

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

RESTRICTED

L/6630/Add.14

4 March 1991

Limited Distribution

SUBSIDIES

Notifications Pursuant to Article XVI:1

SWEDEN

The following new notification regarding industrial subsidies has been received from the Delegation of Sweden.

NOTIFICATION OF SUBSIDIES - INDUSTRY

For the purpose of the following notification, aid to industry is defined as a financial transfer from public sources to the mining and manufacturing industry (SITC 2 and 3) made without the recipient providing any current service in return. Financial transfers include amounts directly paid out from public funds to enterprises as well as revenue foregone in the form of tax concessions. A tax concession is any deviation from the general national tax norm which produce a favourable tax treatment of particular activities or groups of firms.

The description of the various aid schemes follow the outline suggested by GATT. However, estimates of the effects of aid, i.e. on trade, are not available.

The quantitative information is based on the net cost to government method. This method is described in the appendix.

1. Firm-specific aid

The Swedish Government has strongly emphasized the need for positive adjustment and has declared that support to ailing industries should be avoided. Such aid has not been granted since 1983. A major restructuring has occurred in the 1980s in industries with structural problems, e.g., the shipbuilding industry and the steel industry. In this process, the major shipyards were closed and the production of large merchant ships ceased. Employment in shipbuilding decreased from 31,500 people in 1975 to 4,500 at present. In the steel industry employment has been reduced by 50 per cent since the mid seventies. This policy has led to a marked reduction in firm-specific aid.

The net costs (see Appendix) of firm-specific aid shown in table 1 below reflect previous commitments, i.e. imputed capital costs on previous loans or equity injections and write-offs of loans. Aid in the form of actual transfers of funds from the State did not occur during the period.

Table 1

Fiscal year	1987/88	1988/89	1989/90
Total firm-specific aid	829	638	504

2. Sectoral aids

Aid schemes for specific industries have been set up in order to promote restructuring of certain industries. At present there are such programmes for the textile and clothing industry and the wood products industry.

Wage subsidies for elderly employees in the textile and clothing industry

The scheme was terminated as from 1 January 1990.

Write-off loans for the textile and clothing industry

The objective of the scheme is to promote structural rationalization of the clothing industry. The scheme will be terminated as from 1 July 1992. The basic legal provisions are laid down in SFS 1981:660, SFS 1983:129 and 664.

The aid is in the form of write-off loans available for firms in the clothing industry. Support is given for investment intended to rationalize and restructure production. The loans normally cover 40 per cent of the investment. No interest is charged and the loan is written off in between one to five years.

Adjustment aid

The objective of the scheme is to promote adjustment in certain industries with structural problems. The basic legal provisions are laid down in the directions for the use of the appropriations (regleringsbrev).

The aid is available for individual firms or groups of firms in the textile and clothing industry and the wood products industry. Support is in the form of a grant to cover a portion of the costs for consultancy studies, e.g. market surveys, studies of technical and administrative rationalization. The aided portion is normally 30 per cent.

Subsidization of interest rates for shipyards

The scheme was terminated as from 1 January 1990.

Credit guarantees for ships under construction

The scheme was terminated as from 1 January 1990.

Table 2

Sectoral aids. Net cost to Government. SEK million

Fiscal year	1987/88	1988/89	1989/90
Wage subsidies for elderly employees in the textile and clothing industry	114	86	28
Write-off loans for the textile and clothing industry	18	22	21
Adjustment aid	34	31	30
Subsidization of interest rates for shipyards	200	207	165
Credit guarantees for ships	13	844	-196 ^{1/}
TOTAL	379	1,190	48

^{1/} Negative net costs because premiums and recoveries exceeded claims paid.

3. Support for technical research and development

The Government aid to promote technical research and development is mainly granted to universities, colleges and collective research institutes. Support for R&D to firms is mainly channelled through the National Board for Technical Development (STU) and the Swedish Industrial Development Fund. Furthermore there has been a number of temporary programmes intended to promote technical development within certain areas, e.g. micro-electronic technology, information technology and ocean technology.

Support for R&D through STU

(a) Background and authority

The objective of the aid administered by the National Board for Technical Development is to promote technical R&D. Support is mainly granted to universities and research institutes. In 1989/90 18 per cent of the total aid granted went to firms. The legal provisions are laid down in SFS 1980:473 (Förordning om ändring av förordningen/1978:571/ om

statligt stöd till teknisk forskning, industriellt utvecklingsarbete och uppfinnarverksamhet) and SFS 1987:907 (Förordning om ändring av förordningen/1979:113/ med instruktion för styrelsen för teknisk utveckling).

