

WORLD TRADE ORGANIZATION

RESTRICTED

G/SCM/Q2/ZAF/6

18 March 1998

(98-1081)

**Committee on Subsidies
and Countervailing Measures**

Original: English

SUBSIDIES

Replies to Questions posed by the EUROPEAN COMMUNITY¹, JAPAN¹ and the UNITED STATES¹ Regarding the New and Full Notification of SOUTH AFRICA²

The following communication, dated 13 March 1998, has been received from the Permanent Mission of South Africa.

REPLIES TO THE EUROPEAN COMMUNITY

I. NOTIFIED SUBSIDY PROGRAMMES

Question

(a) Low interest rate finance scheme

South Africa states that this programme is available to industrialists that will create new and/or additional capacity generating sales of which 30% or more is directed towards exports. This programme seems contingent upon export performance. In this respect, could South Africa give the timetable of how this subsidy will be phased out?

Answer

(a) South Africa has reconsidered this scheme and it has been decided to phase it out by June 1998.

Question

(b) World Player Scheme

Could South Africa explain what is meant by "manufacturers unduly affected by tariff reform"?

¹G/SCM/Q2/ZAF/3, G/SCM/Q2/ZAF/4, G/SCM/Q2/ZAF/5

²G/SCM/N/3/ZAF-G/SCM/N/16/ZAF-G/SCM/N/25/ZAF.

Answer

(b) "Unduly affected by tariff reform" would be those manufacturers whose total nominal *ad valorem* import tariff will decrease by at least 10 percentage points over the period 1995 to 1999 or whose competitors's products have a reduction in import tariffs of at least 10 percentage points and this reduction has a material effect on turnover.

II. ADDITIONAL PROGRAMMES NOT NOTIFIED TO THE WTO

Questions

South Africa has not notified a number of programmes which appear to be notifiable under Article 25. The Community finds that the schemes described below provide a financial contribution which confers benefits to the local industry. In addition the schemes are clearly specific (as pertaining to a specific sector or contingent upon exports). In addition to the specific questions asked, the Community would like clarification why these programmes were not notified to the WTO and requests that, if appropriate, South Africa supplies a notification under Article 25, using the standard format.

1. Regional Industrial Development Programme

Assistance is given in the form of an establishment grant for the first two years, a profit-based incentive for the following three years and a relocation incentive.

2. Simplified Regional Industrial Development Programme

Answer

South Africa does not consider these programmes to be industry specific nor are they contingent upon export performance and therefore does not consider it to be notifiable.

3. General Export Incentive Scheme

Answer

Has been notified in G/SCM/N/2/ZAF as a prohibited subsidy. It was not notified in G/SCM/N/3/ZAF of 23 June 1997 since the scheme was terminated on 11 July 1997.

4. The Export Marketing Assistance Schemes

This programme includes the primary export market research scheme and the inward buying trade mission scheme.

Answer

This scheme is not specific to any particular industry and therefore does not fall within the definition of a subsidy.

5. Tariff rebates or refunds of duties on the importation of raw materials and components used in the manufacturing process

Answer

Tariff rebates and refunds of duties on the importation of raw materials and components are regular rebates and refunds, are in conformity with Annex II of the Agreement and South Africa does not consider them to be notifiable.

6. Customs duties dispensation for the motor industry

Answer

The objective of the Motor Industry Development Programme in respect of light motor vehicles, i.e. cars (including station wagons), minibuses and light commercial vehicles is to improve the competitiveness of the industry through a process of phased reduction in protective customs duties. In order not to be prescriptive in terms of the component types that are produced domestically all components destined for incorporation into locally assembled vehicles carry the same level of customs duties. Recognizing that only a portion of the components required are or can be produced domestically, rebates of duty are granted in respect of a part of the imported components needed to assemble a vehicle. In principle the quantum of the rebate that is granted to an assembler is based on the total value of all the components, locally produced and imported, purchased by a vehicle assembler. In practice, due to problems related to the determination of the total value of components used, the rebates are based on the value of vehicles produced for the local market and the value of components and vehicles exported.

The rebates that are granted are not in excess of the full rate of duty, and for that reason the rebate is not considered to be a subsidy.

In the case of heavy motor vehicles, customs tariffs were removed in respect of most of the components needed for assembly of vehicles. Customs duties in respect of certain engines, transmissions, drive axles, cabs and tyres remain, but are all subject to scaled reductions or future elimination.

