

WORLD TRADE ORGANIZATION

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Committee on Subsidies and Countervailing Measures

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SUBSIDIES

NOTIFICATIONS PURSUANT TO ARTICLE XVI.1 OF THE GATT 1994 AND ARTICLE 25 OF THE AGREEMENT ON SUBSIDIES AND COUNTERVAILING MEASURES

SRI LANKA

The following communication, dated 22 October 1996, has been received from the Permanent Mission of Sri Lanka.

I have the honour to forward herewith the information furnished by the Sri Lanka Export Development Board (SLEDB) and the Board of Investment of Sri Lanka (BOI) with regard to the subsidies being granted for notification under Article 25.2 of the Agreement on Subsidies and Countervailing Measures.

Please note that the EDB and the BOI have informed us that they are presently tabulating the details of all programmes of subsidies being granted including the relevant statistical data referred to under this notification. This information will be forwarded to you as soon as it is received.

1. Title of subsidy programme

Investment Incentives.

2. Period

From 1995 to 1997.

3. Purpose of subsidy

To encourage investments.

4. Authority

The incentives are given through the Board of Investment of Sri Lanka, which was constituted under an Act of Parliament.

5. Form of subsidy

Revenue foregone (tax holidays, concessionary taxes, import duty exemptions).

6. To whom and how the subsidy is provided

The local and foreign investors who would invest in all sectors of the economy with few exemptions will be eligible to receive the subsidy, which is a revenue foregone. The qualification criteria and the nature of incentives are given in Annex No. I.

7. Subsidy per unit

Since the incentives are budgetary outlays and would vary on the level of investment, it is not possible to quantify the amounts. However, statistics for the past will be submitted in due course.

8. Duration of subsidy

As per Annex I.

9. Statistical data

To be submitted in due course.

ANNEX I

Export Oriented Projects

Qualifying criteria				Incentives						
	Minimum export requirement (% of turnover)	Minimum project cost in Rs	Minimum employment required	Full tax holiday	Concessionary tax period of 15%	Import duty exemption	Exemption from turnover tax on imports	Exemption from turnover tax on sales	Exchange control exemption	Concessionary tax for expatriates at 15%
Direct and indirect export of manufactured goods	90%	12.5 million	No minimum employment requirement	No	20 years	Yes	Yes	Yes	Yes	5 years
Direct and indirect export of services	70%	No minimum investment required	No minimum employment requirement	No	20 years	Yes	No	No	Yes	5 years
Direct and indirect export of manufactured goods using advanced technology	90%	50 million	50 persons	5 years	15 years after tax holiday	Yes	Yes	Yes	Yes	5 years
Direct and indirect export of services using advanced technology	70%	No minimum investment required	25 persons	5 years	15 years after tax holiday	Yes	Yes, if approved by the Fiscal Incentives Committee	No	Yes	5 years
Ship repair and ship breaking	70%	10 million	25 persons	5 years	15 years after tax holiday	Yes	Yes	No	Yes	5 years
Agricultural projects + +	90%	Local investors Rs 2.5 million; foreign investors Rs 7.5 million	50 persons for processing activities only	5 years	15 years after tax holiday	Yes	Yes	Yes	Yes	5 years
Dairy livestock development + +	90%	10 million	50 persons for processing activities only	5 years	15 years after tax holiday	Yes	Yes	Yes	Yes	5 years

Qualifying criteria				Incentives						
	Minimum export requirement (% of turnover)	Minimum project cost in Rs	Minimum employment required	Full tax holiday	Concessionary tax period of 15%	Import duty exemption	Exemption from turnover tax on imports	Exemption from turnover tax on sales	Exchange control exemption	Concessionary tax for expatriates at 15%
Large scale projects	90%	500-1,499 million	100 persons (for mfg only)	10 years	10 years after tax holiday	Yes	Yes	Yes	Yes	5 years
	90%	1,500-2,499 million	100 persons (for mfg only)	12 years	8 years after tax holiday	Yes	Yes	Yes	Yes	5 years
	90%	2,500-4,999 million	100 persons (for mfg only)	15 years	5 years after tax holiday	Yes	Yes	Yes	Yes	15 years
	90%	5,000 million	100 persons	20 years	No	Yes	Yes	Yes	Yes	.. years