(b) Incidence

Support to firms is given to pre-competitive R&D. The aid is generally available, without restrictions with regard to firm size, industry or location. However, the STU should concentrate its support to small and medium-sized enterprises. The aid is in the form of a loan with conditional repayment. The loan can cover up to 50 per cent of the costs for R&D. Repayment, including market interest, is required if a project becomes commercially successful.

(c) Amount of subsidy

See table 3. The figures include aid to firms and to collective research (e.g. carried out by sector research institutes).

(d) Estimated amount per unit

The support is granted to a great variety of activities and recipients and cannot be broken down per unit.

The Swedish Industrial Development Fund

(a) Background and authority

The Swedish Industrial Development Fund is a public foundation. Its main objective is to promote the development of new products, processes and systems for industrial production. The capital of the Fund amounted SEK 795 million in 1989. The legal provisions are laid down in SFS 1979:630, SFS 1980:470 and 1983:174 (Förordningar för stöd genom Fondens för industriellt utvecklingsarbete).

(b) Incidence

The Fund concentrates on support to small and medium-sized companies. Otherwise the aid is generally available. Support can be given in the form of grants, loans with conditional repayment or guarantees. Grants are repaid in the form of royalties on sales in case the project becomes commercially successful.

(c) Amount of subsidy

The net cost of the aid granted by the Fund during 1988/87-1989/90 is shown in table 3.

(d) Estimated amount per unit

Maximum project size is SEK 100 million. Minimum size is SEK 5 million.

Promotion of micro-electronic technology and information technology

(a) Background and authority

The National and Micro-electronic Programme (NMP) and the National Information Technology Programme (NITP) are two temporary programmes intended to promote the development and application of technology in these fields. The NMP was in effect during 1983/84-1988/89. In 1987 the broader NITP was launched as a complement to run until the end of 1990, with projects scheduled to be completed by 1992.

The legal provisions are laid down in the following government bills: 1983/84:8, 1983/84:135 and 1986/87:74.

(b) Incidence

The NITP supports information technology and micro-electronics applications and systems engineering. Most NITP-funds are directed at industrial "pre-competitive research".

(c) Amount of subsidy

The total cost of the NMP amounted to SEK 720 million, of which SEK 555 million was funded by the Government and some SEK 165 million by the industry. The total cost of the NITP amounts to SEK 1,100 million, of which SEK 615 million is Government funds and SEK 485 million private funds. The net cost to Government during 1987/88-1989/90 is shown in table 3.

Support for energy research

(a) Background and authority

The objective of the scheme is to promote technical development and inventions in the energy field. The support focuses on development projects concerning energy use in industrial processes, the use of alternative motor fuels, and alternative propulsion systems. The legal provisions are laid down in SFS 1987:819 (Förordning om statligt stöd till energiforskning).

(b) Incidence

The support is in the form of a loan with conditional repayment. The rate of award is normally up to 50 per cent of development costs up to the prototype or pilot plant stage. The loan including interest is repayable only if the project is successful.

(c) Amount of subsidy

See table 3.

The Fund for Energy Technology(a) Background and authority

The objective of the scheme is to develop commercial introduction of new energy technologies and new technologies for environmental protection. The legal provisions are laid down in SFS 1988:805 (Förordning om statligt stöd ur energiteknikfonden, mm).

(b) Incidence

Aid is granted to the development, testing and demonstration of new techniques in the form of test plants, pilot projects, full scale plants, etc. The support is normally given to the user of the new technique. Aid is in the form of grants, grants with conditional repayment and guarantees. The total amount of award must not exceed 50 per cent of the investment.

(c) Amount of subsidy

See table 3.

Other R&D programmes(a) Background and authority

In addition to the major programmes intended to promote technical R&D mentioned above, a number of smaller R&D programmes have been in effect during the period 1987/88-1989/90, i.e. the programme for FMS-technology, the programme for ocean technology and the support for procurement. These programmes have been terminated (the programme for ocean technology as from 1 July 1989, and support for procurement and the programme for FMS-technology as from 1 July 1990).

Table 3

Support for technical development. Net cost to Government. SEK million.

