

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## SUBSIDIES

### Notifications Pursuant to Article XVI:1

#### CANADA

#### Supplement

The following notification has been received from the Permanent Mission of Canada.

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The following assistance programmes represent important instruments for the promotion of Canadian social, industrial and economic policy objectives, in particular the development of regions which face disincentives, *inter alia*, from low levels of infrastructure support, higher costs associated with their remoteness and lack of an adequately trained, specialized work force, and the encouragement of small enterprises which tend mainly to service the regional market. It is not clear to what extent such programmes constitute subsidies within the meaning of Article XVI:1 and whether an obligation exists to notify them given that their primary objectives are not trade related. In the spirit of openness, however, and out of recognition of the need for greater transparency in the use of subsidies which may have an effect on trade, Canada is notifying the following programmes within the spirit of Article XVI:1.

#### Export Development Corporation

The Export Development Corporation (EDC) of Canada is a Crown Corporation wholly owned by Canada, which was established 1 October 1969 by the Export Development Act as the successor to the Export Credits Insurance Corporation which commenced operations in 1944. The Corporation is authorized to borrow, to lend and to guarantee loans, to enter into export and foreign investment insurance contracts against commercial and political risks and to issue guarantees in respect of export transactions. The financial support provided by EDC enables Canadian exporters to compete with credit terms offered by other countries whose exports compete with Canadian exports.

Until recently, EDC was successful in providing financial terms which were near or at market rates. Over the last few years, however, the increasingly large gap between market interest rates and the minimum interest rates of the OECD Export Credits Arrangement has forced EDC on occasion to agree to rates which are below the market cost of funds to EDC. In such cases EDC endeavours to obtain as high a rate as possible and in no case does EDC

offer rates as low as those allowed under the OECD Arrangement. Canada is participating actively in negotiations to revise the OECD Arrangement with a view to reaching agreement on minimum interest rates which reflect market interest rates.

EDC operations are subject to statutory limits under the Export Development Act. For loans made directly by EDC the statutory limits are at present:

Section 29 - \$10 billion  
Section 31 - \$2.5 billion

and for export insurance and guarantees the statutory limits are at present:

Section 24 - \$10 billion  
Section 27 - \$2.5 billion

EDC signings of direct loans in 1981 were approximately \$1.5 billion.

#### Industry-specific Industrial Restructing Programme (IIRP)

The major goal of the programme is to encourage firms to undertake viable capital projects in response to serious industrial dislocation situations. The programme focus is primarily on small or medium-sized firms encountering difficulties as a result of product/market decline or inefficient/uncompetitive production methods and which propose to restructure operations through the introduction of new or improved products; entry into new or different markets; or modernization or improvement of production facilities.

To be eligible for assistance, the selected firm or project must be viable; the project would not have been undertaken without assistance; the project offers significant net economic benefit to Canada and will not create competitive over-capacity in the sector; and contractual commitments in respect of the project have not been entered into prior to application for assistance. Assistance consists of non-repayable contributions of up to 75 per cent of consulting costs associated with restructuring or expansion of operations; or with mergers or acquisitions which would contribute to the viability of operations of firms. As well, repayable interest free contributions are available in such an amount only as is necessary to cause a viable project to be undertaken but not exceeding 50 per cent of eligible capital costs of projects and not exceeding 50 per cent of eligible pre-production expenses. This programme is temporary and is expected to terminate in 1984. The funding for this programme is \$40 million over the next two fiscal years, i.e. 1982-83 and 1983-84.

#### Community-based Industrial Adjustment Programme (CIAP)

The major thrust of this programme is to encourage firms to undertake viable capital projects in designated Canadian communities in response to serious industrial dislocation situations. These communities currently are: Windsor, Chatham and Brantford, Ontario; Sidney, Nova Scotia; McAdam, New Brunswick; L'Islet/Montmagny, Tracy/Sorel and Port Cartier/Sept-Iles, Quebec.

