

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Special Distribution

WORKING GROUP 1 - EXPORT SUBSIDIES

Background Note by the Secretariat

1. There is general agreement that Group 1 should undertake work on "export subsidies covered by Article XVI:4", i.e. export subsidies on non-primary products (BISD, 18th Supplement, page 39).

2. This paper brings together relevant information at present scattered through a number of GATT documents. Some further information will be found in the Analytical Index (Third Revision, 1970, pages 85 to 91). This paper is circulated for the convenience of delegations in accordance with the decision of the Committee on Trade in Industrial Products (COM.IND/19, paragraph 5(c)).

GATT provisions

3. Article XVI:1, inter alia, lays down that contracting parties maintaining subsidies, including export subsidies on non-primary products, shall notify these and consult on request. The full text of Article XVI, and of the notes to the Article which are an integral part of the General Agreement, is contained in Annex A to this note.

4. The procedures for notifications under Article XVI:1, which were adopted in 1962 (BISD, 11th Supplement, page 58) provide for a new and full notification every third year and, in other years, for a notification of the changes that have occurred. The questionnaire used in making these notifications, which was drawn up in 1960 (BISD, 9th Supplement, page 193) is reproduced in Annex B. The last full notifications fell due in 1969 and are reproduced in L/3178 and addenda. Notifications of changes made in 1970 and 1971 are contained in addenda to L/3411 and L/3513 respectively. An invitation to submit a new set of full notifications was circulated as L/3555 of 13 January 1972, the seven notifications received in response to date have been issued as addenda to this document.

5. In 1961 a Panel on Subsidies summarized the results of six consultations which had been held under the provisions of Article XVI:1 (see BISD, 10th Supplement, page 207). Since that time no further cases have been brought to the CONTRACTING PARTIES under the provisions of this paragraph.

6. Article XVI:2 to 5 were added as a result of the Review Session in 1955, by the Protocol amending the Preamble and Parts II and III which is now in force for all contracting parties. For the full text, see Annex A.

7. Article XVI:4 contains a provision banning export subsidies on non-primary products when these result in sales for export below the comparable domestic price. The paragraph does not specify a firm date for the entry into force of this provision

but it has entered into force for the seventeen countries which have accepted the Declaration giving effect to the provisions of Article XVI:4. These countries are Austria, Belgium, Canada, Denmark, France, Federal Republic of Germany, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Rhodesia, Sweden, Switzerland, United Kingdom and United States.¹

8. A number of Declarations extending the standstill provisions of Article XVI:4 were drawn up in the past. These provided a half-way house for contracting parties not in a position to ban export subsidies on non-primary products. The last of these was accepted by only one contracting party (Finland) and was allowed to expire on 31 December 1967.

9. Several questions of definition arise in connexion with the interpretation of the provisions of Article XVI. The term "primary products" is defined in the note to the Article (reproduced in Annex A). There is no agreed definition of an export subsidy. In 1961, the Panel on Subsidies considered "that it was neither necessary nor feasible to seek an agreed interpretation of what constitutes a subsidy" (BISD, 10th Supplement, page 203). A note to the Article itself provides that one type of practice is not to be regarded as a subsidy (see Annex A). However, the contracting parties accepting the Declaration giving effect to Article XVI:4 agreed in 1960 to an illustrative list of practices which are generally to be considered as export subsidies. The relevant paragraph of the Working Party's report is reproduced in Annex C.

10. In 1958 the CONTRACTING PARTIES appointed a Panel to undertake the preparatory work for a review as envisaged in Article XVI:5. The Panel submitted two reports which were adopted by the CONTRACTING PARTIES in 1960 and 1961 but the conduct of the review was postponed and has never taken place. These reports are reproduced in BISD, 9th Supplement, page 188 and BISD, 10th Supplement, page 201.

