

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

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SUBSIDIES

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SWEDEN

The following notification, dated 28 December 1993, has been received from the Permanent Mission of Sweden.

SUBSIDIES TO INDUSTRY

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1. INTRODUCTION

1.1 Method and scope of the notification

For the purpose of this notification, government aid is a transfer of public funds to the recipient. Such a transfer may include amounts directly paid out from public sources 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 that produces a favourable tax treatment of particular activities or groups of firms. Aids granted under schemes which are fully paid for by the beneficiaries are not considered as government aid. Furthermore, the following measures are not considered as government aid:

- Credits and loans from public sources according to current market conditions;
- Guarantees given by the government or government agencies, if the premiums cover the long-term cost of the scheme; and
- Equity injections from public sources on terms acceptable to an investor operating under normal market conditions.

In Sweden local governments are in principle prohibited by law to grant aid to enterprises. The budget of the central government is the only source of aid to industry. However, administration of aid programmes funded by the central government may take place at the local level.

The notification covers aid to the mining and manufacturing industry (SITC 2 and 3).

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

The quantitative information is based on the net cost to government method. This approach is used among other things in the EFTA Annual Report on State Aid and by the OECD in its "Subsidies and Structural Adjustment" project. The method is described in the appendix. The most recent figures available refer to the fiscal year 1991/1992.

Since the previous Swedish notification of subsidies, a number of programmes have been discontinued. These programmes are:

- Write-off loans for the textile industry (as of 1 July 1992)

- Adjustment aid (as of 1 July 1992)
- Export promotion for certain industries (as of 1 July 1992)
- Support for exports of industrial projects and systems (as of 1 July 1992)
- Aid to financing of ships, cash support (as of 1 July 1993)

The programmes that were in effect 1 July 1993 are reported in the notification.

1.2 The objectives of Swedish industrial policy

Swedish industrial policy is based on the principle that the allocation of productive resources is determined by the market forces. The government defines the legal and administrative framework for the economic agents, but refrains from direct intervention in industry. The objective of industrial policy is to improve the business climate with general measures. Improvement of the functioning of the markets and correction of specific market flaws, e.g. to prevent monopoly and enforce property rights, counter R&D or training externalities, and to provide the necessary infra-structure, are important issues. More specifically the main areas of industrial policy are: deregulation and strengthening of competition, privatization of state-owned companies, promotion of industrial research and development and diffusion of new technology, stimulation of small enterprises, and securing the short and long term supply of energy on internationally competitive terms.

State aid to industry has been cut down considerably in the 1980's. All forms of firm specific aid have been eliminated. Sector specific aid has also been put out of effect. The government has declared that financial aid to enterprises should be minimized. To the extent such measures still may be justified, aid should be granted within the framework of horizontal schemes, i.e. programmes that are available to all firms regardless of sector.

2. SUPPORT FOR TECHNICAL RESEARCH AND DEVELOPMENT

2.1 Support for R&D through NUTEK

(a) Background and authority

The National Board for Industrial and Technical Development (NUTEK), is a government agency which among other tasks administers most of the government support to technical R&D. Support is granted to universities, technological research institutes, co-operative research institutes (i.e. institutes financed jointly by government and industry) and to individual firms and inventors.

The legal provisions are laid down in the following Governmental ordinances: 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

All firms, regardless of industry, are eligible. However, the support is focused on small firms and individual innovators. The support to firms and individual inventors is in the form of loans with conditional repayment. A loan can cover up to 50 per cent of the costs of a project. Repayment,

including market interest rate, is required if a project becomes commercially successful. The duration and other terms of the loan are dependent on the objective of the loan and various economic factors.

(c) Amount of subsidy

Net cost (SEK million): 1989/90: 115, 1990/91: 113, 1991/92: 117

(d) Estimated amount per unit

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

2.2 The fund for industry and new business

(a) Background and authority

The fund for industry and new business is a public foundation. Its main objectives are to promote the development of new products, processes and systems for industrial production as well as to promote start-ups. The capital of the Fund amounted to SEK 1.250 million as of July 1992 and will amount to SEK 2.400 million in the end of 1993.

The legal provisions are laid down in the Governmental ordinance SFS 1993: 31 (Förordning om stöd genom Industri- och nyföretagarfonden).

(b) Incidence

Project financing: The Fund concentrates on support to small and medium-sized companies. There are no restrictions regarding industry or location. To be eligible for support, a project must involve a substantial risk, but have a compensating potential to become commercially successful. Financing through standard market sources shall not be available. Support is in the form of capital against royalty, loans with conditional repayment or guarantees. Grants are repayable in the form of royalties on sales when projects become commercially successful. The maximum amount of an award cannot exceed 50 per cent of the costs of a project.

Equity loan to start-up companies: The equity loan to start-ups is either a personal loan made out to the entrepreneur (injected into the company as restricted equity) or a risk-carrying (unsecured) debenture loan to the company. Maximum is 30 per cent of the amount of financing, but minimum SEK 100,000 and maximum SEK 1 million. The loan runs for 15 years and is instalment-free during the first five years. The loan is interest-free for two years, reduced interest for three years; from the sixth year market interest is paid. Repayment starts the sixth year. An opening charge of 2 per cent on granted loans is payable and is deducted when the loan is paid. Security is not necessary. **Supplementary loan:** If a company which has been granted a loan for a new company requires further financing a supplementary loan may be granted but only if there is good reason and if an application is received by the fund within three years of the loan for a new company being granted.

Authorized applicants are private persons or companies. The applicant has to contribute at least 10 per cent of the capital. The minimum value is approximately SEK 0.35 million in capital requirements. All sorts of businesses are eligible.

(c) Amount of subsidy

Net cost (SEK million): 1989/90: 84, 1990/91: 77, 1991/92: 59

2.3 Energy research programme

(a) Background and authority

The objective of the programme is to establish fundamental competence and expertise, to facilitate the conversion of the Swedish energy system from the use of nuclear power to alternative renewable sources of energy and to enhance the awareness of the climatic and environmental effects of energy systems. The emphasis of the programme is long-term, i.e. on technology that can be expected to be implemented beyond the year 2000.

