes on machinery used to produce promoted products
- Section 31, Income tax exemption
- Section 33, Goodwill and royalties tax exemption
- Section 34, Additional tax deduction for dividends paid on promoted activities
- Section 36(2), Exemption of import duties and business taxes on items imported for export
- Section 36(3), Exemption on export duties and business taxes on products produced or assembled by promoted firms
- Section 36(4), Deduction from assessable income of an amount equal to 5 per cent of the increase over the previous year of income derived from exports

Does the Investment Incentive Scheme listed in Thailand's response include all of the above provisions under the Investment Promotion Act?

10. Various Other Programmes of the Thailand Board of Investment - e.g. engineering, testing and training services, consulting services, and information on investment opportunities, industrial subcontracting, investment matchmaking, promotion of Thai investment overseas, and software design and development.

11. Thailand Development Research Institute (TDRI) - policy research to be disseminated to the public and private sectors including the following research areas: Human Resources and Social Development, International Economic Relations, Macroeconomic Policy, Natural Resources and Environment, Science and Technology Development, and Sectoral Economics.

12. Programmes supporting industry of the Department of Export Promotion including: Trade Fairs, publication of the Weekly Trade News & "Exporter Review" Magazine, and new products advertisements.

44. Programmes under the 1979 Industrial Estate Authority of Thailand Act

Section II Agriculture

A. We note that Thailand omitted reference to its rice price support and export subsidy programmes. Regarding price support, we understand that Thailand has continued its paddy mortgage scheme which allocated baht 836.80 per MMT in 1996 to cover production loans to farmers who put a targeted 2.5 MMT of paddy up as collateral. The Thai Government also maintains several rice purchase programmes to support prices, valued at approximately \$100 million for 1996. For export subsidies, despite the Thai Government announcement that the programme was discontinued for 1996 due to strong paddy prices, the 1995 subsidy was valued at \$10/mt to encourage forward sales by the private sector. Could Thailand confirm that all such schemes which lower export prices have been permanently discontinued?

B. Thailand notified under the Livestock Raising and Aqua-Culture Credit programme, that the Bank of Thailand will purchase from commercial banks promissory notes drawn by farm owners to finance their operating costs. Could Thailand provide more information on this programme and its eligibility requirements?

C. Please provide information concerning the following programmes which did not appear to be included within Thailand's notification, yet may meet the notification requirements of GATT 1994 and/or the SCM Agreement. If these programmes are encompassed elsewhere in Thailand's notification, please explain. If not, please include information relevant to the elements requested in the notification format, or explain the basis on which Thailand determined that each programme did not meet the notification requirements referenced above:

1. Public Warehouse Organization

2. Market Intervention Programme of the Ministry of Interior

3. Supplementary Programme to Implement the Government's Rice Policy-Preferential Financing to Rice Millers

4. Price Support and Stabilization Programmes - The price support and stabilization programmes are determined each year by the Rice Policy and Measures Committee (RPMC) of the Royal Thai Government (RTG). The RPMC is composed of representatives of the Office of the Prime Minister, the Defense Ministry, the Agriculture and Cooperative Ministry, the Commerce Ministry and the Interior Ministry.

5. Marketing Organization for Farmers (MOF) - The MOF operates under the Ministry of Agriculture and Cooperatives (MAC). MOF administers two programmes designed to assist paddy rice farmers:

A. Payment-in-Kind Programme (PIK) - Under this programme, the MOF accepted paddy rice as payment for farmers' and agricultural organizations' fertilizer debt. For the purposes of this transaction, the value of the rice per ton was not more than 10 per cent higher than the prevailing local price. MOF then generally sold the paddy rice at a profit of 100 baht per ton over its purchase price.

- B. Paddy Rice Purchase Programme - Under this programme, the MOF purchases, on the same terms as the PIK programme, additional paddy rice from farmers and agricultural organizations who settled their fertilizer debts under the payment-in-kind programme.
6. Short-term interest-free loans provided under the "linkage project" of the Cooperative Promotion Department of the Ministry of Agriculture and Cooperatives to the Agriculture Cooperative Federation of Thailand.
7. Bank of Agriculture and Agricultural Cooperatives (BAAC) Paddy Rice Mortgage Programme - The BAAC is a state-owned bank that provides low-interest loans to qualifying farmers, farmer associations and cooperatives. Although the loans are available to farmers producing several agricultural products including rice, livestock and poultry, tree crops, cassava, maize, fisheries and others, the BAAC offers "special" low-interest loans under this programme to rice producers in furtherance of the RTG's policy to support and stabilize paddy rice prices. The purpose of the loans is to allow farmers to hold back sales of paddy rice at the beginning of the harvest season, when market prices are low, and to sell it later in the season when prices are more favourable.
8. Bank of Agriculture and Agricultural Cooperatives Second Crop Paddy Rice Purchasing Programme - To supplement the price stabilization effects of the paddy rice mortgage programme, the BAAC implemented a second-crop paddy rice purchasing programme. The purpose of this programme was to buy second-crop paddy rice from farmers when prices were low (at harvest time) in order to stabilize prices over the course of the year. These purchases were made at premium prices, established at the provincial level by a committee designated by the Governor.
9. Paddy Price Raising Project and Compensatory Financing Programme for Millers - This market price intervention programme, implemented by the Ministry of Interior (MOI), required rice millers and traders to purchase paddy rice from small and poor rice farmers at a price 10 per cent higher than market prices during peak harvesting seasons. The MOI allocated funds to the provincial governors who provided interest-free loans to rice millers and rice traders participating in the programme.
10. Bank of Thailand Agricultural Purchase Project - According to BOT regulations, effective November 11, 1988, commercial banks could provide short-term loans for up to 100 per cent of the amount of a promissory note issued by rice traders or millers against the value of their stocked paddy rice. The commercial bank then discounts 50 per cent of the face value of the promissory note with the BOT. The maximum interest charged by the commercial bank to the borrower is 10 per cent; the principal and interest are due either at the end of 90 days or up to three days after the paddy is sold, whichever is earlier. If repayment of the loan is not made when due or if other terms of the loan are violated, a penalty interest amount is imposed by the BOT on 50 per cent of the face value of the promissory note over the term of the loan. This penalty is then passed on to the borrower by the commercial bank.
11. Department of Agricultural Extension (DAE) Loans to Farmer Associations - Although the DAE provides a wide variety of extension services for all of the Thai agricultural sectors, it has provided a special interest-free short-term loan programme to farmer associations for the purpose of buying paddy rice at harvest when prices are low, storing it, and selling it when prices are rising.
12. Department of Foreign Trade (DFT) Purchase of Milled Rice