Inventory of Non-Tariff Barriers

11. Serial numbers in Part 1 of the Inventory which were included in the Illustrative List are 2, 7, 14 and 15. Some gaps in the notifications were filled in during the general discussion of the Inventory (COM.IND/W/15 of October 1969). These notifications and the record of the general discussion are reproduced in Annex D. The practices notified can be divided into two categories.

- (a) Those which are clearly export subsidies under GATT rules as at present interpreted, but which are applied by some contracting parties not accepting the Declaration giving effect to Article XVI:4. An example is the exemption in respect of exported goods of direct taxes.

¹With the understanding that this Declaration shall not prevent the United States, as part of its subsidization of exports of a primary product, from making a payment on an exported processed product (not itself a primary product), which has been produced from such primary product, if such payment is essentially limited to the amount of the subsidy which would have been payable on the quantity of such primary product, if exported in primary form, consumed in the production of the processed product.

(b) Those in the grey area where there is no agreed interpretation of GATT rules.

Examples are:

(i) The deferral of direct taxes in respect of exported goods.

(ii) The allowance of special deductions related to exports in the calculation of the base on which direct taxes are charged:

- accelerated depreciation allowances on capital goods used in the production of exports;
- deduction of special reserves set aside to cover risks connected with export sales on medium-term credit;
- deduction of export promotion or market development expenses.

(iii) The accordance by governments of special advantages to exporters in obtaining credit.

(iv) The government bearing all or part of the costs incurred by exporters in obtaining insurance cover.

(v) Transport and freight subsidies on export shipments.

12. Certain items in Part 5 of the Inventory are also relevant since, under Article XVI, some fiscal adjustments are considered to constitute export subsidies while others are not and there is a grey area between these two categories. For instance, items 555 and 555.1 provide examples of the rebate of *taxe occulte*.

13. In the discussions of Working Group 5 on fiscal adjustments, which are summarized on pages 90 and 91 of L/3496, attention was drawn to the report of the Working Party on Border Tax Adjustments (L/3464). In L/3464, paragraph 15 "the Working Party noted that there was a divergence of views with regard to the eligibility for adjustment of certain categories of tax" but "it was generally felt that while this area of taxation was unclear, its importance - as indicated by the scarcity of complaints reported in connexion with adjustment of *taxe occulte* - was not such as to justify further examination". It is also relevant to note that the Council has established on a provisional basis a procedure whereby contracting parties will report changes in their tax adjustments and whereby, upon request by a contracting party, a multilateral consultation could take place on changes in tax adjustments, whether notified or not (L/3464, paragraphs 39 to 45 and C/M/65).

Proposed solutions

14. The section of the report of Working Group 1 dealing with export subsidies drawn up in 1970 (COM.IND/W/40, page 3, also reproduced in L/3496, page 23) is reproduced below:

(a) Most members of the Group considered that the problem of export subsidies was general in nature, in that many countries appeared to maintain aids of various kinds which had been mentioned in one context or another as export subsidies, whereas only the major developed countries had agreed in paragraph 4 of Article XVI to limitations on use of export subsidies in regard to non-primary products. Others, considering the information contained in the Inventory, were not in a position to conclude therefrom that the problem was of a general nature. Some felt that the major element should be an effort to strengthen existing obligations through clarification of obligations and supplementary procedures. In the opinion of most members of the Group it was important that more countries, particularly those developed countries which have not accepted the prohibition of export subsidies on non-primary products, should accept it so as to ensure proper balance in the legal commitments in this field, all the more so because, for countries which had not accepted the Declaration, the standstill provisions of Article XVI:4 were no longer in effect. Some favoured consideration of certain new obligations as well. Attention was drawn to paragraph 5 of Article XVI which calls for a review of the operation of the provisions of Article XVI.

(b) The following proposals, which met with broad approval, were put forward as the main elements of an approach which might lead to a solution to the problem of export subsidies.

(i) An important step would be for those contracting parties, particularly developed countries, not having accepted the Declaration giving effect to the provisions of Article XVI:4 to do so.