Fiscal year	1987/88	1988/89	1989/90
Support for R&D through STU	383	412	387
The Swedish Industrial Development Fund	58	55	82
Promotion of micro-electronic technology and information technology	52	81	139
Support for energy research	42	33	35
The Fund for Energy-technology	-	-	46
Other R&D programmes	15	11	13
TOTAL	550	592	702

4. Regional support

The main objective of Swedish regional policy is to promote equal distribution of welfare between citizens in different parts of the country, e.g. to ensure availability of employment opportunities, service facilities, etc.

When selecting regions eligible for aid, quantitative as well as qualitative factors are taken into account. Among the quantitative factors are the unemployment rate, the trend and structure of unemployment and recent demographic trends. Among the qualitative factors are population density, distance to markets and climate.

There are two regional development areas, Area 1 and Area 2. The former covers regions with the severest problems. The two regional development areas cover about 8 per cent of the population.

In order to relocate firms in the private service sector from the Stockholm region, support may also be given to towns close to the regional development areas. Moreover, in exceptional cases, the Government may grant support outside the permanent regional development areas for a limited period of time if disruption on the local labour market has occurred or is anticipated, e.g. due to closures of firms.

Promotion of regional development is mainly in the form of measures to develop firms, infrastructure, education, etc., in order to improve the basic conditions for economic growth. The major schemes for aid to firms are the location grant, the employment grant, the transport grant and the reduction of the social security contribution.

Location grant

(a) Background and authority

The objective of the scheme is to promote the creation of new jobs through expansion of new and existing firms in the regional development areas. The aid is in the form of a grant available for investment in machinery and buildings. Until 1 July 1990 there was also a location loan. The legal provisions are laid down in SFS 1990:642 (Förordning om regionalpolitiskt företagsstöd).

(b) Incidence

Location support is available to all firms in the regional development areas. About 75 per cent of the firms receiving aid employ less than twenty people. The grant must not exceed 35 per cent of the investment in Area 1 and 20 per cent in Area 2.

(c) Amount of subsidy

See table 4.

Employment grant

(a) Background and authority

The objective of the scheme is to compensate firms for certain costs associated with the expansion of manpower in the regional development areas, e.g. costs for vocational training due to shortage of qualified manpower. The legal provisions are laid down in SFS 1990:642 (Förordning om regionalpolitiskt företagsstöd).

(b) Incidence

The employment grant is available to all firms in the regional development areas. The aid is in the form of a grant for each additional full-time employee taken on by a firm. The aid is granted for a period of five years. The total amount of aid per employee is SEK 200,000 in Area 1 and SEK 120,000 in Area 2.

(c) Amount of subsidy

See table 4.

Transport grant

(a) Background and authority

The objective of the scheme is to compensate firms in remote locations for disadvantages due to high transportation expenses. The legal provisions are laid down in SFS 1980:803 (Förordning om regionalpolitiskt transportstöd).

(b) Incidence

The aid is in the form of a grant available to firms in a certain area designated for the transport grant. This area does not completely correspond to the regional development areas. The grant covers 10-50 per cent of the costs for transport of goods to and from the assisted area provided the distance exceeds 250 kilometres. Certain products are not eligible, e.g. paper, paper pulp, metals, certain steel products and iron ore.

(c) Amount of subsidy

See table 4.

Reduction of the social security contribution

(a) Background and authority

The objective is to stimulate employment in the northern parts of the country. The legal provisions are laid down in SFS 1990:912 (Lag om nedsättning av socialavgifter och allmän löneavgift) and SFS 1990:983 (Förordning om nedsättning av socialavgifter och allmän löneavgift).

(b) Incidence

As from 1 January 1991 the reduction of the social security contribution is reduced by 10 percentage points in regional development Area 1 for a period of ten years. In those parts of the county of Norrbotten which are not included in Area 1, the reduction will be 5 percentage points for a period of five years. The reduction does not apply to certain industries, i.e. iron-ore mining, the pulp and paper industry, and the iron and steel industry.

(c) Amount of subsidy

See table 4. The figures in the table are estimates of the revenues foregone due to the reduction.

The Fund for Northern Sweden

(a) Background and authority

The Fund for Northern Sweden is a public foundation. The aim of the fund is to promote the development of primarily small and medium-sized firms in the four northernmost counties of Sweden. The Fund's activity is regulated by statutes established by the State.

(b) Incidence

The aid, primarily in the form of loans, is available for firms in the counties of Norrbotten, Västerbotten, Jämtland and Västernorrland. Eligible activities are establishment of new firms, expansion of existing firms and R&D costs. The terms vary according to the project concerned.

(c) Amount of aid

See table 4.