The legal provisions are laid down in the Government ordinance SFS 1987: 819 (Förordningen om statligt stöd till energiforskning).

(b) Incidence

Support is granted to universities, institutes of technology, co-operative research institutes (i.e. institutes financed jointly by the government and industry) and to firms. However, aid to firms accounts for minor portion (about 15 per cent) of the expenditure, and is mainly in the form of loans with conditional repayment.

(c) Amount of subsidy

Net cost (SEK million): 1989/90: 35, 1990/91: 24, 1991/92: 24

(d) Estimated amount per unit

Support is granted to a variety of projects and cannot be broken down per unit.

2.4 The fund for energy technology

(a) Background and authority

The Fund for Energy Technology supports research, development and commercial introduction of new technology for energy production and for environmental protection.

The legal provisions are laid down in the Governmental ordinance SFS 1988: 805 (Förordning om statligt stöd ur energiteknikfonden, mm.).

(b) Incidence

Support is granted to the development, testing and demonstration of new techniques in the form of test plants, pilot projects, full scale plants, etc. The beneficiary is normally the user of the new technique, mainly small-scale private energy producers and public utilities in the energy sector. The support is in the form of grants, grants with conditional repayment and loan guarantees. The maximum amount of award is 50 per cent of the costs of a project.

(c) Amount of subsidy

Net cost (SEK million): 1989/90: 46, 1990/91: 61, 1991/92: 134

(d) Estimated amount per unit

Support is granted to a variety of projects and cannot be broken down per unit.

3. AID TO SMALL AND MEDIUM SIZED FIRMS

3.1 The regional development funds

(a) Background and authority

The Regional Development Funds are public foundations established in each of the 24 counties of Sweden. The objective of the Funds is to strengthen the competitiveness and profitability of small and medium sized enterprises (generally defined as firms with less than 200 employees) and to promote the formation of new firms. The Regional Development Funds have recently been evaluated and are therefore probably going to be changed during 1994. A governmental bill to Parliament in late October 1993 will suggest some changes as to the funds' organization and activities.

The guiding principles will remain. The amount of loans granted by the Regional Development Funds has been approximately SEK 600 million during the last years. However, the lending capacity of the Funds will be reduced, since they have to repay SEK 1.600 million out of a fund capital of approximately SEK 2.800 million to the state. The Funds have three types of financial instruments: loans, development capital and loan guarantees. The lending should be on commercial terms but on a high risk level. Only firms that are profitable or have reasonable prospects to become profitable are eligible. The Funds also provide counselling.

The legal provisions are laid down in the following Governmental ordinances: 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). Last amendment 1993: 113.

(b) Incidence

The scheme is intended for small firms, i.e. firms with less than 200 employees. (In practice, often under 50 employees.) Exceptions can be made, but are rare. 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 aiming at a reasonable yield and risk-spread.

(c) Amount of subsidy

Net cost (SEK million): 1989/90: 157, 1990/91: 168, 1991/92: 307

4. SUPPORT FOR EMPLOYMENT AND TRAINING

Labour market support is generally granted to individuals. Support is also granted to stimulate companies to employ disabled persons. This kind of aid is intended to compensate the employers for additional costs (e.g. training and equipment) incurred when employing persons whose capacity to work is reduced. Such support is not considered to be aid and is not included in this notification. There are, however, a few aid schemes intended for companies, i.e. support for vocational training and recruitment aid. These are noted below.

The recession in Sweden since 1989 is very deep. It started to affect the labour market in 1990. The Swedish Government has made many efforts in the combat with unemployment.

4.1 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 the Governmental ordinance SFS 1984: 518 (Förordning om bidrag till arbetsmarknadsutbildning i företag).

(b) Incidence

All firms, regardless of industry, are eligible. The aid is in the form of a grant. The grant is limited to SEK 35 per hour. The maximum number of hours supported varies according to type of profession.

(c) Amount of subsidy

Net cost (SEK million): 1989/90: 231, 1990/91: 147, 1991/92: 908

4.2 Recruitment aid

(a) Background and authority

The objective of the scheme is to increase employment mainly of long-term unemployed and persons with difficulties to get and stay on a job, e.g. due to social problems.

The legal provisions are laid down in the Governmental ordinance: SFS 1993: 730 (Förordning om ändring av förordningen 1986: 414 om rekryteringsstöd).

(b) Incidence

All firms, regardless of industry, are eligible. The aid is in the form of a grant that covers maximum 65 per cent of the total wage cost of the new entrant for a certain period. The duration of the aid must not exceed 6 months.

(c) Amount of subsidy

Net cost (SEK million): 1989/90: 240, 1990/91: 230, 1991/92: 875

5. EXPORT PROMOTION

5.1 State supported export credits

(a) Background and authority

The objective of the scheme is to provide long-term export financing for exports of capital goods and/or services to countries in Eastern Europe and the third world.

The legal provisions are laid down in the following governmental ordinances: SFS 1989: 826 (Förordning om ändring av förordningen 191:665 om exportkredit- finansiering med statligt stöd) and SFS 1981: 665 (Förordning om exportkreditfinansiering med statligt stöd).

(b) Incidence

The scheme is available for exports of capital goods and/or services to countries in Eastern Europe and the third world. The scheme is in conformity with the OECD Arrangement on Guidelines for Officially supported Credits. However, the interest rates are higher than the minimum interest rates of the OECD Arrangement, which has decreased the attraction of the credits.