(ii) It was recognized that there was a need for measures to ensure improved and continuing implementation of obligations of Article XVI:4. It was proposed that consideration be given to the following suggestions:

A refinement and elaboration of a definition of measures that countries regard as constituting export subsidies which are forbidden by Article XVI:4.

Reviving the standstill provisions of Article XVI:4.

In relation to the above suggestions, revisions, where appropriate, of notification procedures, to ensure improved and continuing implementation of the obligations of paragraph 4.

(c) In addition, a number of other suggestions were the following:

(i) There may be need to include in the obligations of paragraph 4, all export subsidies even though they do not result in sale for export below the comparable domestic price.

(ii) The same, or more comparable, treatment should be given to primary and non-primary products under Article XVI.

(iii) It might be possible to provide that in case of infraction of the prohibition under Article XVI:4 the importing country be authorized to take all measures deemed necessary under the provisions of the General Agreement to offset the trade effects of that subsidy.

(d) Some delegations recommended that all of the proposals included under paragraphs (b) and (c) above be considered in the context of an overall review of the operation of Article XVI, as provided for in paragraph 5.

(e) The view was expressed by several delegations that the distinction between primary and non-primary products was a fundamental one in that it had been a part of Article XVI from the outset and had been confirmed during the Review Session in 1955. Some others maintained that since that time there had been developments in international trade in agricultural products that called for a re-examination of such a distinction. It was also suggested by others that a more precise definition of what constituted a primary product might be useful.

ANNEX A

Article XVI

SUBSIDIES

Section A - Subsidies in General

1. If any contracting party grants or maintains any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports of any product from, or to reduce imports of any product into, its territory, it shall notify the CONTRACTING PARTIES in writing of the extent and nature of the subsidization, of the estimated effect of the subsidization on the quantity of the affected product or products imported into or exported from its territory and of the circumstances making the subsidization necessary. In any case in which it is determined that serious prejudice to the interests of any other contracting party is caused or threatened by any such subsidization, the contracting party granting the subsidy shall, upon request, discuss with the other contracting party or parties concerned, or with the CONTRACTING PARTIES, the possibility of limiting the subsidization.

Section B - Additional Provisions on Export Subsidies

2. The contracting parties recognize that the granting by a contracting party of a subsidy on the export of any product may have harmful effects for other contracting parties, both importing and exporting, may cause undue disturbance to their normal commercial interests, and may hinder the achievement of the objectives of this Agreement.

3. Accordingly, contracting parties should seek to avoid the use of subsidies on the export of primary products. If, however, a contracting party grants directly or indirectly any form of subsidy which operates to increase the export of any primary product from its territory, such subsidy shall not be applied in a manner which results in that contracting party having more than an equitable share of world export trade in that product, account being taken of the shares of the contracting parties in such trade in the product during a previous representative period, and any special factors which may have affected or may be affecting such trade in the product.

4. Further, as from 1 January 1958 or the earliest practicable date thereafter, contracting parties shall cease to grant either directly or indirectly any form of subsidy on the export of any product other than a primary product which subsidy results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market. Until 31 December 1957 no contracting party shall extend the scope of any such subsidization beyond that existing on 1 January 1955 by the introduction of new, or the extension of existing, subsidies.

5. The CONTRACTING PARTIES shall review the operation of the provisions of this Article from time to time with a view to examining its effectiveness, in the light of actual experience, in promoting the objectives of this Agreement and avoiding subsidization seriously prejudicial to the trade or interests of contracting parties.

Ad Article XVI

The exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be deemed to be a subsidy.

Section B

1. Nothing in Section B shall preclude the use by a contracting party of multiple rates of exchange in accordance with the Articles of Agreement of the International Monetary Fund.

2. For the purposes of Section B, a "primary product" is understood to be any product of farm, forest or fishery, or any mineral, in its natural form or which has undergone such processing as is customarily required to prepare it for marketing in substantial volume in international trade.

