

# GENERAL AGREEMENT ON

RESTRICTED

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## TARIFFS AND TRADE

Limited Distribution

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### SUBSIDIES

#### Notifications Pursuant to Article XVI:1

##### TURKEY

The following communication, dated 31 January 1989, has been received from the Permanent Mission of Turkey.

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The attached notification includes the changes that have been made in Turkey's system of subsidies, for which the complete notification was submitted on 19 June 1987 pursuant to Article XVI:1 of the General Agreement.

This additional notification gives an account of the 1989 export incentive programme, together with information on developments in its implementation during 1988. It should also be noted that the tax rebate system for exports described in the complete notification for 1987 was completely abolished at the end of 1988.

#### Export Incentive Programme

The objective of the export incentive policy is to increase exports in accordance with the targets and guidelines laid down in the development plans. Like most developing countries, Turkey attaches great importance to the formulation and implementation of this policy, with emphasises on improving GATT disciplines relating to all subsidies and countervailing measures that effect international trade.

The incentive measures applied in Turkey are appreciably different in purpose from the subsidies referred to by Article XVI:1 of the General Agreement. As may be seen from the description below of the incentive measures currently in force, the main aim is to eliminate in part, if not entirely, the adverse effects of high domestic inflation and the shortage and high cost of financing.

Incentive measures and guidelines for Turkey's exports are established in export incentive decrees which are published each year after having been examined by the Council of Ministers.

The Export Incentive Decree and Communiqué for 1989 entered into force after having been published in the Official Gazette No. 19986 of 11 November 1988.

The Department of Incentives and Implementation (TUB) of the Undersecretariat for Planning has the overall responsibility for the implementation and supervision of the incentive programme in Turkey. The Ministry of Finance and Customs, the Undersecretariat for Treasury and Foreign Trade, the Export-Import Bank of Turkey, the Ministry of Industry and Commerce and the Central Bank of the Turkish Republic likewise have certain functions in this area.

It must also be stressed that, Turkey has taken great steps towards modifying its incentive system to generally accepted levels by abolishing the tax rebate system by the end of 1988. It has also been decided to encourage exports by the so-called export credit and insurance system.

Incentive measures can be grouped under the following headings:

- Export Credits,
- Support and Price Stabilization Fund Payments,
- Corporate Tax Exemption.

I. Export Credits

(a) Background and authority

The Government of Turkey has declared that, the main aim of the annual programme for 1989 concerning the incentives for exports will be to encourage exports through a system of export credits and insurances.

To serve this purpose, various export credit schemes are carried out by the Central Bank of the Turkish Republic and by the Export-Import Bank of Turkey. These credit schemes are designed to meet the financial needs of exporters in order to achieve the export level laid down in the programme for 1989, aimed at achieving the growth rate with a minimum of foreign credit.

There are mainly two credit schemes which are export rediscount credit and post shipment export credit.

The export rediscount credit itself consists of four credit schemes which are:

- cash against documents export rediscount credit
- cash against letter of credit export rediscount credit
- overseas construction services rediscount credit
- special export rediscount credit

The transactions relating to the export rediscount credits are carried out by the Central Bank except for the special export rediscount credit which is issued by Eximbank through Central Bank sources.

Communiqué No. 5 of the Central Bank of the Turkish Republic, published in the Official Gazette No. 20004 of 29 November 1988, established the nature and conditions of the export rediscount credit.

This is a modified version of Communiqué No. 1 of Central Bank, published in the Official Gazette No. 19287 of 20 November 1986.

Post shipment export credit is issued by Eximbank through intermediary banks and serves the purpose of easing the financial difficulties encountered by exporters after exporting is finalized.

(b) Incidence

Cash against letter of credit and cash against documents export rediscount credits are granted to exporters having achieved a minimum export value of \$5 million in the three consecutive calendar years immediately preceding the date of the loan, with a minimum value of \$1 million in each of these calendar years, and to exporters who can show, by presenting the relevant documents, that they are in the process of collecting payment for their exports. These credits are mainly intended for experienced exporters.

Cash against letter of credit export rediscount credit has 120 days maturity and its amount is equivalent to 50 per cent of the Turkish Lira counter value of the FOB value of the export to be undertaken at the rate of exchange if it is issued to producer-exporters and 65 per cent if the exporter and producer of the export product is different. In this case the exporter is allowed to get 40 per cent and the producer 25 per cent of the Turkish Lira counter value of the FOB value of the export to be undertaken at the rate of exchange.

Cash against documents export rediscount credit has 45 days maturity, and its amount is equal to the 50 per cent of the Turkish Lira counter value of the FOB value of the document related to the export to be undertaken at the rate of exchange.