(c) Amount of subsidy

Net cost (SEK million): 1989/90: 73, 1990/91: 3, 1991/92: 2

5.2 Export credit guarantees

(a) Background and authority

The Swedish Export Credits Guarantee Board (EKN) is a government agency established in 1933 to promote Swedish exports by the issue of guarantees. EKN can cover political and/or commercial risks in connection with export transactions. Parliamentary and government guidelines have always required the EKN to aim at being self-supporting. However, the international debt crisis of the 1980s has led to a substantial financial deficit. This deficit can only to a limited extent be influenced by measures adopted by EKN. To the extent recoveries fall short of paying off EKN's borrowing in the National Debt Office, financing must eventually be effected by the state budget.

The principle that new operations are to be self-supporting has been re-affirmed. Against this background, old operations, i.e. guarantees issued before 30 June 1990, are now reported in accounts completely separated from new operations. The financial objective that the new operations should break even has prompted a thorough review of the premium system.

The general framework for the mandate of the EKN and its activities was established by a Government Bill to the Parliament in October 1989. The mandates of the EKN are furthermore regulated by Governmental Ordinances.

(b) Incidence

Export credit guarantees may be granted to exporters operating in Sweden, Swedish and foreign banks or financial institutes that are financing Swedish exports. A certain amount of non-Swedish goods may also be guaranteed by EKN if it is part of a Swedish export sale. A foreign company may also receive an EKN guarantee if he exports Swedish goods and/or services. Export credit guarantees are issued for short-, medium- and long- term credits. The rules of the Arrangement on Guidelines for Officially Supported Export Credits ("consensus") and the Berne Union Understanding are adhered to.

(c) Amount of subsidy

Net cost (SEK million): 1989/90: 257, 1990/91: 413, 1991/92: 335

5.3 General export promotion

(a) Background and authority

The objectives of the export promotion policy are to support export and internationalization of Swedish companies in a way that promotes the long-term development of the Swedish economy.

The financial support of the government is primarily directed to the Swedish Trade Council, which is a semi-public organization established jointly with the industry through the General Swedish Export Association in 1972. The existing agreement is from 1992. The main function of the Trade Council is to provide information and advice to Swedish companies, mainly small and medium-sized companies. The Council also initiates and implements various collective export promotion activities like exhibitions and sales missions.

(b) Incidence

The services of the Trade Council are available for all Swedish firms regardless of industry. A number of companies choose to pay a fee which gives them a discount on certain services. Small and medium-sized firms are given priority.

Support is given in the form of:

- Information on matters regarding foreign trade and foreign markets;
- Export promotion activities, partly financed by government funds, e.g. exhibitions, market surveys, and missions abroad.

The activities of the Trade Council are partly financed by the government, partly by the companies subscribing to its services. Government funds are used to finance most of the information services and a smaller part of the export promotion activities.

The total turnover of the Swedish Trade Council was around SEK 433 million in the fiscal year 1991/92. Out of this amount around SEK 230 million was funded by the government and the rest by individual companies, through fees to the Trade Council or by payment for specific export activities.

(c) Amount of subsidy

Net cost (SEK million): 1989/90: 129, 1990/91: 136, 1991/92: 137

6. REGIONAL AID TO ENTERPRISES

Regional aid to enterprises in Sweden is granted within the framework of seven main schemes: Location grants, location loans, development grants, loans to regional investment companies, employment grants, reduced social security contributions and transport aid. (A limited aid to small enterprises can also be awarded according to a scheme of support to very sparsely populated areas.)

The main goals of Swedish regional policy are to give people access to employment, service facilities and a good environment in whatever part of the country they live. Because of the special conditions for living in large parts of Sweden an active regional policy has for many years been of major importance for these regions.

6.1 Location grants

(a) Background and authority

The main objective is to promote new employment in the designated areas. Location grants can be awarded in connection with investments in buildings, machinery, etc. The awarding of a grant for these objectives has many reasons. As for example: The cost of building is higher in the designated areas because of climatic reasons, transport costs, etc. It is more difficult to finance these investments on the regular credit market because of their low alternative value.

The legal provisions are laid down in the Governmental Ordinance (Förordningen om regionalpolitiskt företagsstöd): SFS 1990: 642.

(b) Incidence

In Sweden operating natural or juridical persons, public authorities working with viability in competitive sectors on market conditions are eligible. In some cases aid can also be granted to non-profit associations. In order to promote equality between men and women there is also a rule that at least 40 per cent of the new jobs created in each project shall be reserved for each sex.

The nature of assisted projects can be investments in buildings and machinery, etc. The form of the aid is a grant, which can be reclaimed if the objectives, especially the purpose of creating new jobs, are not fulfilled.

The grant is awarded discretionary according to the calculated need for each individual project, the size of the investments, the number of new jobs, etc. Maximal intensity is 35 per cent of eligible investment costs in aid area 1 and 20 per cent in aid area 2. In some cases the maximal intensity is lower and in exceptional cases it can be higher.

The main rule is that the grant is taxable as an income to the recipient. The general level of taxation for companies in Sweden is 30 per cent. In some cases the taxation is based on lower depreciation. In Sweden, buildings may be depreciated at rates varying from 2 to 5 per cent per annum, depending on the type of the building. Machinery is normally depreciated during a 5 year period. The grants can be awarded either by the Government, The Industrial and Technical Development Board or the County Administrative Boards.

(c) Amount of subsidy¹

Net costs (SEK. million): 1989/90: 605, 1990/91: 485, 1991/92: 519

6.2 Location loans

(a) Background and authority

The objective of the Location loan is to promote employment in designated areas. In these areas the credit market is less developed compared with other parts of Sweden. This is mainly due to the low alternative value of the fixed assets.

¹The sums for 1990/91 and 1991/92 also include development grants.

The legal provisions are laid down in the Government Ordinance (Förordningen om regionalpolitiskt företagsstöd): SFS 1990: 642.

(b) Incidence

In Sweden operating natural or juridical persons, public authorities working with viability in competitive sectors on market conditions are eligible. Loans can also be granted to non-profit associations.

At least 40 per cent of the new jobs created in each project must be reserved for each sex. The interest rate of the loan is the Swedish discount rate plus 4.25 percentage points. The location loan thereby contains no subvention.