Paragraph 3

1. The fact that a contracting party has not exported the product in question during the previous representative period would not in itself preclude that contracting party from establishing its right to obtain a share of the trade in the product concerned.

2. A system for the stabilization of the domestic price or of the return to domestic producers of a primary product independently of the movements of export prices, which results at times in the sale of the product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market, shall be considered not to involve a subsidy on exports within the meaning of paragraph 3 if the CONTRACTING PARTIES determine that:

(a) the system has also resulted, or is so designed as to result, in the sale of the product for export at a price higher than the comparable price charged for the like product to buyers in the domestic market; and

(b) the system is so operated, or is designed so to operate, either because of the effective regulation of production or otherwise, as not to stimulate exports unduly or otherwise seriously to prejudice the interests of other contracting parties.

Notwithstanding such determination by the CONTRACTING PARTIES, operations under such a system shall be subject to the provisions of paragraph 3 where they are wholly or partly financed out of government funds in addition to the funds collected from producers in respect of the product concerned.

Paragraph 4

The intention of paragraph 4 is that the contracting parties should seek before the end of 1957 to reach agreement to abolish all remaining subsidies as from 1 January 1958; or, failing this, to reach agreement to extend the application of the standstill until the earliest date thereafter by which they can expect to reach such agreement.

ANNEX B

Notification of Subsidies

Reports should be made in writing for individual commodities and under the headings listed below. A suggestion of the type of information which might be included under each heading is shown within brackets:

I. Nature and extent of the subsidy

(a) Background and authority

(The reason for the subsidy and the legislation under which it is granted.)

(b) Incidence

(Whether paid to producers, to exporters, or in some other way; whether a fixed amount per unit, or fluctuating; if the latter, how determined.)

(c) Amount of subsidy

(Total cost estimated or budgeted or, when this is not feasible, cost in preceding year.)

(d) Estimated amount per unit.

II. Effect of subsidy

(a) Estimated quantitative trade effects of the subsidy; and the reason why it is considered that the subsidy will have these effects.

(b) Statistics of production, consumption, imports and exports:

(i) for the three most recent years for which statistics are available;

(ii) for a previous representative year, which, where possible and meaningful, should be the latest period preceding the introduction of the subsidy or preceding the last major change in the subsidy.

ANNEX C

With a view to facilitating discussion on the subject of export subsidies, the secretariat has reproduced below paragraph 5 of the report of the 1960 Working Party, which considered the steps that should be taken to implement the provisions of Article XVI:4.

The full text of this report, adopted by the CONTRACTING PARTIES at their seventeenth session, can be found on page 185 of the Ninth Supplement of the Basic Instruments and Selected Documents.

5. The following detailed list of measures which are considered as forms of export subsidies by a number of contracting parties was referred to in the proposal submitted by the Government of France, and the question was raised whether it was clear that these measures could not be maintained if the provisions of the first sentence of paragraph 4 of Article XVI were to become fully operative:

- (a) Currency retention schemes or any similar practices which involve a bonus on exports or re-exports;
- (b) The provision by governments of direct subsidies to exporters;
- (c) The remission, calculated in relation to exports, of direct taxes or social welfare charges on industrial or commercial enterprises;
- (d) The exemption, in respect of exported goods, of charges or taxes, other than charges in connexion with importation or indirect taxes levied at one or several stages on the same goods if sold for internal consumption; or the payment, in respect of exported goods, of amounts exceeding those effectively levied at one or several stages on these goods in the form of indirect taxes or of charges in connexion with importation or in both forms;
- (e) In respect of deliveries by governments or governmental agencies of imported raw materials for export business on different terms than for domestic business, the charging of prices below world prices;
- (f) In respect of government export credit guarantees, the charging of premiums at rates which are manifestly inadequate to cover the long-term operating costs and losses of the credit insurance institutions;
- (g) The grant by governments (or special institutions controlled by governments) of export credits at rates below those which they have to pay in order to obtain the funds so employed;
- (h) The government bearing all or part of the costs incurred by exporters in obtaining credit.

