

GENERAL AGREEMENT ON TARIFFS AND TRADE

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SUBSIDIES

Notifications Pursuant to Article XVI:1

PORTUGAL

The following notification has been received from the Permanent Mission of Portugal.

I

SUBSIDIES TO AGRICULTURE

State intervention in the organization of agricultural markets is designed to develop production, support farm income and eliminate or hold down price fluctuations; it is differentiated according to the product concerned and in general takes the following forms:

- fixing of prices, together with a system of intervention and aids;

or

- free operation of market forces, together with punctual interventions when necessary.

It is nevertheless difficult if not impossible to evaluate the effects of this intervention because no detailed statistical data are available.

I - Cereals

- Nature and extent of the subsidy

(a) Background and authority

The State grants subsidies on domestic and imported cereals in order to stabilize consumer prices.

Subsidies are granted on cereals for sowing, whether domestic or imported, in order to encourage production and support income.

All these subsidies are granted under Decree Law No. 70/78 of 7 April 1978.

(b) Incidence

For domestic cereals, the subsidies are paid to producers; in respect of imported cereals, they are paid to the milling industry.

In both cases, the amount of aids is variable: on domestic cereals it corresponds to the difference between the guaranteed producer price and the selling price to industry, both prices being fixed by administrative authorities; in respect of imported cereals, the subsidy corresponds to the difference between the c.i.f. price and the selling price to industry.

(c) and (d) Amount of subsidy:

Description of subsidy	Total amount (Million Esc)			Unit amount (Esc/kg.)		
	1981	1982	1983	1981	1982	1983
1. Subsidy to milling industry for purchase of wheat produced on continental territory and intended for human consumption	1,291.4	732.2	82.4	4.1	2.1	0.2
2. Subsidy to milling industry for purchase of wheat imported into continental territory and intended for human consumption	1,954.8	-	-	3.2	-	-
3. Subsidy to compound feed industry for purchase of bread wheat produced on continental territory and used for animal feed	107.7	-	-	3.2	-	-
4. Subsidy to milling industry for purchase of rye produced on continental territory and intended for human consumption	184.6	70.8	19.2	5.0	2.4	0.7
5. Aid to milling industry for purchase of imported rye intended for human consumption	-	13.2	-	-	2	-
6. Subsidy to stock-breeders (private and public entities) for purchase of barley produced on continental territory and intended for animal feed	75.3	165.1	199.4	3.9	4.8	3.3
7. Supply to producers of imported two-sowed barley for sowing, at reduced price	1.6	-	-	1.6	-	-

Description of subsidy	Total amount (Million Esc)			Unit amount (Esc/kg.)		
	1981	1982	1983	1981	1982	1983
8. Subsidy to compound-feed industry for purchase of yellow maize produced on continental territory and intended for animal feed	73.0	126.1	96.2	4.4	5.3	3.3
9. Subsidy to compound-feed industry for purchase of imported yellow maize intended for animal feed	6,157.7	-	825.9	2.4	-	0.4
10. Subsidy to compound-feed industry for purchase of white maize produced on continental territory and intended for animal feed	11.3	4.2	6.7	4.6	4.5	1.4
11. Subsidy to compound-feed industry for purchase of grain sorghum produced on continental territory	0.1	*	-	3.7	1.3	-
12. Subsidy to compound-feed industry for purchase of imported grain sorghum intended for animal feed	390.5	-	-	2.1	-	-
13. Subsidy to compound-feed industry for purchase of imported oats intended for human consumption	-	0.5	-	-	10.2	-
14. Subsidy to stock-breeders for purchase of oats produced on national territory and intended for animal feed	221.4	402.7	132.2	3.6	4.4	2.3
15. Subsidy to husking industry for purchase of paddy rice produced on continental territory	8.2	8.4	12.9	6.0	6.2	5.3
16. Compensation differentials received or paid by rice-husking industries, depending on type of rice, upon purchase of domestic paddy rice	132.1	-	247.1	-	-	-
17. Subsidy to husking industry for purchase of husked rice imported into continental territory	846.7	87.8	13.7	8.0	1.1	0.2

*Negligible amount

¹The subsidy corresponds to the difference between the world market price and the purchase price fixed for industries.

II - Sugar

Nature and extent of the subsidy.

(a) Background and authority.

Subsidies are granted to refineries to ensure their supply of raw sugar and at the same time regulate consumer prices.