Other regional support schemes

In addition to the aids mentioned above there are a number of schemes, e.g. to promote employment in sparsely populated areas, support for various regional projects aimed at stimulating application of technologies, development of tourism and improvement of education. These aids are given to small-scale projects and are primarily granted to very small companies.

Table 4

Regional support. Net cost to government. SEK million

Fiscal year	1987/88	1988/89	1989/90
Location support	470	897	722
Employment grant	224	238	236
Transport grant	242	268	304
The Fund for Northern Sweden	28	29	48
Other support	45	96	100
TOTAL	1,009	1,528	1,410

5. Aid to small firms

The Regional Development Funds and the Small Business Fund are institutions set up to promote the development of small and medium-sized enterprises (generally defined as employing less than 200 employees) and promote the formation of new companies. It shall be noted, however, that a number of other schemes are primarily intended for small firms, e.g. the Swedish Industrial Development Fund and the Fund for Northern Sweden.

The Regional Development Funds

(a) Background and authority

The Regional Development Funds are public foundations established in each of the twenty-four counties of Sweden. The Funds provide financing as well as counselling for small and medium-sized enterprises. The legal provisions are laid down in SFS 1987:894 (Förordning om statlig finansiering genom regional utvecklingsfond) and SFS 1990:982 (Förordning om ändring av förordningen/1987:894/ om statlig finansiering genom regional utvecklingsfond).

(b) Incidence

The total capital of the Regional Development Funds is approximately SEK 2.5 billion. The Funds annually grant some 2,000 loans amounting to approximately SEK 550 million. The Funds may also offer guarantees for ordinary bank loans. The Funds have discretion in respect of the terms of the loans, i.e. the rate of interest, duration and repayment holidays. But the financing should be on commercial terms and should be guided by the principles of "a good yield, long-term placements and risk-spread".

(c) Amount of subsidy

See table 5.

The Small Business Fund

(a) Background and authority

The Small Business Fund was set up in 1984 as a public foundation. The primary objective of the Fund is to finance investment companies who in turn acquire stock in smaller companies not registered at the Stockholm Stock Exchange. The Fund is free to make other placements too, however. The total capital of the Fund is SEK 200 million. The statutes of the Fund are established by the State.

(b) Incidence

At the end of 1989 the Small Business Fund held shares in some 20 companies, most of them regional investment companies.

(c) Amount of subsidy

See table 5.

Table 5

Aid to small firms. Net cost to government. SEK million

Fiscal year	1987/88	1988/89	1989/90
Regional Development Funds	129	124	144
The Small Business Fund	21	20	19
TOTAL	150	144	163

6. Support for employment and training

Labour market support is generally given to individuals. There are, however, some aid schemes intended for companies, i.e. support for vocational training and recruitment aid.

Support is also given to companies who employ disabled persons in order to compensate them for additional costs when employing people whose capacity to work is reduced, or, for special equipment needed, e.g. by disabled persons. Such support is not considered as aid and is not included in this notification.

Support for vocational training

(a) Background and authority

The objective of the scheme is to avoid disruption in the production due to lack of skilled workers, to avoid lay-offs of workers and to support workers in danger of being unemployed. The legal provisions are laid down in SFS 1984:518 (Förordning om bidrag till arbetsmarknadsutbildning i företag).

(b) Incidence

The scheme is available for all firms regardless of industry. The aid is in the form of a grant. The grant is limited to SEK 35 per hour. The maximum number of hours varies depending on the type of profession.

(c) Amount of subsidy

See table 6.

Recruitment grant

(a) Background and authority

The objective of the scheme is to promote employment mainly of the long-term unemployed and people who have difficulties to get and stay in a job, e.g. due to social problems.

(b) Incidence

The scheme is available to all firms regardless of industry. The aid is in the form of a grant that covers 50 per cent of the total wage cost of the new entrant for a certain period. The duration of the aid is limited to 6 months for long-term unemployed persons and 3 months for persons who have difficulties to get a job for other reasons.

(c) Amount of subsidy

See table 6.

Table 6

Support for employment and training. Net cost to government.
SEK million

Fiscal year	1987/88	1988/89	1989/90
Support for vocational training etc.	118	140	132
Recruitment aid	357	363	240
TOTAL	475	503	372

7. Export promotion

Support for exports fall into two distinct groups. First, there are support for the finance and guaranteeing of exports. Second, there are support that do not involve the financing of exports, but aim to help businessmen to open up or extend their export markets. The latter are: General export promotion, Support for exports of industrial projects and systems and Export promotion in certain industries.