Non-Export Oriented Projects

Qualifying Criteria				Incentives					
	Minimum project cost in Rs.	Minimum employment required	Full tax holiday	Concessionary tax period at 15%	Import duty exemption	Exemption from turnover tax on imports	Exemption from turnover tax on sales	Exchange control exemption	Concessionary tax for expatriates at 15%
Small scale infrastructure housing (min. 100 units) power	50 million	No minimum employment requirement	No	7 years	During project implementation period	No	No	No	5 years
Small scale infrastructure ***	125-499 million	No minimum employment requirement	No	7 to 10 years depending on investment	During project implementation period	No	No	No	5 years
Tourism Recreation Leisure	10 million	No minimum employment requirement	No	15 years	During project implementation period	No	No	No	5 years
Agriculture/ fisheries + +	Local 2.5 million Foreign Rs 7.5 million	50 persons for processing activities only	5 years	No	During project implementation period	No	No	No	5 years

Qualifying Criteria			Incentives						
	Minimum project cost in Rs.	Minimum employment required	Full tax holiday	Concessionary tax period at 15%	Import duty exemption	Exemption from turnover tax on imports	Exemption from turnover tax on sales	Exchange control exemption	Concessionary tax for expatriates at 15%
Dairy livestock development ++	10 million	50 persons for processing activities only	5 years	No	During project implementation period	No	No	No	5 years
Training institutes	No	Minimum of 100 persons to be trained	No	10 years	During project implementation period	No	No	No	5 years
Large scale projects	500-1,499 million	100 persons for mfg only	10 years	No	During project implementation period	During project implementation period	No	Yes	5 years
	1,500-2,499 million	100 persons for mfg only	12 years	No	During project implementation period	During project implementation period	No	Yes	5 years
	2,500-4,999 million	100 persons for mfg only	15 years	No	During project implementation period	During project implementation period	No	Yes	15 years
	5,000 million	100 persons for mfg only	20 years	No	During project implementation period	During project implementation period	No	Yes	20 years

Assistance to Exporters

1. Title of subsidy programme
EDB assistance WITH equity participation and financial incentives as per Annex II.
2. Period
From 1995 to 1997.
3. Purpose of subsidy
To help export oriented ventures to mobilize necessary funds from financial institute.
4. Authority
Export Development Board Act.
5. Form of subsidy
Loans, grants and equity participation.
6. To whom and how the subsidy is provided
To direct, indirect, and potential exporters. Subsidy is provided for exporters depending on their requirement of each project with a maximum limit of Rs 1 million per project.
7. Subsidy per unit
Rs 1 million per project.
8. Duration of subsidy
Commencing from 1990.
9. Statistical data
Not available.

Assistance to Exporters

1. Title of subsidy programme
Fiscal Incentives as per Annex II.
2. Period
From 1995 to 1997.
3. Purpose of subsidy
Encouraging export ventures and investors.
4. Authority
Department of Inland Revenue.
5. Form of subsidy
Tax concession.
6. To whom and how the subsidy is provided
To direct exporters of non-traditional products.
7. Subsidy per unit
Cannot quantify as only profit making companies enjoy the facility.
8. Duration of subsidy
For 20 years commencing from 01.04.1995.
9. Statistical data
Most exporters do not enjoy high profit and therefore difficult to quantify the trade effect of the subsidy.

