

**GENERAL AGREEMENT ON
TARIFFS AND TRADE**

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Committee on Subsidies and Countervailing Measures

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Notification pursuant to Article XXVI:1

SPAIN

The present notification supplements and updates the 1984 notification (circulated in document L/5603/Add.24), presented by Spain in compliance with its obligation under Article XXVI of the General Agreement on Tariffs and Trade.

In Spain, as in many other countries, a procedure exists for refunding indirect taxes on products intended for export; that procedure was examined by the Working Party on Border Tax Adjustments and described in its report (L/3389) that was adopted by the CONTRACTING PARTIES.

This refund of taxes, termed in Spain the Tax Rebate on Exports (TRE) is fixed as a percentage of the value of the product exported, varying between 1.5 and 13.5 per cent.

For the purpose of calculating the rate of TRE, account must be taken of the fact that there is at present in Spain a system of general indirect taxation on both services and goods which technically falls within the category of cascade taxes. This type of taxation involves two difficulties:

(a) It is impossible to determine the exact amount of indirect taxes applied in each case on factors entering into the production of a given product. Indeed, in each particular case the extent of utilization of a particular factor can vary within certain limits. Accordingly, the rate is always established on the basis of the average amount of taxes charged on production factors.

(b) Production elements that are not physically incorporated are included in calculating the rate of rebate - for example, energy used in the production process, packaging, auxiliary materials, depreciation of installations, or transport of the product to the frontier.

Because of these two circumstances, Spain did not sign the Code on Subsidies and Countervailing Measures immediately, but only in 1982, with the reservation expressed in document SCM/25, since the Spanish authorities had the intention of introducing a system of value-added tax (VAT) in place of the existing indirect cascade-tax system.

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For reasons independent of the will of those authorities, as explained in document SCM/W/84, approval and implementation of the VAT system were postponed.

Realising that there can be an element of subsidization in calculating the rate of TRE on exported products, the Spanish Government has taken or will take the following measures:

1. Under Royal Decree 1313/1984 of 20 June 1984 (Official Gazette of 10 July), the rate of TRE was reduced across-the-board by 15 per cent.
2. By order of the Ministry of Economic and Financial Affairs of 15 March 1985 (Official Gazette of 27 March), the rates of TRE were reduced by a further 15 per cent.
3. Similarly, at its meeting of 27 March the Government examined, for immediate forwarding to the legislative authorities, a bill for the introduction of VAT in place of the present system of indirect cascade taxes, so that the new provisions may be processed and approved as rapidly as possible by the legislative authorities.

These Government measures will:

(a) Eliminate from TRE any tax refund in respect of production factors not materially incorporated in goods exported.

(b) Eliminate any possible subsidization element that it might be impossible to determine because of limited but real variations in the extent of utilization of such factors in each process. This will be achieved with the introduction of VAT which will determine the exact amount of TRE corresponding to each export product.