(c) Amount of subsidy

Net cost (SEK million): 1989/90: 98, 1990/91: 119, 1991/92: 62

6.3 Development grants

(a) Background and authority

The main objective of the Development grant is to create new jobs in small enterprises by stimulating intangible investments.

The legal provisions are laid down in Governmental Ordinance (Förordning om regionalpolitiskt företagsstöd): SFS 1990: 642.

(b) Incidence

In Sweden operating natural or juridical persons, public authorities adjusted to conditions on the market. In some cases aid can also be granted to non-profit making associations.

The nature of the assisted projects can be investments in patent, licenses, marketing activities, development of new products, educations, etc. The form of the aid is a grant, which can be reclaimed if the objectives are not fulfilled. The grant is awarded discretionary according to the calculated need in each individual case, the size of the investments etc. Maximal intensity is 50 per cent of the investment costs. Maximal amount is SEK 500,000. In special cases the amount can be higher and the grant awarded without direct link to investments.

(c) Amount of subsidy

This grant is included in location grants, 6.1.

6.4 Loan to regional investment companies

(a) Background and authority

The objective is to create new employment by stimulating private capital to engage in certain businesses. It is also to take advantage of management knowledge in order to help small businesses to expand.

The legal provisions are laid down in the Governmental Ordinance (Förordningen om regionalpolitiskt företagsstöd): SFS 1990: 642.

(b) Incidence

Eligible are privately Swedish or foreign owned regional investment companies. The form of the assistance is a loan. During the first years, the interest rate may be lower than market rates, provided that the state receives a share of the value added in the company after some ten years. Loans to regional investment companies can only be awarded by the Government.

(c) Amount of subsidy

Net cost (SEK million): 1989/90: 48, 1990/91: 71, 1991/92: 0

6.5 Employment grants

(a) Background and authority

To create new employment by reducing the extra costs during the first years when taking on additional labour.

The legal provisions are laid down in the Governmental Ordinance (Förordningen om regionalpolitiskt företagsstöd): SFS 1990: 642.

(b) Incidence

In Sweden operating natural or juridical persons, public authorities working with viability in competitive sectors on market conditions are eligible. In some cases aid can also be granted to non-profit making associations. There is a requirement that at least 40 per cent of the new jobs created shall be reserved for each sex.

The nature of assisted projects are costs related to additional labour taken on.

The aid intensity is in regional aid area 1: A total sum of SEK 200,000 per additional man-year allocated according to a uniform scheme during a five year period. The aid intensity is in regional aid area 2: A total sum of SEK 120,000 per additional man-year allocated according to a uniform scheme during a five year period.

The allocation is described in the following table:

Year	Aid area 1	Aid area 2
1	60,000	40,000
2	50,000	30,000
3	40,000	25,000
4	30,000	15,000
5	20,000	10,000
Total	200,000	120,000

(c) Amount of subsidy

Net cost (SEK million): 1989/90: 236, 1990/91: 273, 1991/92: 278

6.6 Reduced social security contributions(a) Background and authority

The objective is to create new employment and to maintain employment in certain sectors in the most disadvantaged areas by reducing the cost of labour. An overall aim is to put companies situated in these areas on more equal footing with their competitors.

The legal provisions are laid down in the Act (Lag om nedsättning av socialavgifter och allmän löneavgift) SFS 1990: 912 and the Governmental Ordinance (Förordning om nedsättning av socialavgifter och allmän löneavgift): SFS 1990: 983.

(b) Incidence

The social security contributions are reduced for employers engaged in the following sectors: mining and quarrying (except iron, ore and mining), manufacturing (except pulp, paper, iron, steel and ferro-alloys), wholesaling of manufacturing goods, business services, hotels and restaurants. In regional aid area 1, the reduction is ten percentage points. In those parts of the northernmost county of Norrbotten which are not included in aid area 1, the reduction is five percentage points. In the community of Svappavaara in the county of Norrbotten no social security contributions have to be paid at all.

(c) Amount of subsidy

Net costs (SEK million): 1989/90: 469, 1990/91: 419, 1991/92: 286

6.7 Transport aid(a) Background and authority

The objectives are to create new employment and to maintain employment in those areas of Sweden where the cost of goods transport is considerably higher than in the rest of the country. Hereby these companies are put on more equal footing when competing with companies situated closer to the large markets.

The legal provisions are laid down in the Governmental Ordinance (Förordningen om regionalpolitiskt transportstöd): 1980: 803.

(b) Incidence

Eligible are Swedish natural or juridical persons, foreign company branches in Sweden or foreign natural persons living in Sweden.

The assisted projects: transport costs from the regional aid area for goods that has been produced or manufactured (processed) in this area (except for certain products like pulp, paper, metals, certain steel products and iron ore), transport costs for raw material that shall be processed in the transport aid area is also eligible. However, in principle, materials from outside the aid area that are also produced in the aid area are not eligible. The form of the aid is a grant.

The regional aid area for transport is divided into five zones. The percentages of the transport costs that are covered appear in the following table:

Distance in kilometres	Transport aid zones				
	1	2	3	4	5
251 - 400	10	10	10	10	10
401 - 700	10	20	30	35	35
701 -	10	20	30	35	50

(c) Amount of subsidy

Net cost (SEK million): 1989/90: 294, 1990/91: 309, 1991/92: 282

APPENDIX

The net cost method

The objective of the net cost to government (NCG) method is to obtain a consistent measure of government aid, where support from various instruments, i.e. grants, loans, guarantees, equity injections and tax concessions, are added together. The NCG-method is used in the EFTA annual surveys of industrial aid and by the OCED in its project "Subsidies and Structural Adjustment".

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 net cost does not correspond to the actual transfer of funds from the government to the firms in any given year, i.e. the expenditure as reported in the government budget. Instead the purpose is to indicate the net cost to government of support to industry. Since imputed capital costs on previous loans and equity injections are included, the net cost figures to a certain extent reflect past policies. The NCG-method is not a direct guide to determine the extent of distortion of competition nor to approximate the ultimate benefit to industry. However, the NCG is a useful guide to the evolution and the structure of government support over time.