ANNEX IIDate: 21/10/96

Subsidy programme	Period covered by the notification	Policy objectives	Background & authority for the subsidy	Form of subsidy
1. FISCAL INCENTIVES				
1.1 Concessionary tax rate of 15% for exporters.	1995-1997	Encouraging export ventures and new investors	Dept. of Inland Revenue	Tax concession
1.2 Five year tax holiday for new investments utilizing advanced technology.	1995-1997	To encourage companies to improve productivity by introducing new technology.	Dept. of Inland Revenue	Tax exemptions on profits
1.3 Five year tax holiday for companies engaged in agricultural activities other than cultivation of non-plantation agriculture.	1995-1997	To encourage investment in non-plantation agriculture	Dept. of Inland Revenue	Tax exemption on profits
1.4 Tax exemption of profits arising from: (a) Gems & jewellery (b) Entrepot trade.	1995-1997	Encouraging investors	Dept. of Inland Revenue	Tax exemption on export profits
1.5 Concessionary tax rate on dividends.	1995-1997	To expand the investment opportunities of export oriented companies by encouraging share holders.	Dept. of Inland Revenue	Tax concession
1.6 Turnover tax exemption on exports.	1995-1997	Give relief to exporters on domestic tax burden.	Dept. of Inland Revenue	Tax concession
1.7 Exemption of fiscal levies (export duty & turnover tax) on inputs.	1995-1997	Give opportunities to exporters to purchase raw materials at international prices.	Dept. of Customs	Duty concession

Subsidy programme	Period covered by the notification	Policy objectives	Background & authority for the subsidy	Form of subsidy
1.8 Exemption of fiscal levies on imported capital goods.	1995-1997	Encourage exporter to adopt new technologies.	Dept. of Customs	Duty concession
2. EDB ASSISTANCE				
2.1 Equity participation.	1995-1997	To help export oriented ventures to mobilize necessary funds from financial institutions.	Sri Lanka Export Development Board (SLEDB)	Redeemable preference shares, ordinary shares or a mix of both shares.
2.2 Assistance for pioneering export projects.	1995-1997	To support investment in products & services of a pioneering nature.	SLEDB	(a) Equity participation in the form of preference shares carrying a reduced coupon rate. (b) Part reimbursement of specified development expenditure by the EDB.
2.3 Assistance for manufacturing & processing exporters.	1995-1997	To increase export capability and export volume in the short term.	SLEDB	Loan
2.4 Financial assistance to small scale export oriented manufacturers & processors.	1995-1997	To assist small scale projects to develop as viable export ventures.	SLEDB	Loan
2.5 Working capital loans for small scale exporters who participate in EDB sponsored trade fairs and exhibitions.	1995-1997	To assist small and medium exporters to process export orders received as a result of their participation in trade fairs.	SLEDB	Loan

Subsidy programme	Period covered by the notification	Policy objectives	Background & authority for the subsidy	Form of subsidy
2.6 Assistance to financially ailing projects.	1995-1997	To provide assistance to revive export oriented projects.	SLEDB	Loan
2.7 Assistance for the establishment of diamond cutting projects.	1995-1997	To facilitate the establishment of new diamond cutting units by providing financial assistance.	SLEDB	Loan
2.8 Assistance to the handloom sector.	1995-1997	To increase the export of this rural based product.	SLEDB	Grant
2.9 Assistance to the gem & jewellery sector.	1995-1997	To develop the supply capability of the sector.	SLEDB	Loan
2.10 Assistance to the hi-tech electronic sector.	1995-1997	To encourage and assist exporters of hi-tech products.	SLEDB	Grant in the form of reimbursement.
2.11 Assistance scheme for manufacturing exporters of rubber products.	1995-1997	To encourage the export of rubber in value added form.	SLEDB	Rebate
2.12 Assistance to support the fruit & vegetable and flower/foilage sectors.	1995-1997	To encourage exporters and investors to undertake commercial production to link up with small producers and increase productivity and standard of living of small producers.	SLEDB	Loan