The Working party agreed that this list should not be considered exhaustive or to limit in any way the generality of the provisions of paragraph 4 of Article XVI. It noted that the governments prepared to accept the declaration contained in Annex A agreed that, for the purpose of that declaration, these practices generally are to be considered as subsidies in the sense of Article XVI:4 or are covered by the Articles of Agreement of the International Monetary Fund. The representatives of governments which were not prepared to accept that declaration were not able to subscribe at this juncture to a precise interpretation of the term "subsidies", but had no objection to the above interpretation being accepted by the future parties to that declaration for the purposes of its application.

ANNEX D

Reproduced below are the notifications on export subsidies included in the illustrative list as well as the record of the general discussion on the subject¹, (COM.IND/W/15).

2	Australia - Payroll tax rebate and market development allowance	United Kingdom Canada
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Type

Aids (Australia class these as "incentives") to exports through two direct tax rebates.

Method

(i) Payroll tax at the rate of $2\frac{1}{2}$ per cent is payable on the amount of a firm's payroll in excess of \$A 20,800 per annum. Payroll tax to the extent of $10\frac{1}{2}$ per cent of a firm's increase in exports over the average for the three years ending five years previously may be rebated to an exporter, and any excess of rebate entitlement over payroll tax liability may be carried forward for up to three years. This is not a direct subsidy on the price of the goods, but relieves the exporter of a cost and is related, in amount, to the increase in exports. Cost of exports is reduced and this has a bearing on prices. Therefore, in the notifying countries' view, the measure is in effect a subsidy on exports. Australia contests this view.

(ii) Market development allowance is granted by way of a rebate of income tax of $42\frac{1}{2}$ cents in the Australian dollar on eligible market development expenditure. This rebate is an addition to the normal deduction from the exporter's taxable income in respect of expenses incurred in deriving income. The total tax saving by way of normal deduction from taxable income plus the rebate may not exceed $82\frac{1}{2}$ cents in the Australian dollar of eligible expenditure for private companies, or $87\frac{1}{2}$ cents in the Australian dollar for public companies. The scheme is current until July 1973 when consideration will be given to its extension.

Effects

(i) Payroll rebate applies to manufactured goods and some primary products exported (not including minerals, petroleum, alumina). Not possible to quantify effect on exports. As the measure operates on a whole range of products, it is hard to measure effects.

¹ Additional information of some of the practices notified below can be found in Chapter III of L/3389.

(ii) Market development allowances, in the view of the notifying countries, amount to a double deduction from assessable income for income tax purposes of \$A 2 for every \$A 1 spent on specified export promotion, subject to an 80 per cent limit. The scope of the allowance was notified as having been extended on 1 July 1968. Notifying countries felt that although the measure was not a direct subsidy, since the amount of subsidy is not related to quantity of exports, but to expenses in promoting sales, nevertheless, it reduced costs which normally are included in export prices and therefore constituted an indirect subsidy. Australia contests this view and accepts only that it is an incentive working as described under "Method".

GATT relevance

The notifying country pointed out that Australia has not subscribed to the Declaration Giving Effect to Article XVI:4, creating a gap in present obligations of different contracting parties, as non-signatories are freer than others. The Committee was urged to consider this sector even if the operation of the measures was considered relevant to the Border Tax Adjustment Working Party. The notifying country also noted that while all countries practise export development schemes, assisting in trade fairs, missions, representations, etc., such measures should be distinguished from direct aids, and assistance should not extend to tax rebates.

Australia reiterated its view that the measures are not in fact barriers to trade, nor, in its view, export subsidies.

7	Greece - Aid to exports through remittance of proportion of direct tax on company profits arising from export of narrow category of goods (vehicle cabs, tanks for liquid transporters etc.)	United Kingdom
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Type

Aid to exports through direct tax rebate.

Method

Greece acknowledged that this measure existed as described in the notification, but emphasized that it was limited in range of products and temporary.