Each year a Ministerial Order fixes the retail price, profit margins and delivery price to refineries.

In the Azores and Madeira, subsidies are granted by the regional governments to encourage production and support farm income.

(b) Incidence

The subsidy is variable and is granted to refineries; it corresponds to the difference between the international market price and the fixed delivery price to refineries.

In respect of the Azores and Madeira, producer subsidies are granted.

(c) and (d) Amount of subsidy:

Description of subsidy	Total amount (Million Esc)			Unit amount (Esc/kg.)		
	1981	1982	1983	1981	1982	1983
1. Subsidy to refineries for their supply of imported raw sugar, at fixed price	4,834.3	1,119.5	1,605,597.0	1	1	1
2. Subsidy to the Madeira refinery to ensure disposal at a price below the local production cost of sugar produced from island-grown sugar cane	46.2	71.9	82.0	2	2	2
3. Subsidy to development of sugar-beet cultivation in the Azores	4.2	6.7	11.2	2	2	2

¹The subsidy corresponds to the difference between the world market price and the purchase price fixed for refineries.

²Not available.

III - Vegetable fats

(a) Background and authority

In this sector there are production aids for safflower and sunflower and for oilcake produced from imported oilseeds.

The objective is to encourage production or, in the case of oilcake, to support consumer prices of meat, milk and eggs.

The aids are granted under Decree Law No. 426/72 of 31 October 1972.

(b) Incidence

In respect of sunflower and safflower seed, the amount of the aid is fixed each year.

It is paid to industries under a purchase contract between them and the producers.

In respect of imported oilcake, the aids granted correspond to the difference between the import price and the purchase price to the compound-feed industry, the latter price being fixed by administrative authorities.

(c) and (d) Amount of subsidy:

Description of subsidy	Total amount (Million Esc)			Unit amount (Esc/kg.)		
	1981	1982	1983	1981	1982	1983
1. Subsidy to safflower seed crushing industries which pay the guaranteed price to producers	1.3	5.3	-	4.0	3.9	-
2. Subsidy to sunflower-seed crushing industries which pay the guaranteed price to producers	43.2	92.0	-	5.0	3.8	-
3. Subsidy to compound-feed industries for purchase at reduced price of oilcake based on imported oilseeds	3,018.0	782.3	226.0	1	1	1
4. Subsidy to compound-feed industries for purchase at reduced price of oilcake produced from locally crushed oilseeds.	1,834.0	782.0	6,383.2	1	1	1

¹The subsidy corresponds to the difference between the world market price and the purchase price fixed for industries.

IV - Fruit and vegetables

(a) Background and authority

Subsidies are granted to producers to encourage production and improve quality. A Ministerial Order is published each year for this purpose.

In addition, aids are granted at the marketing level to the tomato-concentrate industry in order to guarantee its operating funds.

These aids are granted by government decision for each agricultural season.

(b) Incidence

Imported or domestic seeds or plants are sold to producers by the State with a 40 per cent reduction on the market price.

Aid in respect of tomato-concentrate takes the form of State endorsement of loans taken out by the industry in order to finance the purchase of raw materials or to cover industrial costs.

(c) and (d) Amount of subsidy:

Description of subsidy	Total amount (Million Esc)			Unit amount (Esc/kg.)		
	1981	1982	1983	1981	1982	1983
1. Supply at reduced prices of imported seeds of peas, beans, green beans, cauliflower, carrots pimento and spinach to producers who have concluded crop contracts with the processing industry	4.8	7.2	-	1	1	1
2. Supply at reduced price of annual strawberry plants, imported or domestic, to producers whose output is intended for consumption in the natural state	0.6	-	-	2	2	2
3. Seasonal credit with State guarantee, for the tomato-concentrate industry.	39.4	56.6	49.1	3	3	3

¹The subsidy is variable, since it consists of a reduction on the market price.

²The subsidy corresponds to the difference between the world market price and the purchase price fixed for industry.

³Not available.

V - Potatoes

(a) Background and authority

A subsidy is granted on production and marketing of domestic potatoes intended for sowing, in order to offset the difference in income as between producers of potatoes for sowing and producers of potatoes for consumption.

This subsidy is designed to encourage the use of high-quality seeds. Subsidies are granted under Decree-Law No. 20 855 of 20 October 1964.