Subsidy programme	Period covered by the notification	Policy objectives	Background & authority for the subsidy	Form of subsidy
2.13 Assistance for value addition to spices, essential oils, cashews, herbs, papain, oils and pulses.	1995-1997	To provide part of the capital required for exporters/ producers to grow and process products for export in value added form.	SLEDB	Loan
2.14 Assistance to small/medium scale producers to increase the supply of finished coir products for exports.	1995-1997	To assist exporters to increase their supplies of high quality exportable coir products.	SLEDB	Loan
2.15 Assistance to exporters to open their own offices/sales outlets overseas.	1995-1997	To undertake export promotional/ marketing efforts more effectively.	SLEDB	Loan
2.16 Assistance to exporters/manufacturers for establishing a quality assurance system conforming to the ISO 9000 series of standards.	1995-1997	To encourage exporters/ manufacturers to establish quality assurance systems in their companies conforming to the ISO 9000 standards.	SLEDB	Loan
2.17 Assistance to participate in EDB sponsored trade fairs.	1995-1997	To assist exporters to promote their products in overseas markets.	SLEDB	Grant
2.18 Assistance for exporters own marketing efforts overseas.	1995-1997	To assist exporters on their own initiative to promote Sri Lankan products.	SLEDB	Grant

Subsidy programme	Period covered by the notification	Policy objectives	Background & authority for the subsidy	Form of subsidy
2.19 Grant scheme for non-quota garment factories set up under "200 Garment Factory Programme".	1995-1997	To promote investment in the remote areas of the country.	SLEDB	Grant

To whom & how the subsidy is provided	Subsidy per unit	Duration of the subsidy	Trade effects of the subsidy
To direct/indirect exporters of non-traditional products Services/concessionary tax on profits.	Cannot quantify. Only profit making companies enjoy the facility.	For 20 years commencing from 01.04.1995.	Most exporters do not enjoy high profits.
To direct/indirect exporters and other companies.	Cannot quantify.	For 5 years commencing from first year of assessment in which the business operates	Only profit making companies enjoy this facility introduced in 1995.
To direct/indirect exporters and other companies.	Exemption from income tax for 5 years on profits.	5 years tax holiday for firms which commenced business on or after 17.10.83.	Only profit making companies are enjoying this facility.
Direct exporters.	Cannot quantify.	Lifetime of the project.	Only profit making companies enjoy this facility.
Direct/indirect exporters. All dividends declared by an enterprise out of profits taxed at a low rate will be taxed in the hands of the share holders at the same tax rates.	Cannot quantify.	For 20 years commencing from 01.04.85.	Only profit making companies enjoy this facility.
To exporters To exemption at the point of export.	Cannot quantify.	Until further notice.	Relief to exporters.
To direct/indirect exporters. Duty & TT concession through 3 alternative schemes.	968 applications were approved in 1995. Total concessions: Rs 1 billion approx.	Until further notice.	Exporters were able to purchase inputs at international price.

To whom & how the subsidy is provided	Subsidy per unit	Duration of the subsidy	Trade effects of the subsidy
To exporters import duty & TT concessions 50% exemption if 50-90% is exported. 100% exemption if more than 90% of production is exported.	1,523 applications were approved. Total concessions Rs 400 million approx.	Until further notice.	Enable to improve productivity through new technology. Most exporters do not benefit as they do not export more than 50% of production.
Direct, indirect and potential exporters. Depending on the requirements of each project carrying an interest rate of 15% per annum and will not exceed 30% of the paid up capital in the project. Maximum assistance per project is Rs 1 million.	Maximum value of shares: Rs 1 million per project in 1995. 3 projects were assisted in 1995. EDB contribution Rs 5.5 million.	Commenced in 1981.	Minimal.
Direct/indirect/potential exporters. Total assistance available under the scheme is subjected to a maximum of Rs 1 million or 50% of the sponsor's equity contribution to the project, whichever is lower.	Maximum assistance: Rs 200,000 for pioneering idea status and Rs 1 million pioneering status. Number of projects approved in 1995 - 3. Total value of equity Rs 5.5 million.	Commenced in 1981 for a period of 3 years.	Minimal.
Direct/indirect/potential exporters. The EDB contribution limited to a maximum of Rs 1 million to at least 50% of the cost per project. The rate of interest is variable and is presently fixed at 10%.	In 1995, 9 projects were assisted. Total value of loans Rs 7,214,750.	Commenced in 1981.	Minimal.
Direct/indirect potential exporters. Assistance by the EDB will not exceed Rs 250,000 or 80% of the additional investment. The rate of interest is variable and is presently fixed at 6%.	Maximum loan amount Rs 250,000 per project. In 1995, 3 projects were assisted. Total value of loans Rs 938,000.	Commenced in 1984.	Minimal.