Effects

Greece felt this measure not an obstacle to trade.

GATT relevance

It was noted that this matter might be dealt with in the Border Tax Adjustment context, though it was a question of a direct tax.

14

Japan -- Tax incentive

Canada
EEC

Type

Direct tax deferral in relation to exports.

Method

1. Tax deferral is to be allowed for a percentage of gross export proceeds if set aside as reserve for market development, to be spent in equal instalments over five years. Percentage which may be set aside depends on whether exports are increasing as a percentage of gross sales.
2. Special depreciation allowances permit accelerated depreciation rates on equipment depending in amount on the export ratio. Some accelerated rates run as much as 96 per cent above normal.

The representative of Japan stated that such systems exist in Japan.

Origin

Special Taxation Measures Law, April 1964.

Effects

No assessment was offered of the quantitative impact of these measures. Japan stated tax allowances do not materially affect the volume of trade in the commodities but are granted to take account of the reality of need to update plant especially fast in Japan's range of exports.

Note: Japan suggested these problems might better be dealt with in the Working Party on Border Tax Adjustments, though it was recognized that these are not problems of border tax adjustments. An expert was expected for that meeting where questions could be answered.

15	South Africa - Tax reliefs for expenditure on development of export markets	United Kingdom
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Type

Aid to exports through direct tax rebates.

Method

Export incentives take the form of tax reliefs in respect of expenditure on development of export markets.

Effects

GATT relevance

The point was made that it is unfair for South Africa, among others, to have a lesser obligation with respect to use of export subsidies from not having accepted the Declaration Giving Effect to Article XVI:4. It was felt that this question should remain in this Committee, even if operation of the scheme were referred to the Working Party on Border Tax Adjustments as had been suggested. The representative of South Africa felt that these "incentives" were neither subsidies nor border tax adjustments but had no objection to their referral to the Working Party on Border Tax Adjustments.

GENERAL NOTE - PART 1

A. Government Aids

General¹

In the debate on government aids, it was noted by several delegations that differences in the definition of "non-tariff barriers" adopted by particular notifying countries had created gaps in the notifications. Most notifications did not exclude government aids entirely, and several countries had drawn attention to cases, especially in regard to shipbuilding, where aids to domestic production adversely affected other countries' export trade. Several notifications, coming from more than one country, also drew attention to measures designed to promote exports which might have adverse effects on other countries' exports. On the other hand, one country had not included subsidies and rebates in its notifications at all, without prejudice to the question whether such measures should or should not ultimately be included, but recognized the substantial effects which subsidies and rebates have upon trade. Another country had taken the view that export incentives are not in fact barriers to trade.

It was noted by several delegations that within the category of what might be regarded as export subsidies, notifications were far from complete in coverage of measures in effect. In regard to direct taxes, some Australian measures had been notified but other countries' similar measures had not. Attention was drawn by one member, for example, to a tax deduction allowed in France for expenses incurred in the establishment and maintenance of foreign sales offices, even though the earnings of such establishments were not subject to French tax. He added that funds allocated to special reserves to cover certain risks connected with export sales on medium-term credit were likewise an allowable deduction in France, where exporters were also permitted to defer payment of corporate income tax and, in some cases, to use special accelerated depreciation schedules for capital assets; these measures had not been notified.

Some, but not all, similar measures maintained by Japan had been notified; exporters were allowed to defer part of their corporate income tax payments and enjoyed special deductions for market development expenses, and were accorded special depreciation allowances in regard to some advanced technology products. New Zealand also permitted export promotion expenses to be deducted for tax purposes at 150 per cent of actual expenditure figures, and permitted 15 per cent of the increase in earnings from exports of manufactures to be deducted for tax purposes. In the area of insurance, special incentives also existed and the case of the French COFACE insurance was mentioned by a member of the Committee as one

¹Subsequently the members of the Community and Japan made reservations on these and following general remarks on the grounds that although these points had been made, their validity had not been investigated by the Committee.

which appeared to him not to be operated on purely commercial insurance principles. He noted that advantages accorded to exporters in regard to interest rates on credit to finance exports was another area where France, Belgium and Japan appeared to maintain incentive measures.

