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# GENERAL AGREEMENT ON TARIFFS AND TRADE

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Multilateral Trade Negotiations

Original: Spanish

Group "Non-Tariff Measures"
Sub-Group "Subsidies and Countervailing Duties"

## EXPORT SUBSIDY PRACTICES

The following communication is circulated at the request of the Delegation of Spain.

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The inclusion as an export subsidy, in the illustrative list in Annex A to the draft agreement contained in document MTN/NTM/W/220, of exemption from indirect taxes in the form described in paragraph (h) implies the establishment for the first time within the framework of the General Agreement of differential treatment, by reason of the fiscal system adopted by the various countries, in respect of prior stage indirect taxes on factors or components not physically incorporated that are used in the production of exported products.

On the basis of this provision, exemption from indirect taxes for such production factors is considered as a practice, of an illustrative character, constituting an export subsidy if in the country concerned a cascade taxation system exists; the said character of export subsidy disappears if the country concerned adopts a system of taxation on value added.

Some countries that at present utilize indirect cascade taxation are considering adopting the value-added system. The change from one tax system to the other requires a certain time in order to allow the necessary amendment of laws, provisions, practices and tax bodies.

In order to be able to avoid serious distortion and even reduction in the traditional export trade flow of those countries, it is proposed that the following paragraph be added after paragraph (h) of Annex A:

Countries that currently utilize indirect cascade taxation and are considering adopting a system of indirect taxation on value added need a reasonable period of time to effect the necessary amendment of their laws, provisions, practices and tax bodies.

In order to avoid distortions in international trade and specifically in the export trade of those countries, an adjustment period of five years is allowed from the time of signature of the Agreement by those countries, so that they may bring into force the new system of taxation on value added that they are proposing to adopt, and meanwhile the drawback of prior stage indirect taxes on components not physically incorporated in the exported product shall not be deemed to constitute a subsidy.

The said countries shall make a declaration of intention at the time of signing the present Agreement and shall report each year to the Committee of Signatories on action taken for the intended transformation of their indirect taxation system.