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1. INTRODUCTION

This notification covers the years 1990/91 and 1991/92. During this period there was a radical change in the Swedish agricultural policy with effects i.a. on the type and level of subsidies.

"Old policy" (effective until 30 June 1991).

The primary goal of the Swedish agricultural policy, as decided by parliament in May 1985, was to secure food supplies under normal as well as emergency conditions. Under this main objective there were two general objectives of equal importance. One was the consumers objective, which implied that consumers should have access to foodstuffs of good quality at reasonable prices. The second, the income objective, implied that farmers should be assured a standard of living equal to that of comparable occupational groups.

These goals were implemented by means of various policy measures among which price and market regulation activities played an important rôle. Prices of agricultural products subject to regulation were supported mainly by means of border protective measures (mainly import levies) and by means of market regulating measures such as storage and exports. Export refunds were used in surplus situations when world market prices were below domestic prices. These refunds were financed mainly by means deriving from internal production fees but also to some extent from import levies and general budgetary means.

The Swedish Agricultural Market Board was the central administrative authority for matters concerning price and market regulations in the agricultural sector. Most market regulation activities were carried out by seven market regulation associations, working under directives of the Board.

The price regulations for agricultural products were based on the Law Regarding Price Regulation of Agricultural Goods (SFS 1967: 340). Horticultural products as well as i.a. coffee, tea, cocoa and species were not subject to any similar legislation or market regulation.

"*New policy*" (applied as from 1 July 1991).

The present guidelines for the Swedish food policy were laid down by a parliamentary decision in 1990. The decision resulted in a radical shift in the policy.

The food policy is based on the principle that the agricultural sector should be subject to the same conditions as other sectors of the economy. The farmers should only be paid for goods and services for which there is demand. This implies a dismantling of internal market regulations, including export subsidies and storage support. Continued border protection, in the form of import levies, ensures that a prices support is maintained for the production for which there is a demand on the internal market.

The reform of the agricultural policy started on 1 July 1991 and was scheduled to be completed after a five year period of adjustment of production and transition to the conditions of a deregulated market.

During the transition period farmers are stimulated by direct payments to plant alternative crops, energy crops and forest. Substantial investments are also made in educational and advisory schemes. The reform necessitates considerable adjustments, not only as regards production, but also in the farmer's entrepreneurial rôle.

The importance of agriculture in the northern parts of Sweden, in terms of the Swedish regional and security policy, justifies additional support to this part of the country (regional support).

The Swedish Board of Agriculture is the central administrative authority for matters concerning the regulation in the agricultural sector.

The regulation for agricultural products are based on the Law regarding Levies on Certain Agricultural Products (SFS 1990: 615).

This notification covers direct subsidies and payments relevant to the regulation in the agricultural sector. The notification does not reflect the support given by consumers in the form of protected domestic prices higher than world market prices. The figures are presented irrespective of whether or not they should be regarded as subsidies notifiable under Article XVI:1.

2. DIRECT PAYMENTS

When the Parliament passed the Bill on the new food policy in June 1990 it was at the same time decided on further compensation to the agricultural sector during 1990/91 in the form of direct payments. Direct payments were introduced in 1989 due to the GATT/UR mid-term agreement. In 1990/91 and in 1991/92 direct payments were granted to the animal sector as well as to the crop sector. These payments, based on livestock units or crop area in a base year, are more decoupled than support via the producer prices. Also part of the regional support to the northern parts of Sweden was paid on the same basis as the temporary direct payments. The acreage support as well as the regional support differs between different areas of the country. Concerning the division into different districts for regional support see Annex II.

1990/91

Temporary direct payments

	Total (SEK million)	Payment per unit
Milk production	1,323	SEK 2,420 /milkcow
Beef and veal production	123	SEK 120 /youngstock
Pigmeat production	81	SEK 24 /slaughter pig
Sheep and lambmeat production	7	SEK 40 /lamb
Acreage support	2,100	Average SEK 1,100 /ha
Total	3,634	

Regional support

Milk production

	Total (SEK million)	Payment per milkcow (SEK)
District 1	17.9	1,760
District 2a	51.6	1,400
District 2b	18.4	850
District 3	7.2	450
District 4	6.1	200
Total	101.2	

Beef and veal production

	Total (SEK million)	Payment per youngstock (SEK)
District 1	5.7	450
District 2	22.4	280
District 3	2.9	130
District 4	3.1	70
Total	34.1	

Pigmeat production

	Total (SEK million)	Payment per slaughter pig (SEK)
District 1	0.0	22
District 2	0.6	12
District 3	0.1	4
District 4	-	-
Total	0.7	

Sheep and lamb meat production

	Total (SEK million)	Payment per lamb (SEK)
District 1	0.3	65
District 2	0.8	50
District 3	0.1	20
District 4	0.1	10
Total	1.3	

1991/92

Temporary direct payments

	Total (SEK million)	Payment per unit
Milk production	1,239	SEK 2,330 /milkcow
Beef and veal production	269	SEK 155 /youngstock
Sheep and lambmeat production	8	SEK 48 /lamb
Acreage support	1,400	Average SEK 900 /ha
Total	2,916	

Regional support

Milk production

	Total (SEK million)	Payment per milkcow (SEK)
District 1	32.0	3,150
District 2a	93.0	2,540
District 2b	36.0	1,700
District 3	15.5	995
District 4	14.5	475
Total	191.0	

Beef and veal production

	Total (SEK million)	Payment per youngstock (SEK)
District 1	6.6	460
District 2	32.6	375
District 3	5.8	240
District 4	4.0	85
Total	49.0	

Pigmeat production

	Total (SEK million)	Payment per slaughter pig (SEK)
District 1	0.1	40
District 2	1.8	35
District 3	0.1	5
District 4	-	-
Total	2.0	

Sheep and lamb meat production

	Total (SEK million)	Payment per lamb (SEK)
District 1	0.4	70
District 2	1.0	55
District 3	0.4	40
District 4	0.2	15
Total	2.0	

A regional support was also granted to egg producers in support areas 1 and 2. This regional support amounted to SEK 1 million in 1991/92.

