

Committee on Subsidies
and Countervailing Measures

Original: English

SUBSIDIES

Replies to Questions Posed by the EUROPEAN COMMUNITY¹
Regarding the Updating Notification of KOREA²

The following communication, dated 5 November 1997, has been received from the Permanent Mission of Korea.

I. NOTIFIED SUBSIDY PROGRAMMES

Q.(a) Reserves for export losses

Although Korea stated in its full notification and in its reply to questions from the Community that this programme would be phased out in conformity with the provisions of Article 27 of the WTO Subsidies Agreement, Korea states that the total amount of subsidies increased from KPW 255 to KPW 386 (100 million). It should be stressed that Korea explicitly stated that the amount of subsidy for this programme would not be increased (G/SCM/Q2/KOR/9, page 6). Even if Korea could invoke the special treatment under Article 27, the Community considers that this increase constitutes a violation of Article 27.4. This Article provides that "a developing country shall not increase the level of its export subsidies". In this respect, the Community requests Korea to clarify why the total amount of subsidy was increased.

Q.(b) Reserves for overseas market development

Although Korea stated in its full notification and in its reply to questions from the Community that this programme would be phased out in conformity with the provisions of Article 27 of the WTO Subsidies Agreement, Korea states that the total amount of subsidies increased from KPW 285 to KPW 478 (100 million). It should be stressed that Korea explicitly stated that the amount of subsidy for this programme would not be increased (G/SCM/Q2/KOR/9, page 6). Even if Korea could invoke the special treatment under Article 27, the Community considers that this increase constitutes a violation of Article 27.4. This Article provides that "a developing country shall not increase the level of its export subsidies". In this respect, the Community requests Korea to clarify why the total amount of subsidy was increased.

¹G/SCM/Q2/KOR/13.

²G/SCM/N/25/KOR.

Reply

The Reserves for Export Losses and the Reserves for Overseas Market Development provide partial and temporary tax deferrals to the exporter. These reserves were created to compensate exporting companies for their business losses and the size of the reserves, within the ceiling set by the law, was left to the discretion of each of the exporting companies. Thus, it must be clearly established that these two reserves are different from such direct compensation as cash payments to exporters.

The main reason for the increased use of this reserve system is not due to changes in the content of the relevant laws, but rather to the more frequent use of this reserve system by exporting companies exercising their discretion within the ceiling set by the law. Exporters are believed to increase their use of the Reserves for Export Losses or Overseas Market Development in anticipation of the forthcoming repeal of this reserve system by the end of 1998.

Therefore, it should not be deemed that the Korean Government violated Article 27.4 of the Agreement on Subsidies and Countervailing Measures.