7. Electricity tariff concessions: electricity intensive industries may obtain special tariffs with the relevant local authorities.

Answer

This programme is of a commercial nature with discounts being given for the purchasing of large volumes (bulk discounts).

REPLIES TO JAPAN

Question

General Export Incentive Scheme (GEIS)

Could South Africa explain the reason why this programme notified as a prohibited subsidy in the notification (G/SCM/N/2/ZAF) was not described in the notification (G/SCM/N/3/ZAF)?

Answer

Has been notified in G/SCM/N/2/ZAF as a prohibited subsidy. It was not notified in G/SCM/N/3/ZAF of 23 June 1997 since the scheme was terminated on 11 July 1997.

Question

Low Interest Rate Finance Scheme (Life Scheme)

On page 3 of the notification, South Africa described the eligibility as follows: "Available to industrialists or groups with total assets of more than ZAR 1 million, for financing projects that will: Create new and/or additional capacity generating sales of which 30% or more is directed towards exports."

- Does this programme constitute an export subsidy?
- That being the case, could South Africa explain when the programme would be phased out?
- That not being the case, could South Africa explain the reason?

Answer

This scheme was reconsidered and it has been decided to phase out the "low interest rate finance scheme" by June 1998.

Question

Duty Credit Certificate Scheme for Textiles and Clothing (DCC's)

On page 5 of the notification, South Africa describes the eligibility as follows: "Exporters of textiles and clothing earn duty credit certificates on the basis of their exports of products falling under the scheme. The certificates allow these exporters credit to the value of the certificate on duties payable on imports on certain textile and clothing products."

- Does this programme constitute an export subsidy?
- That being the case, could South Africa explain when the programme would be phased out?
- That not being the case, could South Africa explain the reason?

Answer

This scheme was reconsidered and it has been decided to phase it out as from 31 March 2000.

REPLIES TO THE UNITED STATES

Q.1. Regarding the "Low Interest Rate Finance Scheme" and the "Duty Credit Certificate Scheme for Textiles and Clothing", do you consider these programmes to provide subsidies contingent upon export performance, as provided in Article 3.1(a) of the SCM Agreement? If so, what are your plans for the phase out of these programmes?

A.1. The "Low Interest Rate Finance Scheme" and the "Duty Credit Certificate Scheme" have been reconsidered and it has been decided to phase out the "low interest rate finance scheme" by June 1998.

The "duty credit certificate scheme for textiles and clothing" is intended to be phased out as from 31 March 2000.

Q.2. In your notification of the "Low Interest Rate Finance Scheme", you stated that the subsidy effect was the difference between actual and lower interest rates. Please provide information concerning the basis on which the actual and low interest rates are determined for this scheme, as well as for the "World Player Scheme".

A.2. The level of interest rates for the "low interest rate finance scheme" and the "world player scheme" depend on the size of an applicant enterprise:

Small and medium-sized enterprise (total assets of less than R 60 million):

Industrialists can choose between a fixed rate, currently 13.5 per cent p.a. or a variable rate, currently 14.25 per cent p.a. for loans of less than R 25 million and 13.75 per cent p.a. for loans of more than R 25 million. The low (the fixed and variable) interest rates are based on the normal (fixed or variable) interest rates less 3 percentage points. The normal (fixed or variable) interest rates are based on the actual (prime bank overdraft) interest rate less 2 per cent for fixed rates and less 2.5 per cent for variable rates.

Large groups (total assets of more than R 60 million):

Only the variable rates at the percentages mentioned above are available to them.

Q.3. You state that the "World Player Scheme" provides low interest rate financing to "manufacturers unduly affected by tariff reform". On what basis are these manufacturers identified?

A.3. World player scheme: "unduly affected by tariff reform" would be those manufacturers whose total nominal *ad valorem* import tariff will decrease by at least 10 percentage points over the period 1995 to 1999 or whose competitor's products have a reduction in import tariffs of at least 10 percentage points and this reduction has a material affect on its turnover.

Q.4. Concerning the "Contribution to the Maize Industry" assistance, the "Payment for Relief from Natural Disasters: Boreholes", the "Payment for Relief from Natural Disasters: Interim Natural Grazing Recovery Scheme", and the "Payment for Relief from Natural Disasters: Conversion of Marginal Lands", please provide information regarding how the amount of financial contribution for each programme is determined.