3. GRAINS ETC

3.1 Nature and extent of subsidy

3.1.1 Background and authority

Wheat, rye, barely, oats and mixed grains as well as field beans and peas were subject to price and market regulation in 1990/91. In 1991/92 only wheat, rye, barely and oats were subject to price and market regulation in the form of redemption prices. The system of redemption prices is gradually phased out. Market regulation activities were carried out by the Market Regulation Association for Grains until end of 1990/91. As from 1 July 1991 the Swedish Board of Agriculture handles the market regulation activities.

3.1.2 Incidence

Grains

If world market prices are lower than domestic prices the difference is levelled out when the products are exported. This equalization was carried out by the Market Regulation Association for Grains until end of 1990/91. The operations of the Association were financed by milling fees etc. Budgetary means were also used in line with the agricultural policy guidelines, according to which the State shall take part of the costs due to surpluses in the grain sector during a transition period. After 1 July 1991 the equalization is handled by the Swedish Board of Agriculture and is financed by milling fees, budgetary means etc.

Peas and field beans etc

An acreage support was granted to farmers growing peas and field beans in 1990/91.

3.1.3 Amount of subsidy (total and per unit)

Grains

1990/91

Costs for the Association for rebates and storing and costs due to the difference between domestic and world market prices for exported quantities (including raw material compensation for certain processed products, mainly bread):

	Export refunds SEK/kg	SEK million	Rebates and storing SEK million
Wheat	1.17	1,474	
Rye	1.36	112	
Barley	1.17	587	
Oats	1.18	601	
Total		2,775	51.9
Of which budgetary means		1,062	

1991/92

Costs for the Board due to the difference between domestic and world market prices for exported quantities (including raw material compensation for certain processed products, mainly bread):

	Export refunds SEK/kg	SEK million	Rebates and storing SEK million
Wheat	0.77	272	-
Rye	1.08	50	-
Barley	0.92	394	-
Oats	0.87	548	-
Total		1,263	-
Of which budgetary means		89	

Peas and field beans

For 1990/91 an acreage support of SEK 23 million was granted to growers of peas and field beans. This type of support was not granted in 1991/92.

3.2 Effect of the subsidy

3.2.1 Trade effects

Comprehensive analytical work concerning the trade effects of various support measures is made by the OECD in connection with the "MTM-model".

3.2.2 Statistics

See Annex I.

4. MILK AND DAIRY PRODUCTS

4.1 Nature and extent of subsidy

4.1.1 Background and authority

In 1990/91 milk, butter, cheese and skimmed milk powder were subject to market regulation. The market regulation activities were carried out by the Market Regulation Association for Dairy products. Apart from border protection, were regional support and direct payments the only support instruments in 1991/92.

4.1.2 Incidence

1990/91

Price and market regulating activities comprise export aid, consumer subsidies and regional production support. Also limited sums were used as low income support in the form of delivery support to small milk producers. During recent years various measures have been taken in order to cut surpluses (stimulate consumption and reduce production). These measures include i.a. discounts to public institutions, non production grants to elderly dairy farmers, cessation scheme for milk producers etc. Consumer subsidies were used until the end of 1990.

The main sources for financing the dairy products regulation were equalization fees, budgetary means and means deriving from import levies. Budgetary means were used to finance price additions to producers in exchange for a lower price to consumers (consumer subsidies) as well as for regional support and direct payments. The other means available were used to compensate for differences in profitability between various dairy products (fresh milk, cream, cheese and butter), support to storage, export refunds and measures to promote consumption.

1991/92

As a result of the food policy reform the only form of support given in the dairy sector in 1991/92, apart from border protection, was in the form of regional support and direct payments. In order to cut surpluses non production grants were paid to elderly dairy farmers and a cessation scheme for milk producers was applied. These measures were financed by budgetary means.

4.1.3 Amount of subsidy (total and per unit)

Consumer subsidies on liquid milk were used until 31 December 1990. These subsidies were as follows.

1990/91

	SEK/litre	SEK million
Liquid milk:		
0.5 - 3.0% fat	1.15	722.1
0.05% fat	1.26	22.0
Total		744.0

No consumer subsidies were granted in 1991/92.

Regional support was given as a price addition per litre of milk, varying between different dairies depending on geographical location and differences in costs. The amount of price addition in 1990/91 was SEK 386.9 million and in 1991/92 SEK 407.1 million.

In 1990/91 SEK 36 million was granted as delivery support to small milk producers. The delivery support for milk was discontinued as from 1 January 1991.

In 1990/91 public institutions were granted discounts on butter and cheese. Costs for these measures amounted to SEK 0.25 million. In the same year schools were granted discounts on prices of milk. Total costs were SEK 3.56 million. These forms of discounts were not granted in 1991/92.

For storing of butter an amount of SEK 55.0 million was paid in 1990/91. No storage aid was granted 1991/92.

Export refunds were paid in 1990/91, but not in 1991/92, and amounted to:

1990/91

	SEK/kg	SEK million
Butter	13.99	493.0
Cheese	10.33	43.4
Milk powder	9.46	376.0
Other	-	12.3
Total		924.7

4.2 Effects of the subsidy

4.2.1 Trade effects

See comments under 3.2.1.

4.2.2 Statistics

See Annex I.