(b) Incidence

The subsidy is granted to farmers through the co-operatives, on the basis of two mechanisms:

- per 50 kg. sack, or
- a 75 per cent reduction on the purchase price of high-quality imported potatoes.

(c) and (d) Amount of subsidy:

Description of subsidy	Total amount (Million Esc.)			Unit amount (Esc/kg.)		
	1981	1982	1983	1981	1982	1983
1. Subsidy to production of seed potatoes of certified category						
(a) For domestic certified seed potatoes	37.7	32.0	31.0	325.0 (Esc/50 kg.sack	325.0 Esc/ sack	310.0 Esc/ sack
(b) For purchase of high-quality foreign seed for multiplication (75 per cent of purchase price)	-	43.2	50.9	1	1	1

¹The subsidy corresponds to the difference between the world market price and the purchase price fixed for industries.

VI - Vegetable products

(a) Background and authority

A subsidy is granted on the sale of fertilizers.

The subsidy is designed to reduce the selling price of fertilizers and encourage farmers to make greater use of them.

It is granted under Order No. 183/82 of 21 August 1982.

(b) Incidence

Subsidy is granted to fertilizer-producing firms.

(c) and (d) Amount of subsidy:

Description of subsidy	Total amount (Million Esc)			Unit amount (Esc/kg.)		
	1981	1982	1983	1981	1982	1983
1. Subsidy to production of fertilizers	5,480.6	5,286.1	6,489.1	1	1	1.

¹ Although granted on the basis of tonnage sold, the subsidy varies according to the quality of fertilizers.

VII - Milk

(a) Background and authority

A subsidy is granted on milk and milk powder as an incentive to production.

In addition, aid is granted for the installation of milking machines and/or cooling equipment in order to improve quality.

The subsidies are granted under Decree-Laws Nos. 192-B/78 of 7 April 1978 and 165/79 of 11 April 1979.

(b) Incidence

The subsidy is paid to producers in milk collection zones.

It takes the form of a fixed percentage in the case of installation of milking machines; in other cases, a fixed amount per litre is granted.

(c) and (d) Amount of subsidy

Description of subsidy	Total amount (Million Esc)			Unit amount (Esc/kg.)			
	1981	1982	1983	1981	1982	1983	
1. (a) Subsidy on installation of milking machines and/or cooling equipment.	55.0	44.0	66.3	40%	40	40%	
(b) Subsidy for mechanical milking and cooling	359.4	353.3	139.7	} 0.3 } 0.5	} 0.2 } 0.5	} 0.2 } 0.8	
(c) Seasonal production subsidy:							
Category A milk ¹	276.3	} 60.5	} 300.7			4.5	
Category B milk ²	12.1						4.0
Special milk	9.1						
2. Subsidy on transport of liquid milk, whether or not processed, from certain surplus production areas to consumption regions with a shortfall.	187.3	41.5	97.1	0.60 ₃ 0.70	0.60 ₃ 0.70	0.60 ₃ 4.9	
3. Subsidies to processing or distribution units for liquid milk which respect maximum selling prices fixed administratively at the level of consumption (fixed unit amount in Esc/litre, variable according to type of milk produced and region)	3,349.0	3,904.0	5,591.8	4.9 6.9 4.6 2.2 5.5 0.4 2.0	10.5 11.5 8.3 7.9 5.3 4.9 0.4 2.0	- - - - - - -	

¹ Used for consumption in the fresh state

² Used mainly by industry

³ Variable according to regions

VIII - Other

(a) Background and authority

A subsidy is granted on fuels used in agriculture in order to compensate farmers for higher costs resulting from the increase in the price of gas-oil and afford some income support.

This subsidy is granted under Decree No. 958/83 of 4 November 1983.

(b) Incidence

The subsidy takes the form of a refund to duly registered farmers.

The refund is based on increases in the price of gas-oil as verified throughout the agricultural season.

The subsidy covers only gas-oil used in cultivation and is fixed per Esc/litre of gas-oil consumed.

(c) and (d) Amount of subsidy

Description of subsidy	Total amount (Million Esc)			Unit amount (Esc/kg.)		
	1981	1982	1983	1981	1982	1983
1. Subsidy on purchase of fuel used in agriculture	690.0	-	2,175.0	4.5	-	17.5

II

SUBSIDIES TO INDUSTRY

Subsidies to industry fall into two categories:

- those that are limited to encouraging investment, and
- export aids.