A.4. Concerning the "Contribution to the Maize Industry" assistance, the "Payment for Relief from Natural Disasters: Boreholes", the "Payment for Relief from Natural Disasters: Interim Natural Grazing Recovery Scheme", and the "Payment for Relief from Natural Disasters: Conversion of Marginal Lands", the amount of financial contribution for each programme is determined as follows:

- Contribution to the Maize Industry Assistance

The Government took over Maize Board debts of R 395.1 million (Maize Special Fund). This amount is attributed to export losses during the marketing seasons 1980/91 to 1986/87, of which the last mentioned season made the largest contribution.

As far as the 1986/87 season is concerned, a big difference existed between the physical estimate in March 1986 and the actual size of the crop and export surpluses. International prices also showed a dramatic decline.

On 3 August 1990 the Minister of Agriculture and the Minister of Finance signed the "Guarantee by the Government of the Republic of South Africa" in terms of which the Government guaranteed that the Maize Board would meet their financial obligations to the Land and Agricultural Bank of South Africa.

Annual payments for losses that occurred in the periods mentioned above are made directly to the Maize Board. Producers do not receive any direct payments.

- Payment for Relief from Natural Disasters: Conversion of Marginal Lands

The aim of the programme is to establish perennial pastures and/or leguminous pastures on land normally used for dry-land grain production, in order to adjust the farming systems. In so doing, to reduce the excessive dependence on grain production in marginal areas.

Qualifying farmers, who succeeded in successfully establishing approved pastures, received an establishment subsidy to the amount of R 130 per hectare as well as a further R 60 per hectare for withdrawing the land(s) from cash crop production. By successfully maintaining the pastures for the next three years, participants qualified for a maintenance subsidy of R 60 per hectare per year for three years.

- Payment for Relief from Natural Disasters: Interim Natural Grazing Recovery Scheme

A temporary measure, to assist livestock farmers in certain areas, to recover grazing damaged by ongoing drought, for a maximum period of 12 months. Conditions of the scheme are that stock should be reduced to below the long-term carrying capacity of a farm unit up until 50 per cent of the notified long-term capacity. Only those farmers with natural grazing that has been negatively affected by the disaster drought qualify and farmers who obtain 60 per cent or more of their income from meat, wool/mohair and milk.

Qualifying farmers received an incentive for stock reduction below the official long-term carrying capacity of their farms calculated as follows:

- Small stock: R 16.14 per month per converted large stock unit (LSU).
- Large stock: R 9.67 per month per converted large stock unit (LSU).

- Payment for Relief from Natural Disasters: Boreholes

The scheme aims at the provision of emergency drinking water to cattle and human consumption for areas that are declared as emergency drought water areas. General criteria were that there has to be less than 15 litres of water per day per person available and less than 60 litres per day per animal consumption. Ten per cent of the district must be in this state.

Qualifying farmers were allowed two drilling attempts per 1,000 hectares, each of which can be drilled at 70 per cent discount on the tariff of R 35 per metre. Two further

drilling attempts, with the limit of one successful borehole, can be approved if the first two attempts were unsuccessful. Further attempts could only be approved by the Managing Engineer. The same 70 per cent discount was granted on each further borehole.

Q.5. Finally, please explain why the following subsidy programmes were not included in your subsidy notification:

- **Regional Industrial Development Incentives**
- **Export Incentive Programme**
- **General Export Incentive Scheme**
- **Industrial Development Corporation Export Loans**
- **Preferential Rail Rates**
- **Beneficiation Allowance/Electricity Rebate**

A.5. The following programmes have not been modified because:

- Regional Industrial Development programme: South Africa does not consider this programme to be industry specific nor is it contingent upon export performance and therefore does not consider it to be notifiable as a subsidy.
 - Export Incentive Programme: It is not clear what is meant by this.
 - General Export Incentive Scheme (GEIS): Has been notified in G/SCM/N/2/ZAF as a prohibited subsidy. It was not notified in G/SCM/N/3/ZAF of 23 June 1997 since the scheme was terminated on 11 July 1997.
 - IDC "Export Loans": The IDC administers various schemes. The two that are considered notifiable are "low interest rate finance" and "world player scheme". These have already been replied to above.
 - Preferential Rail Rates: Although state-owned, the railways are being run on a commercial basis. Discounts can be negotiated by bulk users of rail transport. No subsidy is involved.
 - Beneficiation Allowance/Electricity Rebate: Again, discounts can be negotiated by bulk users of electricity on a commercial basis. No subsidy is involved.
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