which shall not affect the general principle hereof—shall unless a greater deduction or relief is provided under the laws of Canada, tax payable in Korea on profits, income or gains arising in Korea shall be deducted from any Canadian tax payable in respect of such profits, income or gains;

(b) Subject to the existing provisions of the law of Canada governing the determination of the exempt surplus of a foreign affiliate and to any subsequent modification of those provisions—which shall not affect the general principle hereof—for the purpose of computing Canadian tax, a company resident in Canada shall be allowed to deduct in computing its taxable income any dividend received by it out of the exempt surplus of a foreign affiliate resident in Korea.

2. For the purposes of paragraph 1(a), tax payable in Korea by a resident of Canada in respect of dividends, interest or royalties received by it from a company which is a resident of Korea, shall be deemed to include an amount which would have been payable in Korean tax for any year but for an exemption from, or reduction of, tax granted for that year or any part thereof under:

(a) the provisions of Articles XV and XXIV of the Foreign Capital Inducement Law of Korea, as they read on the date on which this Convention is signed, or any amendment of the Convention, or have been modified only in minor respects so as not to affect their general character, and

(b) any other provision which may subsequently be made granting an exemption or reduction of tax which is agreed by the competent authority of the Contracting States to be of a substantially similar character, if it has not been modified thereafter or has been modified only in minor respects so as not to affect its general character;

provided that any deduction from Canadian tax payable in accordance with the provisions of this paragraph shall not exceed 15 per cent of the gross amount of the dividends, interest or royalties.

3. In the case of a resident of Korea, double taxation shall be avoided as follows:

Subject to the existing provisions of the law of Korea regarding credit for foreign tax and to any subsequent modification of those provisions—which shall not affect the general principle hereof—there shall be