

GENERAL AGREEMENT ON

TARIFFS AND TRADE

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SUBSIDIES

Notifications Pursuant to Article XVI:1

TURKEY

The following complete notification concerning subsidies has been received from the Permanent Mission of Turkey.

EXPORT INCENTIVE PROGRAMME

The objective of the export incentive policy is to increase exports in accordance with the targets and guidelines laid down in the development plans. Like all developing countries, Turkey attaches great importance to the formulation and implementation of this policy.

The incentive measures applied in Turkey are appreciably different in purpose from the subsidies referred to by Article XVI:1 of the General Agreement. As may be seen from the description below of the principle incentive measures currently in force, the main objective is to eliminate in part, if not entirely, the adverse effects of high domestic inflation and the shortage and high cost of financing measures.

Incentive measures and guidelines for Turkey's exports are established in export incentive decrees which are published each year after having been examined by the Council of Ministers.

The Export Incentive Decree and Communiqué for 1987 entered into force after having been published in Official Gazette No. 19298 of 1 December 1986.

The Department for Incentive Measures and Implementation (TUB) of the Under-Secretariat for Planning has overall responsibility for implementation and supervision of the incentive programme in Turkey. The Ministry of Finance and Customs, the Under-Secretariat for the Treasury and Foreign Trade and the Central Bank of the Turkish Republic likewise have certain functions in this area.

Incentive measures can be grouped under the following headings:

- Export rediscount credit
- Payments from the Price Support and Stabilization Fund
- Tax rebate applications
- Corporate tax exemption

1. Export rediscount credit

(a) Background and authority

Communiqué No. 1 of the Central Bank of the Turkish Republic, published in Official Gazette No. 19287 of 20 November 1986, established the nature and conditions of export rediscount credit. This credit is designed to meet the financial needs of exporters in order to achieve the export level laid down in the Programme for 1987, aimed at achieving the growth rate with a minimum of foreign credit.

(b) Incidence

This credit is granted to exporters having achieved a minimum export value of \$5 million in the three consecutive calendar years immediately preceding the date of the loan, with a minimum value of \$1 million in each of those calendar years and to exporters who can show, by presenting the relevant documents, that they are in the process of collecting payment for their exports, without any minimum level of exports. Accordingly, this credit is mainly intended for experienced exporters.

For exporters who apply on the basis of their exports in the three most recent consecutive years, the duration of the loan is four months and its amount equivalent to 25 per cent of the counterpart in Turkish currency of export commitments entered into. For exporters at the stage of collecting payment for their exports, the duration is forty-five days and the amount equivalent to 50 per cent of the f.o.b. value in Turkish currency recorded in the relevant documents. The loan is reimbursed by withholding from export earnings. The export rediscount credit carries an interest rate of 38 per cent.

(c) Amount of subsidy

Since this measure is still in the early stages of implementation, it is not possible to determine the amount of credit granted.

(d) Effect of subsidy

It is very difficult to evaluate the effects of this type of credit. The objective is to offset the negative impact on exports of the high rate of domestic inflation.

2. Payments from the Price Support and Stabilization Fund

(a) Background and authority

Communiqué No. 86/23 of the Monetary and Credit Council, dated 3 December 1986, established the nature and conditions for payments from the Price Support and Stabilization Fund. These payments, which are made by the Central Bank of the Turkish Republic on the basis of weight, length or unit according to the characteristics of certain exported products, are designed to restore the competitiveness on foreign markets of products with satisfactory potential, exports of which were declining in 1986 in relation to 1985.

(b) Incidence

The amounts paid in respect of products included in the official list are determined by the Under-Secretariat for Planning; no account is taken of the share corresponding to inputs imported under an export incentive certificate.

(c) Amount of subsidy

Since this measure was only introduced recently, it is not possible to determine the amounts paid out of the Fund.

(d) Effect of subsidy

It is still difficult to calculate the effects of this measure, which is designed to offset the negative effects of scarce and costly domestic financing sources and to safeguard the competitive position of these products in foreign markets.

3. Tax rebate applications

The tax rebate system for exports is based on the following principle: all or part of the tax burden incorporated in exports during the production process is repaid to the exporter. This rebate, which essentially concerns indirect taxes on export goods produced in Turkey, has the effect of improving the competitive position of the exporter in the world market.

The Decree on the tax rebate on exports was adopted on 28 November 1986 by the Council of Ministers in pursuance of the Decree of 27 June 1963 on the tax rebate on exports, Article I of Law No. 261 of 18 July 1967 on the tax rebate on exports and Articles 3(c), 4 and 13 of Law No. 933.

In practice, the full tax rebate is not paid on all exports. The main principles covering rebates are the following:

- (i) The rebate is not granted on products which are already sufficiently competitive.
- (ii) If a partial rebate suffices to make the product equally competitive, the rate of rebate is adjusted accordingly.
- (iii) If a full tax rebate is necessary to make the product equally competitive, the rebate is determined accordingly.

In addition to the TUB, various services of the Customs Administration and the Central Bank of the Turkish Republic also intervene in the rebate system.

(b) Incidence

The products eligible for rebates, the list of which is drawn up by the TUB, are in four categories with rebates at rates ranging from 0 to 8 per cent. Additional progressive rebates of up to 6 per cent can be granted to firms the value of whose exports exceeds certain limits within the calendar year.

(c) Amount of tax rebate

Tax rebates on exports granted for the years 1984, 1985 and 1986 are shown below.

<u>Tax Rebates on Exports</u> (in LT million)		
<u>1984</u>	<u>1985</u>	<u>1986</u> [*]
329,057	287,238	258,882

As may be seen from the above table, the amount of tax rebates has declined over the last three years from LT 329,057 million in 1984 to LT 287,238 million in 1985 and LT 258,882 million in 1986.

(d) Effect of the subsidy

No clear relationship can be seen between developments and/or changes in the rate of tax rebates and the value of exports, since the rebates are designed to ease the tax incidence and increase competitiveness on the world market.

* Estimate in the Programme for 1986

4. Corporate tax exemption

(a) Background and authority

The corporate tax exemption system, established under Law No. 5422, was amended in 1981 by Law No. 2573 which simplified the system and made provision for a given percentage to be deducted from corporate income.

This exemption system was granted only to companies (in particular limited companies) and not to businesses operated by individuals. It was therefore mainly designed to encourage exports through companies and "institutionalize" the process.

(b) Incidence

The exemption applies to industrial products, fresh fruit and vegetables, aquatic export products as well as to foreign exchange earnings in respect of freight and foreign exchange earnings of specified tourist establishments.

In practice, 20 per cent of export earnings is declared non-taxable. In the case of companies which do not produce export products themselves, the rate is 5 per cent.

(c) Amount of subsidy

Since the legislation on corporate tax exemption also covers such other export areas as social and cultural activities, it is difficult to evaluate the amounts eligible for exemption.

(d) Effect of subsidy

Since corporate tax is levied indirectly on income, it is impossible to determine the effect of the exemptions.