5. MEAT

5.1 Nature and extent of subsidy

5.1.1 Background and authority

In 1990/91 beef, pork, mutton and lamb were subject to market regulation. Regional support was also granted for reindeer production. The market regulation activities were carried out by the Market Regulation Association for Meat. In 1991/92 there was no general support system in the Swedish meat sector. Border protection was the main support instrument. However, a limited sum of SEK 450 million was allocated to finance exports of meat during a transition period of three years 1991/92-1993/94 (the sum was later increased by another SEK 100 million as from 1993 and the period was extended to the end of 1994). Remaining market regulative activities for meat are carried out by the Swedish Board of Agriculture. The internal fees, which financed the market regulation for meat (bovine and porkmeat), were abolished as from 1 July 1991.

5.1.2 Incidence

1990/91

If world market prices were lower than domestic prices the difference was levelled out when the products were exported. These export refunds were paid by the Market Regulation Association for Meat to the exporters. The Association also financed storing, rebate campaigns and discounts on meat for public institutions. These activities were mainly financed by slaughter fees paid by the producers. Means from import levies were also used to a limited extent. Regional support as well as the temporary direct payments were mostly financed through budgetary means. A special price supplement (consumer subsidy) was paid for sheep and lambmeat. This price supplement was financed by slaughter fees and means from import levies.

1991/92

As a result of the food policy reform the support granted to the meat sector, apart from border protection, was in the form of regional support, direct payments, a price supplement for sheep and lamb meat and a reduced form of export refunds.

5.1.3 Amount of subsidy (total and per unit)

Costs within the market regulation amounted to:

1990/91

	SEK million
Storage and freezing	75.6
Price activities	13.9

1991/92

-

Export refunds have been paid as follows:

1990/91

	SEK/kg	SEK million
Beef	17.81	178
Veal	-	1
Pig meat	14.68	443
Other*	-	139
Total		761

*Export refunds to edible offals, processed meat, edible slaughter fat and sales to ships in international routes.

1991/92

	SEK/kg	SEK million
Beef	21.85	68
Pig meat	21.50	135
Total		203

Regional support was granted as follows:

	1990/91 SEK million	1991/92 SEK million
Price additions	116.6	141.7
Cost compensation	28.0	21.0

As a special price supplement to sheep and lamb meat (consumer subsidy) SEK 29.7 million was paid in 1990/91 and SEK 17.2 million in 1991/92.

To production of reindeer meat a special price support was granted. This support amounted to SEK 30.2 million in 1990/91 and to SEK 31.5 million in 1991/92.

5.2 Effects of the subsidy

5.2.1 Trade effects

See comments under 3.2.1.

5.2.2 Statistics

See Annex I.

6. EGGS AND POULTRY

6.1 Nature and extent of subsidy

6.1.1 Background and authority

In 1990/91 eggs in shell and egg products were subject to market regulation. The market regulation activities were carried out by the Market Regulation Association for Eggs. Market activities regarding poultry meat were carried out direct by the Swedish Agricultural Market Board. Apart from border protection, regional support was the only form of support in 1991/92.

6.1.2 Incidence

6.1.2.1 Eggs and egg products

1990/91

Export refunds were paid directly to exporters for eggs exported at prices below the domestic market prices. The Market Regulation Association for Eggs took care of surplus eggs which were stored, dried and later exported. For costs regarding packing of eggs the Association also granted support. The export refunds were financed by production fees. Costs due to packing, storing and drying of eggs were covered by import levies and production fees.

1991/92

As a result of the food policy reform the only form of support to the egg sector, apart from the border protection, was in the form of regional support to the northern parts of Sweden.

6.1.3 Amount of subsidy (total and per unit)

Aid to packing and exports amounted to:

	SEK/kg 1990/91	SEK million 1990/91	SEK/kg 1991/92	SEK million 1991/92
Packing	0.40	14.6	0.30***	2.0
Export refunds:				
Eggs in shell	7.68	30.8	-	-
Egg products*	5.80	9.6	-	-
Surplus eggs**	6.52	1.9	-	-
Poultry meat	0	0.0	-	-
Total	-	56.9	-	2.0

*Whole egg equivalent

**For storing and drying and later exports

***Regional support

6.2 Effects of subsidy

6.2.1 Trade Effects

See comments under 3.2.1.

6.2.2 Statistics

See Annex I.

7. POTATOES

7.1 Nature and extent of subsidy

7.1.1 Background and authority

Potatoes are grown partly for direct consumption (table potatoes) and partly for processing purposes (distilleries and starch industry). In 1990/91 market regulation activities were carried out for both types of potatoes by the Market Regulation Association for Potatoes. From 1991/92 there is no longer a market regulation for table potatoes. Border protection is the only support instrument. However, there is still a special regulation for potatoes used in the starch industry. These activities are carried out by the Swedish Board of Agriculture.

7.1.2 Incidence

1990/91

Regulating activities for table potatoes aimed at a balance between output and demand. This was achieved by means of intervention buying, support to storing and exports. Potatoes for processing was sold to the starch industry at a discount. All activities mentioned were financed by means derived from import levies and acreage and delivery fees.

1991/92

As a result of the food policy reform the only regulation in force in 1991/92, apart from border protection, was a special regulation for potatoes used in the starch industry. These regulation activities consisted of subsidies to the technical industry. When domestic produced potatoestarch was used in the technical industry it was subsidized to world market price level.

7.1.3 Amount of subsidy

1990/91

Total costs for market regulation activities amounted to (SEK million):

	Export refunds	Intervention buying, storing etc
Table potatoes	0.2	10.1
Potatoes for processing	-	60.7

1991/92

Total costs for market regulation activities amounted to (SEK million):

	Export refunds	Intervention buying, storing etc
Table potatoes	-	-
Potatoes for processing	-	38.9

7.2 Effects of subsidy

7.2.1 Trade effects

See comments under 3.2.1.

7.2.2 Statistics

See Annex I.

8. SUGAR

8.1 Nature and extent of subsidy

8.1.1 Background and authority

According to parliamentary decisions sugar production is to be maintained at a level below domestic consumption. In 1990/91, as well as in preceding years, support to sugar producers in general was mainly given in the form of price support. In order to maintain sugar production in areas where alternative employment opportunities were scarce, certain support measures were taken in addition. As a result of the food policy reform border protection and the special support to areas with scarce employment opportunities were the only forms of assistance remaining in 1991/92. For sugar beet, as well as for other crops a temporary income support in the form of acreage support was given. (See 2. Direct payments).