Both of them take the form of either tax relief or financial incentives.

Given their general character and the fact that they are variable and are not the subject of separate records, it is impossible to evaluate their effects or establish any figures other than estimates. It should be recalled that export aids are covered by the reservation entered by Portugal.

In addition to these aids of a general character, there are those granted to the shipbuilding industry.

A detailed account follows of the nature and purpose of the aids granted.

A. Tax relief on exports

I. Nature and extent of the subsidy

(a) Background and authority

Tax relief on exports is designed to encourage the country's exports.

The legal basis for such relief is Decree Law No. 408/80 of 26 September 1980, as amended by Decree Law 492/82 of 31 December 1982.

Tax relief will be in effect during 1985 and is covered by the reservation entered by Portugal upon acceding to the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement on Tariffs and Trade.

(b) Incidence

Tax relief on exports comprises deductions on profits liable, inter alia, to industrial tax, taking into account foreign exchange earnings from exports and national added value, as well as expenditure in respect of vocational training and marketing activities.

The beneficiaries are exporters.

(c) Amount of subsidy

In view of the fact that the subsidy is granted in the form of a tax deduction (of up to 4 per cent) the total value has not been recorded.

Nevertheless, one can estimate that the value of tax receipts not collected because of these relief measures will not exceed 2 million contos.

II. Effect of subsidy

Since these are measures of a general character, it is impossible to establish any relation between the effects of the subsidy and exports.

B. Investment promotion

B.1 Integrated investments incentives system (SIII)

In the view of the Portuguese Government, most of the SIII schemes do not constitute subsidies in terms of Article XVI:1 of the General Agreement.

However, given that the concept of economic productivity under the general scheme can include exports as a weighting element for final determination of projects, in this respect the system can be considered to constitute export incentives.

That is why the Portuguese reservation covers the SIII, which is currently being revised in order to make it fully consistent with the Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the General Agreement.

I. Nature and extent of the subsidy

(a) Background and authority

The legal basis for the SIII is Decree Law No. 132/83 of 18 March 1983 with implementing regulations established by Government Orders Nos. 284/84 of 11 May 1984 (regarding the general scheme), 31/83 of 15 April 1983 (for the R and D support scheme) and 712/84 of 14 September 1984 (regarding schemes of simplified regional/sectoral priorities and relocation).

The SIII is a system designed to encourage investment in the extraction and manufacturing industries with particular reference to sectoral and regional aspects.

The SIII provides for the following schemes:

- general scheme of fiscal and financial incentives

¹ 1 conto = Esc 1,000

- scheme of regional/sectoral priorities;
- simplified scheme of incentives for small investment projects;
- special scheme of capital grants;
- contractual scheme for major economic and social projects;
- relocation incentive scheme;
- scheme of tax relief for company mergers and co-operation;
- scheme of aid to research and technological development.

The general scheme is applicable to investment projects of a value exceeding Esc 20 million.

Under the general scheme, projects are examined on the basis of three criteria:

- economic productivity;
- sectoral priority;
- regional priority.

These criteria carry weighting coefficients of 35 per cent, 35 per cent and 30 per cent respectively for project evaluation.

The scheme of regional/sectoral priorities can be applicable to projects in which investment is recognized as being of regional and sectoral interest.

The simplified scheme for small projects is designed to encourage small enterprises with less than fifty workers to invest in job creation.

The capital grants scheme is designed to strengthen fixed assets in order to ensure a balanced financial structure of the undertaking concerned.

Under the contractual scheme, major economic and social projects are given special treatment on a case-by-case basis.

The relocation incentive scheme applies to undertakings planning to transfer production units to an area of maximum regional priority.

The incentive scheme for company mergers and co-operation is designed to encourage reorganization and improved productivity.

The scheme of aid to research and technology development is designed to encourage research and development activities.

(b) Incidence

Aids granted under the SIII are in the form of tax relief and financial incentives.

Tax relief consists inter alia of deductions from industrial tax; financial incentives are in the form of a variable payment of between 2 per cent and 7 per cent of interest rate.

The beneficiaries are undertakings in the extraction or manufacturing sectors which present investment projects.

No record is kept of the total value of tax receipts not collected for tax relief reasons.

