

WORLD TRADE ORGANIZATION

G/SCM/N/74/PAN/2
4 January 2002

(02-0030)

Committee on Subsidies and Countervailing Measures

SUBSIDIES

Requests Pursuant to Article 27.4 of the Agreement on Subsidies and Countervailing Measures

PANAMA

The following communication, dated 20 December 2001, has been received from the Permanent Mission of Panama.

On behalf of the Representation and Government of Panama and pursuant to its rights under Article 27 of the Agreement on Subsidies and Countervailing Measures (SCM), I have the pleasure of transmitting herewith a request to the Committee on Subsidies and Countervailing Measures, in conformity with the procedure laid down in Article 27.4 of the SCM Agreement, to initiate consultations with a view to the extension of the Tax Credit Certificate (CAT) Programme. This programme was notified under the SCM Agreement in document G/SCM/N/71/PAN.

The CAT programme is essential to the country's economic growth and development objectives in the light of its economic, financial and development needs. It contributes to integrated development by generating employment and foreign exchange, and to the country's integration in the global economy by promoting exports of goods and services. Furthermore, the amounts involved do not affect trade.

This request is made without prejudice to such other rights as Panama may have under the SCM Agreement or other Agreements.

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1. Purpose of the request

The Government of Panama is submitting this request pursuant to Article 27.4 of the Agreement on Subsidies and Countervailing Measures in order to obtain an extension that would enable it to apply the subsidy described below after 31 December 2002, as provided for in the said Article. To that end, the Government of Panama wishes to initiate consultations with the Committee on Subsidies and Countervailing Measures with a view to obtaining approval for the extension of the period of application of the subsidy.

This request should be examined in the context of the development promotion objectives set forth in the Uruguay Round Agreements in general, and in the Agreement on Subsidies and Countervailing Measures in particular, as well as the various ministerial declarations including those made during the Ministerial Session of Doha, Qatar, which recognized the need to ensure that the developing countries "secure a share in the growth in international trade commensurate with the needs of their economic development".

2. Description of the subsidy for which an extension is requested

The subsidy in question is the Tax Credit Certificate, notified in document G/SCM/N/71/PAN.

3. Length of the extension

The Government of Panama requests the authorization to extend the Tax Credit Certificate Programme for an additional period of five years.

4. Status of the incentive

On the basis of the resolutions issued by the Foreign Trade Services Directorate of the Vice-Ministry of Foreign Trade, during the last three years for which information is available, the total value of CATs granted was US\$25.3 million in 1998, US\$34.3 million in 1999 and US\$37.5 million in 2000. This represents no more than 0.6 per cent of the national budget.

5. Circumstances justifying the extension

A. Economic conditions

Since Panama joined the World Trade Organization, growth in economic activity has been slowing each year, falling from 4.5 per cent to 2.5 per cent between 1997 and 2000. The forecast for 2001 continues to reflect this trend, with the visible contraction of the key sectors for the generation of employment such as agriculture, mining and the manufacturing industries.

The economy is dependent on an increasingly limited number of economic activities, and has little capacity to tackle certain issues which, in principle, could be solved by boosting exports, such as job creation, improved salaries, increased indirect tax revenue through the expansion of aggregate demand, etc.

Table No. 1: Economic growth in Panama from 1997-2001

Year	Economic growth
1997	4.5%
1998	4.4%
1999	3.0%
2000	2.5%
2001(E)	1.5%

Source: Comptroller General of the Republic.

This situation is creating idle capacity and delays in the incorporation of new technologies (almost always at the initiative of the formal sector) which undermine the competitive capacity of domestic products already processed or produced in the manufacturing industries with greater value added, or raw materials or semi-finished products from the agricultural, fishery, mining or forestry sectors. Consequently, in view of the slow rate of expansion of aggregate domestic demand, it is necessary to boost export growth while at the same time diversifying the production base with new investments.

B. Appreciation of the national currency

One of the factors affecting the development of Panama's exports is its inflexible exchange rate, which results in a steady appreciation of the national currency and undermines the competitiveness of Panama's domestic production in direct proportion to the national value added incorporated in the product. This impact on competitiveness is reflected even with respect to neighbouring markets in which Panama has relative advantages, for example, the cost of transport.

The situation is aggravated by decreases in the prices of important products in the country's exportable supply due to excess supply on the international market.

C. Employment

Panama continues to have critically high levels of unemployment which tend to increase with the contraction of the country's exportable supply, particularly in the case of non-traditional goods, which have been more dynamic over the past few years. The estimated unemployment figure for 2001 is 160,674, representing 14.4 per cent of the economically active population.

Employment has declined between 1999 and 2001 both in *the agricultural, livestock, hunting, forestry and fisheries sectors* and in the *manufacturing industries*. The number of jobless is estimated to have increased by 5,371 or 3.4 per cent in the *agricultural sector*, by 8,731 or 9.3 per cent in the manufacturing industries, and by 728 or 6.5 per cent in the fisheries sector.

Table No. 2: Visible unemployment rate and number of persons unemployed in Panama
1997-2000

Year	Rate of unemployment (%)	No. of persons unemployed
1997	14.3	140,316
1998	13.6	147,105
1999	11.8	128,019
2000	13.5	146,296
2001	14.4	160,674

Source: Comptroller General of the Republic.

Given the need for greater fiscal discipline and the rise in unemployment rates, the solution seems to reside in stimulating the economy by focusing on exports.

D. Characteristics of the programme

The CAT is a tool for promoting the production and export of products with high value added content and social impact.

The amounts concerned by this incentive are small compared to what is available to our main trading partners, and do not affect trade. They cause no serious injury, nor do they involve the nullification or impairment of tariff concessions or other obligations under the GATT 1994. They do not displace or block imports from other Members, nor do they cause injury to any domestic industry in the market of the importing Member.

6. Additional commitments to be undertaken during the extension period

Panama will notify the Committee on the progress of the programme according to the parameters established for the present extension.