8.1.2 Incidence

1990/91

Means deriving from import levies were used for the following support measures: Sugar beet producers were offered extra regional payment when delivering beets to factories in the islands of Gotland and Öland. Sugar factories in the same areas were granted extra support due to additional production and transportation costs. There was also a contribution due to higher transportation costs for sugar to northern parts of Sweden.

1991/92

In 1991/92 the support measures, apart from border protection, were limited to the support for higher production and transportation costs to the factories on the islands of Öland and Gotland and temporary direct payments.

8.1.3 Amount of subsidy

Total payments in 1990/91 related to measures mentioned above amounted to SEK 28 million. Of this amount SEK 3.4 million was granted to beet producers (as acreage support), SEK 24.5 million to factories on islands Öland and Gotland and SEK 1.2 million for transportation costs to the northern parts of Sweden. A special costs compensation of SEK 15.1 million was also granted to sugar production this year.

For 1991/92 total payments amounted to SEK 24.5 million as support for increased production and transportation costs at the factories located on the islands of Öland and Gotland.

8.2 Effects of subsidy

8.2.1 Trade effects

See comments under 3.2.1.

8.2.2 Statistics

See Annex I.

9. OILSEEDS, CLOVER AND GRASS SEED

9.1 Nature and extent of subsidy

9.1.1 Background and authority

Market regulation activities cover oilseeds and clover and grass seeds. Market regulation activities were carried out by the Swedish Oilseed Co-operation until end of June 1991 when the Swedish Board of Agriculture took over the responsibilities of the Association.

9.1.2 Incidence

In 1990/91 the Market Regulation Association for Oilseeds bought all domestically produced oilseed at a predetermined producer price. Cultivation was based on area contracts between individual farmers and the Association. The Association sold the seed either to domestic crushers or on export. In 1990/91 the regulation was financed through means deriving from a fat levy imposed both on domestic and imported fats and oils. As from 1991/92 the Swedish Board of Agriculture has replaced the Market Regulation Association.

Contracted growers of seeds of clover and grass receive support. This support is directed to growers in relation to area and production (price support). In 1990/91 this support was administered by the Market Regulation Association for Oilseeds and financed by means deriving from import levies on agricultural products and fees on fertilizers. As from 1991/92 the support is administered by the Swedish Board of Agriculture and financed by means from the national budget.

9.1.3 Amount of subsidy (total and per unit)

Oilseeds and oil

The costs for exporting oilseeds and vegetable oils amounted to (SEK million):

1990/91	714
1991/92	256

Clover and grass seed

Support to approximately 20 varieties of clover and grass amounted to (SEK million):

	1990/91	1991/92
Acreage support	5.5	3.9
Price support	7.9	5.7

Acreage support varied between SEK 100 and SEK 2,300 /ha in 1990/91 depending of variety. In 1991/92 the acreage support varied between SEK 100 and SEK 2,000 /ha. Price support amounted to SEK 0.30 and SEK 3.00 /kg in 1990/91. In 1991/92 the price support varied between SEK 0.90 and SEK 3.60 /kg.

9.2 Effects of subsidy

9.2.1 Trade effects

See comments under 3.2.1.

9.2.2 Statistics

See Annex I.

ANNEX I

Production, Consumption, Imports and Exports ('000 tons)

	Production	Consumption	Production of consumption, %	Imports	Exports
Wheat					
1990	2243	1142	196	51	1253
1991	1481	1177	126	58	377
1992*	1406	1436	98	50	40
Rye					
1990	335	202	166	0	83
1991	165	181	91	1	47
1992*	136	136	100	0	10
Barley					
1990	2122	1550	137	0	501
1991	1935	1553	125	11	442
1992*	1261	1366	92	70	0
Oats					
1990	1584	1000	158	0	508
1991	1426	974	146	0	462
1992*	807	807	100	0	0
Butter¹					
1990	76	45	169	0	32
1991	63	44	143	0	22
1992	62	44	141	0	17
Cheese					
1990	116	137	85	22	4
1991	115	132	87	23	4
1992	117	137	85	22	2

	Production	Consumption	Production of consumption, %	Imports	Exports
Milkpowder²					
1990	58	27	214	3	31
1991	39	29	134	3	17
1992	37	23	160	4	5
Beef and Veal					
1990	145	148	98	13	12
1991	137	149	92	19	11
1992	130	148	88	26	7
Pork					
1990	291	262	111	16	39
1991	268	266	101	21	20
1992	278	283	98	23	16
Eggs					
1990	116	115	101	4	5
1991	108	110	98	13	12
1992	110	111	99	11	11
Sheep and lambmeat					
1990	5	6.6	76	1.5	0
1991	4.2	7.3	58	1.1	0
1992	4.4	6	73	1.7	0.1
Poultry					
1990	51	53	96	1	0
1991	55	57	96	2	0
1992	55	57	96	2	0
Sugar³					
1990	445	379	117	44	45
1991	266	380	70	42	42
1992	333	382	87	34	19

	Production	Consumption	Production of consumption, %	Imports	Exports
Oilseeds⁴					
1989/90	367	-	-	7	49
1990/91	366	-	-	0	83
1991/92	252	-	-	1	17
Oil⁵					
1989/90	109	37	295	0	72
1990/91	104	40	260	1	65
1991/92	85	50	170	1	36
Potatoes for human consumption					
1989/90	805	586	137	18	1
1990/91	834	601	138	48	0
1991/92	731	605	121	78	0

*Preliminary

1Includes butteroil and edible fat products of butter

2Whole and skimmed milk powder

3Raw sugar equivalent

4Rapeseed and other oil seeds

5Domestic oils

ANNEX II

Supported area divided into regions with
agricultural support in the north of Sweden.