Overseas construction services rediscount credit is issued to companies that have construction activities abroad. The amount of the credit is equivalent to 50 per cent of the TL counter value of the commitments for the foreign exchange to be repatriated to the country. The credit has 120 days maturity.

Special export rediscount credit is issued by Eximbank. This credit is given to exporters that have achieved a minimum export value of \$100 million US Dollars. Export performance of the companies are determined by the bank upon documents submitted to the bank and by companies. The limits of the credit are determined by these documents and depends on the export performance. In determining the export performance, only the FOB value of exports are taken into consideration. The credit has 90 days maturity. This credit is intended for big export companies.

All export rediscount credits have an interest rate of 35 per cent.

Post shipment export credit, credit limits of which is determined by Eximbank differently for every intermediary bank has three months maturity. Eximbank issues an interest rate of 27 per cent for the intermediary bank

and the final rate of interest to the exporter could not be above 30 per cent.

(c) Amount of subsidy

The amount of credit issued by the Central Bank under different credit schemes are given below. The figures given are gross and include bank charges that amount to approximately 10 per cent of the total value of the credit and cover the period between 1.1.1987 and 31.12.1988.

<u>Kind of credit</u>	<u>Amount Issued</u> (Million TL)
Cash against letter of credit export rediscount credit	462,750.2
Cash against documents export rediscount credit	33,859.5
Overseas construction companies export rediscount credit	7,639.3

The amount of special export rediscount credit issued since the end of April 1988 by Eximbank is 238,000 million TL.

The amount of credit allowed for 29 intermediary banks since the end of May 1988 is 100,000 million TL from the post shipment export credit scheme.

(d) Effect of subsidy

It is very difficult to evaluate the effects of these types of credits. However, it can be argued that, these export credits have increased the exports of already experienced exporters, and especially with cash against letter of credit scheme, served to increase exporting companies share in total exports.

2. Payments from the Support and Price Stabilization Fund

(a) Background and authority

Communiqué No. 88/30 of the Money and Credit Board, dated 3 November 1988, published in the Official Gazette No. 19983 of 8 November 1988, establishes the nature and conditions for payments from the Support and Price Stabilization Fund. These payments, which are for a limited number of items are made by the Central Bank of the Turkish Republic on the basis of both the characteristics (weight, length or unit) and destination of certain exported products. This incentive which does not have a general and continuous application is designed to restore the competitiveness on foreign markets of products with satisfactory potential.

(b) Incidence

The amount paid in respect of products included in the list published by Communiqué 88/30 are determined jointly by the Undersecretariat for Planning and the Undersecretariat for Treasury and Foreign Trade, no account is taken of the share corresponding to inputs imported under an export incentive certificate.

(c) Amount of Subsidy

Payments from the Support and Price Stabilization Fund were put into force by the end of 1986 to restore the relative position of Turkish exports which were declining in 1986 compared to 1985.

The total amount of payments realized from this fund for the years 1986-1988 are given below:

1986	8,102 million TL
1987	145,500 million TL
1988 *	195,297 million TL

\* end of September

(d) Effect of Subsidy

It is difficult to calculate the effects of this incentive as it is a part of the whole system of incentives. It could be argued that it is designed to offset the negative effects of scarce and costly domestic financing sources and to safeguard the competitive position of these products in foreign markets.

However, it must also be stressed that incentives like Support and Price Stabilization Fund payments are only temporary as they are effective only for a year and also as the Government has declared in its annual programme for 1989 that gaps from the elimination of tax rebates will be filled by various credit and insurance schemes. Therefore, these payments will be replaced by credit and insurance schemes mentioned above within a reasonable period of time.

3. Corporate Tax Exemption

(a) Background and authority

The corporate tax exemption system, established under Law No. 5422, was amended in 1981 by the Law No. 2573 and in 1988 by Law No. 3482 which simplified the system and made provision for a given percentage to be deducted from corporate income.

The exemption system is only granted to companies and not to businesses operated by individuals. It was therefore mainly designed to encourage exports through companies and "institutionalize" the process. This incentive will also be eliminated within a reasonable period of time.

(b) Incidence

This exemption applies to the producer-exporters of industrial products whose annual export earnings are above 1,000,000 US Dollars; to the producer-exporters of fresh fruits and vegetables and aquatic export products whose annual export earnings are above 250,000 US Dollars; and for foreign exchange earnings in respect of freight.

In practice, 20 per cent of export earnings are declared non-taxable. In case of companies which do not produce export products themselves, the rate is 5 per cent.

(c) Amount of Subsidy

Since the legislation on corporate tax exemption also covers such other export areas as social and cultural activities, it is difficult to evaluate the amounts eligible for exemption. It is also very difficult to estimate the amount of this subsidy per unit of exported products.

(d) Effect of Subsidy

Since corporate tax is levied indirectly on income, it is almost impossible to determine the effects of this exemption.