

GENERAL AGREEMENT ON

RESTRICTED

TARIFFS AND TRADE

SCM/W/188
26 April 1989

Special Distribution

Committee on Subsidies and
Countervailing Measures

Original: English

REPLIES BY THE REPUBLIC OF KOREA TO THE QUESTIONS
RAISED BY THE UNITED STATES ON THE NOTIFICATIONS OF SUBSIDIES
UNDER ARTICLE XVI:1 OF THE GENERAL AGREEMENT¹

a) Under this program, banks have been in search of promising small-and medium-sized enterprises. The purpose is not to give them otherwise not available special preference, but rather to establish practical and objective criteria to be used when these banks make loan-related decisions. Therefore, it might be said that selected enterprises will have a relatively easier time getting loans from banks. Naturally, firms which are sound and promising deserve to have easier access to loans.

However, preferential interest rates on loans to promising small and medium size firms are not available. Actual interest rates of these loans are established by banks through their own analysis based upon the credit grade of the firm. Hence, in our opinion, no subsidy is granted by the government.

b) The textiles industry had expanded rapidly and extensively due to low labour cost over the past two decades. Today, the industry's production facilities, which utilize outdated equipment, face an excess capacity situation. Skilled, low cost labour is no longer available.

Accordingly, the industry has made a lot of effort to adjust to the changing circumstances. Recently, the government has decided to help the industry decrease its size, replace worn-out facilities and develop higher technology through a fund program for the structural readjustment of the industry.

However, no case to support the development of fashion, the diversification of export markets, or overseas investment has yet been reported.

c) Our drawback system is based upon and operated according to the principles of Kyoto Convention (International Convention on the Simplification and Harmonization of Customs Procedures) Annex E.4. concerning drawback. In addition, Korea, as a contracting party to the GATT Subsidies Code, respects and observes the obligations under the Code.

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¹The notification of subsidies by Korea has been circulated in L/6111/Add.12; questions on this notification by the United States appear in document SCM/W/162, page 3.

Thus a drawback of import charges levied on raw materials not physically incorporated is prohibited. However from a practical viewpoint, it might be technically very difficult to determine whether a specific raw material is physically incorporated or not. This makes certain items very controversial in terms of their physical incorporation.

As you mentioned, the Emory Powder and Chromic Oxide in Cooking Ware case were controversial. We have decided to delete these items from the duty-drawback table concerned since October 1987. We are pleased to inform you that we are willing to revise the duty-drawback tables if any raw materials in question are proved to be non-physically incorporated.