To whom & how the subsidy is provided	Subsidy per unit	Duration of the subsidy	Trade effects of the subsidy
Direct/indirect potential small & medium scale exporters. Up to a maximum of Rs 0.5 million on a case by case basis to execute orders received.	Maximum loan amount Rs 0.5 million per project. Number of projects approved in 1995 - 10. Total value of loans Rs 4.7 million.	Commenced in 1982.	Minimal.
Direct indirect exporters up to a maximum of Rs 0.5 million per project at 10% interest rate.	Maximum loan amount Rs 0.5 million per project. Number of projects approved in 1995 - 01. Total value of loan Rs 0.02 million.	Commenced in 1993.	Minimal.
Direct/indirect exporters. The contribution by EDB will be limited to a maximum of 3% of the projected turnover in the 3rd year of commercial operations. The rate of interest applicable is 10%.	No assistance was given in 1995.	Commenced on 20.08.1987.	Zero effect.
Exporters/indirect exporters. Compensatory payment of 20% of the f.o.b. value of exports effected from 01.01.81 to 31.12.86.	No of companies assisted in 1995 - 28. Total assistance - Rs 8.7 million.	Commenced on 1 January 1981.	Minimal.
Small & medium scale exporters. A loan not exceeding Rs 0.3 million for silversmiths, Rs 1.0 million for goldsmiths for technology development and training.	No assistance was given in 1995.	Commenced in August 1992.	Zero effect.
Direct exporters. A maximum of 3% of the f.o.b. value of the annual exports or Rs 30 million (whichever is lower) during the first year of commercial operation. Year after quantum of assistance will be limited to 3% of the incremental exports.	No assistance was given in 1995.	For a period of 5 years commencing from 01.04.94.	Zero effect.

To whom & how the subsidy is provided	Subsidy per unit	Duration of the subsidy	Trade effects of the subsidy
Direct exporters. A rebate from the funds collected from the excess of 50 cents per kg. of exports of raw rubber.	The payment based on the volume of raw rubber used by exporters for the particular period. Total payment in 1995 Rs 31.3 million.	Commenced in 1993.	Minimal.
Exporters/indirect exporters. Maximum of Rs 1.5 million per company to purchase agricultural inputs - contract growers Rs 5000 per 0.5 ha, per	Number of projects approved in 1995 - 14. Total loan amount paid Rs 14.4 million.	Commenced in 1994.	Minimal.
Direct/indirect exporters. Assistance to defray 50% of the product development and adaptation for the purpose of value addition. Maximum amount of loan is Rs 0.85 million.	2 projects were offered Rs 3 million.	Commenced 1994.	Minimal.
Direct/Indirect exporters. Assistance will be given for quality improvement, skill development etc.	3 exporters were assisted with Rs 3.30 million.	Commenced 1995.	Minimal.
Exporters. Assistance is limited to 55% of the expenditure incurred for the first year. Maximum loan amount is Rs 3.75 million.	1 company was assisted with Rs 2.6 million.		Minimal.
Direct/indirect exporters. <u>Assistance:</u> 1/3 of the cost incurred subject to a maximum of Rs 0.1 million per enterprise (large exporters). 75% of the cost incurred subject to Rs 0.15 per enterprise (SMEs). Payment will be made on a reimbursement basis.	No assistance was given in 1995.	Commenced in 1994.	Zero effect.
Exporters/potential exporters. By provision of stall space and assistance for air freight of samples.	14 trade fairs/exhibitions were organized in 1995. Total EDB assistance: Rs 97.9 million.		Minimal.