The total value of interest rate payments in 1983 was 1.6 million contos, including payments under the contractual scheme for foreign investment described under B.2 below.

II - Effect of subsidy

Since this a general investment incentive instrument, it is not possible to determine the effects of aids granted under the SIII.

B.2 - Foreign investment

I - Nature and extent of the subsidy

(a) Background and authority

The legal basis of the Foreign Investment Code is Decree-Law No. 348/77 of 24 August 1977, as amended by Decree-Law No. 174/82 of 12 May 1982.

This Decree Law establishes two régimes:

- The general régime which simply guarantees that undertakings with foreign capital receive non-discriminatory treatment in relation to domestic undertakings;

- The contractual régime which can be applicable to major projects.

Decree No. 54/77 of 24 August 1977 established implementing regulations for this contractual régime.

Among other criteria (for example: job creation, vocational training, economic viability of the project), Decree No. 54/77 recognizes exports resulting from the project as a positive factor.

This particular aspect, which can be considered to constitute an export subsidy, is covered by the Portuguese reservation.

The objective of the legislation on foreign investment is to allow participation of foreign investment in the country's economic and social development on a footing of full equality with domestic undertakings.

As regards the contractual régime, its priority objectives are the following:

- Implementation of industrial projects whose economic and financial viability is assured;

- Economic, social and technological development through projects which, because of their technological or management complexity, would not be feasible on the basis of domestic resources alone;

- Optimum utilization of domestic resources;

- Significant job creation or support.

(b) Incidence

The beneficiaries are foreign investors.

The incentives consist, inter alia, of deductions from profits liable to industrial tax, and interest rate payments.

(c) Amount of subsidy

No record is kept of the value of tax receipts not collected.

The total value of interest payments for the year 1983 was 1.6 million contos, including SIII payments.

II - Effect of subsidy

Most foreign-capital undertakings are covered by the general régime, for which no separate record of aids is kept. This is also the case for the contractual régime, whose application is very limited.

It is therefore not possible to evaluate the effects of the aids granted.

In addition, other elements (for example, the economic environment) play a decisive rôle in decisions by undertakings.

B.3. - Development Contracts for Exports

I - Nature and extent of the subsidy

(a) Background and authority

The legal basis for development contracts for exports is Decree-Law No. 288/76 of 22 April 1976.

The system encourages projects designed to increase the production capacity of undertakings aiming at improvement and wider geographical distribution of their exports.

(b) Incidence

Aids granted under these contracts are in the form of tax relief, financial incentives, and technical assistance to promotion programmes. The aids are paid to producer-exporters in relation with the project and with their export targets.

Tax relief is in the form of deductions from industrial tax and duty-free treatment of imported equipment; financial incentives consist of partial reimbursement (maximum 75 per cent) of the cost of investment loans and of promotion programme expenses.

(c) Amount of subsidy

No record is kept of the total value of tax receipts not collected in the context of tax relief. One can nevertheless say that the amount is small.

The total value of financial incentives in 1983 was 70,000 contos.

II - Effect of subsidy

The subsidy is considered to have no quantitative effects on trade, because its total amount is so small that it has no impact on product competitiveness, and furthermore the effects are mainly at the level of quality of export products and geographical distribution of exports.

C. - Shipbuilding

I - Nature and extent of the subsidy

(a) Background and authority

State support to shipbuilding is regulated by Decree-Law No. 345/80 of 2 September 1980.

These aids are designed to increase utilization of shipyard capacity and establish conditions consistent with more balanced international competition, taking into account the current recession and the generalized granting of government aids in this sector at world level.

(b) Incidence

The aids are of a financial character.

They may take the form of credit guarantees, interest rate payments (never exceeding those defined by OECD), or subsidies on direct costs of the project and on expenditure for vocational training.

The aids are paid to shipbuilding undertakings or shipowners holding contracts to build new vessels or carry out major conversions.

The régime is applicable regardless whether the vessels are intended for the domestic or foreign market.

(c) Amount of subsidy

Amounts paid in 1983 totalled 1 million contos.¹

As a general rule, the aids are equivalent to 15 or 20 per cent of the project cost.

II - Effect of subsidy

Although it is difficult to evaluate the effects of the subsidy (no statistics are available to us for the moment), it would seem the aids have resulted in increased utilization of production capacity in some shipyards and have contributed to reorganization and modernization of others.

¹ 1 conto = Esc 1,000