State supported export credits

(a) Background and authority

The Swedish system of state supported export credits is in conformity with the OECD Arrangement on Guidelines for Officially Supported Credits.

(b) Incidence

The scheme is available for exports of capital goods and/or services to countries in the third world and Eastern Europe. The interest rates are at least 0.25-2.25 percentage points above the minimum interest rates of the OECD Arrangement.

(c) Amount of subsidy

See table 7.

Export credit guarantees

(a) Background and authority

The Swedish Export Credits Guarantee Board is a government agency that issues guarantees in the form of insurance against certain types of losses arising from the failure of an importer to pay his debt to the Swedish exporter. The guarantees cover losses arising from commercial and/or political events. The terms of the scheme are based on international agreements and recommendations, e.g. in the OECD and the Berne Union. The guarantee system should in principle be self-supporting.

(b) Incidence

The guarantees are primarily used for exports of capital goods to countries in the third world and Eastern Europe. The premiums are normally based on the credit amount insured, the credit period and the commercial and/or political risk.

(c) Amount of subsidy

See table 7.

General export promotion

(a) Background and authority

The Swedish Trade Council is the central organization of export promotion measures for Swedish companies. It is founded on an agreement which states equal participation from the government and the industry. The activities of the Trade Council are partly financed by the State, partly by the firms subscribing to its services. In the fiscal year 1989/90 the total grant from the State amounted to SEK 232 million. A large part of this sum was used to finance the export promotion activities by the trade offices and the embassies abroad.

Certain general information and advice is provided free of charge. Furthermore, a package of assistance is provided in the form of grants with respect to expenditure on joint export promotion activities. More specific consultancy, e.g. market investigations for specific products, is provided against a fee.

(b) Incidence

The services of the Trade Council are available for all firms regardless of industry. The rates of grant varies with respect to the type of service provided. Normally the government grant covers 40 per cent of the costs and the participating firm 60 per cent.

(c) Amount of subsidy

See table 7.

Support for exports of industrial projects and systems

(a) Background and authority

The objective of the scheme is to promote participation by Swedish firms in large scale investment projects offered in developing countries. The aid is in the form of a guarantee for precontractual expenses. The legal provisions are included in Government Bills 1978/79:123 and 1983/84:100.

(b) Incidence

The scheme is available for exporters of manufactured products, building contractors and consultants. The guarantee may cover up to 35 per cent of the costs of making a bid or a feasibility study. The guarantee is paid out if the tender is rejected.

(c) Amount of subsidy

See table 7.

Export promotion in certain industries

(a) Background and authority

The objective of the scheme is to promote exports in certain industries with structural problems.

(b) Incidence

The scheme is available for groups of firms in the textile and clothing industry and the wood products industry. The aid is in the form of a grant for sales promotion activities abroad. Aid can also be given to cover costs for services provided by the Swedish trade offices abroad. The grant may cover up to 50 per cent of eligible costs in the textile and clothing industry and 60-65 per cent in the wood products industry.

(c) Amount of subsidy

See table 7.

Table 7

Export promotion. Net cost to government. SEK million

Fiscal year	1987/88	1988/89	1989/90
State supported export credits	464	71	64
Export credit guarantees	473	166	257
General export promotion	100	122	129
Support for exports of industrial projects and systems	25	27	19
Export promotion in certain industries	55	42	38
TOTAL	1,117	429	506

APPENDIX

The net cost method

The net cost method is a way to weigh various types of aids, i.e. grants, loans, guarantees and equity injections, into a consistent measure of subsidies. The measure is used in surveys of industrial aid in EFTA and the OECD.

Net costs are calculated as follows:

Grants: actual amounts paid out minus repayments and royalties if any.

Guarantees: claims paid minus fees received and recoveries.

Loans: estimated capital cost based on the difference between the government borrowing rate and actual interest payments received.

Equity capital: estimated capital cost based on the government borrowing rate and dividends received.

Tax concessions: estimates of revenue foregone.

It should be noted that the concept of net cost does not correspond to the actual transfer of funds from the government to firms in any given year. On the contrary, since imputed capital costs on previous loans and equity injections are included, the net cost figures to a certain extent reflect past policies. This means that the net cost of government aid cannot be used as a measure of the subsidy effect, i.e. the benefit to the recipient, in any given year. However, the net cost method is a useful instrument to assess the costs of government aid over a period of time.