Continuing the survey of measures not covered by notifications, a member of the Committee drew attention to omission of notifications in regard to transport and freight subsidies; for example, both Germany and Italy were believed to have extensive arrangements to favour goods for export², the latter arrangement including an element of discrimination against exports to EEC partners.

Finally, there were numerous cases of direct payments to domestic industries, not nearly all of which were covered by the notifications. Some which had not been notified up to now were EEC payments on coke and Canadian payments on coal, shipbuilding payments by Australia and Canada, and payments made in many countries to subsidize production of motion-picture films, notably in France, Belgium, Italy and the United Kingdom. It appeared, to one member of the Committee at least, that if GATT were to embark on an examination of export aids, its scope should be broadened to cover all major measures of the kind cited above. Such an examination would be all the more appropriate as some types of measure had never,

¹In January 1970 the representative of Belgium submitted the following information: "At present the discount rate in force for bills of exchange which are accepted and domiciled in a bank, for warrants and for bank acceptances counter-signed by the National Bank of Belgium and concerning foreign trade operations is fixed at the uniform figure of 7.5 per cent".

²Subsequently, the representative of Italy pointed out that this was not an accurate reflection of the situation in his country, that the only indirect aid relating to transport was a railway tariff reduction for export of certain products, that only a limited number of such products had been eligible since 1 January 1969, and that in any event the level of the reduction (10 per cent to 20 per cent) did not justify use of the term "extensive".

In another subsequent submission the representative of the Federal Republic of Germany pointed out that as of now there was no subsidy of transportation or freight rates to favour exportation. The provisions referred to were probably, in its view, certain freight reductions which the transport sector grants to national maritime traffic by comparison with regular freight rates. This was purely a matter of competition between the various forms of inland transport - railways, roads and to some extent inland navigation - and the free freight rates on the international Rhine or other channels of communication at favourable rates with foreign seaports. These measures are in effect for both exports and imports and do not, in the German view, constitute assistance for the German economy and German trade since at any given time freight rates at least as favourable could be obtained by using other means of transport.

or not recently, been examined in GATT, and some clearly went beyond the scope of the border tax adjustment problem. This was the case, for example, of direct tax rebates and special depreciation allowances, market development expenses, interest rate and insurance problems. Some, such as transport subsidies, were matters which had long histories as sources of friction, and others represented rather newer practices which seemed to be on the increase. It was suggested by this member of the Committee that it was in the interest of most countries, especially the poorer nations, to see that effective action was taken to avoid a competitive race among nations to outbid one another in the grant of aid; it was obvious that the longer the inflation of aids went on the more costly it would become, although only the very rich countries willing and able to pay the most would obtain any net benefit from the expenditure.

The representative of the United States stated that his Government favoured a separate study of subsidies in a group created specially for that purpose, but that until such a group was established, he would see no objection to study of the subject in the framework of non-tariff barrier work. He suggested, however, that a useful distinction could be drawn between production subsidies, which do or may inhibit imports, and export subsidies which do not. These questions were left open.

With specific reference to aids to shipbuilding, it was noted by several delegations that many countries do assist domestic shipbuilding and that OECD has been studying the question for a long time. The secretariat was asked to find out what information concerning this work could be furnished by the OECD to the Committee. A number of countries not members of OECD expressed their view that work in progress in the OECD would not constitute a reason for dropping the matter in GATT. The OECD has replied transmitting to the Committee copies of a publication entitled The Situation in the Shipbuilding Industry (1966), and stating that as work is still continuing in this area there are no more recent materials sufficiently conclusive to enable them to be transmitted to the Committee.

The representative of France subsequently reserved his Government's position as to whether the French measures mentioned constituted government aids and whether the Committee had, in fact, any competence to consider them.