

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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SUBSIDIES

Notifications Pursuant to Article XVI:1

TURKEY

The following notification concerning subsidies has been received from the Permanent Mission of Turkey.

EXPORT INCENTIVES PROGRAMME

The objective of the Export Incentive Policy is to increase exports within the targets and in the direction set by the Development Plans. Like all developing countries, Turkey attaches great importance to the determination and implementation of this policy.

However, the incentive measures applied in Turkey are significantly different in purpose from the subsidies specified in Article XVI (I) of the General Agreement. As will become evident upon the review of the primary incentive measures in force (presented below), the main objective here is to at least partially and to the extent possible do away with the adverse effects of the high domestic inflation rate and the scarce and expensive financing resources.

The encouragement and orientation of exports in Turkey are achieved by the "Export Incentive Decrees" and the supplemental "Export Incentive Communiqués" which are published after having been discussed by the Council of Ministers every year.

The "Export Incentive Decree for 1985" came into force upon being published in the Official Gazette number 18606, dated 15 December 1984, and the Communiqué prepared for the implementation of the Decree was effective after its publication in the Official Gazette number 18622, dated 31 December 1984.

The full implementation and supervision of the encouragement measures in Turkey are effected by the Department of Encouragement and Implementation (TUB) of the Undersecretariat to the Prime Ministry for the State Planning Organization. Furthermore, the Ministry of Finance and Customs, the Undersecretariat to the Prime Ministry for the Treasury and Foreign Trade, and the Central Bank of the Republic of Turkey are other institutions taking part in the process.

The Incentive measures may be grouped under three main headings:

- Resource Utilization Support Fund Payments
- Tax Rebate Applications
- Corporate Tax Exemptions

1) Resource Utilization Support Fund Payments

a) Background and Authority

The "Resource Utilization Support Fund Decree" became effective on December 15, 1984, upon being published in the Official Gazette number 18606, and its purpose was to ensure, by way of supporting the utilization of resources in exports and investments according to the targets shown in the Development Plan and the Annual Programs, the orientation of bank resources towards the said fields and the reduction of the cost of specialty credits.

Exports actually realized after January 1, 1985 fall within the scope of the said Decree.

b) Incidence

2 to 4 % of the value of the net foreign exchange income corresponding to exports realized through the "Resource Utilization Support Fund (number 84/8860)" is paid to the exporter as a support premium. This premium is paid to the exporter in order to render him some protection from the adverse effects of the relatively high (compared to general global levels) domestic credit interest rates.

Export firms apply through a bank for the support premium to one of the branches of the Central Bank, the location of which is determined by the rediscount region to which the city "where the firm's head office is located or where the exports transactions are carried out" belongs.

The export support premium is paid according to the exports realized.

In the calculation of the amount of the net foreign exchange income, direct or indirect payments made under the name of insurance, commissions, premiums and return are deducted from the total value of exports.

c) Amount of Subsidy

Since implementation of the Decree in question has just been started, the amounts appropriated from the Resource Utilization Support Fund and the value of payments made per unit can not yet be determined.

d) Effect of Subsidy

The assessment of these measures taken to minimize the unfavorable effects of the domestic scarcity and the high cost of the financing resources is not possible at present.

2) Tax Rebate Applications

a) Background and Authority

The underlying principle of the system of tax rebates related to exports is the repayment to the exporter of some or all of the financial burden incorporated in the structure of the exported goods in the production process. Thus, the exporter is given a competitive edge in the world market by the rebate of basically indirect taxes levied on exported goods produced in Turkey.

In practice, the rebate of all the financial burden on products does not apply to all exports. The fundamental principles governing rebates are as follows:

i. Rebates are not given for products which already enjoy reasonable competitiveness without such repayments.

ii. If the product can gain equal competitiveness with only a partial rebate, then the rebate rates are adjusted accordingly.

iii. If the product gains equal competitiveness only when all of the tax burden is lifted, then the rebates are determined accordingly.

The list of export products which are to benefit from tax rebates is determined by the Department of Encouragement and Implementation (TUB) of the State Planning Organization. The rates and amount of tax rebates are decided by the Council of Ministers at the request of TUB within the framework of Law number 933, Article 13.

In addition to the Department of Encouragement and Implementation, various Customs Directorates and the Central Bank of the Republic of Turkey are other institutions sharing duties and responsibilities in the provision of tax rebates.

b) Incidence

The products which benefit from tax rebates, as decided by the Department of Encouragement and Implementation, are categorized into 10 groups and enjoy tax rebates in various rates ranging from 0 to 20 %. It is also possible that a firm with exports over a specific limit within a calendar year be given additional gradual rebates up to 10 %.

With the effect of the tax rebate system on the State Budget in mind, it was decided that starting April 1, 1984, and subsequently on September 1, 1984, tax rebates be paid out with ratios of 80 % and 55 %, respectively, of the rates mentioned above. With this practice, there has been an initial reduction of 20 %, and a further reduction of 45 % in the system of rebate payments.

Thus a substantial reduction in the tax rebates on exports products has been achieved. It is planned to completely lift the gradually decreasing tax rebates on export products in the near future.

c) Amount of the Tax Rebate

The total amounts of tax rebates on exports for the year 1983, 1984 and 1985 (first six months) are shown below:

Tax Rebates on Exports (in millions of TL)

| 1983 | 1984 | 1984(x) | 1985 |
|---------|---------|---------|---------|
| 148.990 | 329.057 | 168.345 | 124.517 |

(x) January-June 1984

The table above shows that the amounts of tax rebates for the years 1983 and 1984 have been 148.990 million TL and 329.057 million TL, respectively. Note that comparing the first six months of 1984 and 1985, there has been an important decline (26.03 %) in tax rebates, due to explanations given above.

d) Effect of the Subsidy

No clear relationship can be detected between the developments and/or changes in the rates of tax rebates and the values of exports since the former aims at minimizing the effects of taxes and increasing competitiveness when entering the world market.

3) Corporate Tax Exemption

a) Background and authority

The Corporate Tax Exemption extended under Law number 5422 was transformed later in 1981 to a more simplified structure by Law number 2573, and deduction of a given percentage from the corporate income was prescribed.

The aforementioned exemption was extended only to corporations (mainly Anonymous Companies), leaving out businesses operated by individuals. Therefore, the main purpose of the measures taken was to encourage exports through corporations and "institutionalize" the process of exports.

b) Incidence

Industrial products, fresh fruits and vegetables, aquatic export products, freight incomes earned abroad and collected in foreign exchange, and foreign exchange earned by particular touristic establishments are included in the scope of exemption.

In practice, 20 % of the export income is declared non-taxable. This rate is set at 5 % of the income for firms not producing the export products themselves.

c) Amount of Subsidy

Since legislation on Corporate Tax Exemption also covers such non-exports areas as social and cultural activities, it is difficult to make an assessment on the amounts allowed to benefit from exemption.

d) Effect of Subsidy

Since Corporate taxes are indirectly levied on income, it becomes impossible to determine the effect of exemptions.