The focus of CIAP is primarily on firms in designated communities encountering difficulties as a result of product/market decline or inefficient/uncompetitive production methods and which propose to restructure operations through the introduction of new or improved products; entry into new or different markets; or modernization or improvement of productive facilities. To be eligible for assistance, the selected firm or project must be viable; the project would not have been undertaken without assistance; the project offers significant net economic benefit to the designated community and will not create competitive over-capacity in the sector industry; and contractual commitments in respect of the project have not been entered into prior to applications for assistance.

Assistance under CIAP consists of non-repayable contributions of up to 75 per cent of consulting costs associated with restructuring or expansion of operations, or mergers or acquisitions which would contribute to the viability of operations of firms. As well, repayable interest free contributions are available in such an amount only as is necessary to cause a viable project to be undertaken but not exceeding 50 per cent of eligible capital costs of projects and not exceeding 50 per cent of eligible pre-production expenses.

This programme, which was announced in March 1981 is temporary and is expected to terminate in 1984. The funding for this programme is approximately \$85 million over three years.

#### Regional Development Incentives Programme

The Regional Development Incentives Act (RIDIA) and the Department of Regional Economic Expansion Act (DREEA) provide for development incentives in support of the establishment, modernization or expansion of manufacturing and certain other facilities. Incentives are available as a means of increasing or maintaining employment opportunities in broad regions and special areas designated by the Governor in Council, following consultation with the provincial or territorial governments. Regions have been designated in all provinces and territories under the RDIA. Montreal and its environs have been designated as a special area under the DREEA.

Development incentives may take the form of outright grants, specifically or provisionally repayable incentives, or loan guarantees. The size of an incentive may be varied within statutory limits to meet the requirements of a particular project. The regional incentives programme in 1979-80 resulted in expenditures of \$108.6 million.

#### Shipbuilding Industry Assistance Programme (SIAP)

The objective of this programme is to ensure the viability of a Canadian shipbuilding industry. Assistance in the form of grants of 9 per cent of the total cost of ship construction or conversion is provided to establish shipbuilders engaged in the building or conversion of ships of specified medium size. Shipyards may also receive a matching capital grant of up to 3 per cent of the approved cost of a vessel to improve shipyard facilities. During the 1980/81 fiscal year, assistance under the programme amounted to approximately \$72 million.

### Enterprise Development Programme

The objective of the programme is to help the growth of the manufacturing and processing sectors of the Canadian economy by fostering innovation in the design and development of new or improved production processes and to assist adjustment to changing competitive circumstances. The focus is on small and medium-sized firms prepared to undertake relatively high risk projects which are viable and promise an attractive rate of return. Small and medium-sized firms engaged in manufacturing and processing activities and, under limited circumstances, firms in the services sector are eligible to receive assistance. The methods of support available under this programme include grants of up to 75 per cent of eligible costs of projects.

For the 1981/82 fiscal year, \$60 million has been allocated for this programme.

The forms of support available include:

- grants to partially offset the cost of qualified consultants engaged to identify new products and to undertake related products and market testing;
- grants in respect of projects concerned with the development of new or improved products or processes or service capability incorporating an advance in technology;
- grants to partially offset the cost of the design of new or improved products;
- grants to partially offset the cost of consultants engaged to conduct feasibility studies or productivity improvement measures.

In addition to grants, loan insurance can be provided through the adjustment assistance component of the programme. The objective is to facilitate restructuring or rationalization of manufacturing or processing firms as well as to enhance the viability of secondary manufacturing and processing. Loan insurance for up to 90 per cent of a term loan from conventional lenders can be provided for a 1 per cent annual fee.

### Micro-electronics Support Programme (MSP)

The overall objective of the MSP is to encourage the application of micro-electronics to all sectors of Canada's industry. The thrust of the programme is to encourage manufacturers to obtain the potential benefits of productivity and competitiveness that the application of micro-electronics to their products and operation can provide. All manufacturers in Canada who have not previously incorporated micro-electronic devices in their products and operations are eligible for a contribution to assist in the design and

application of custom micro-electronics devices. The funding for this programme is approximately \$21 million for the period 1981-84. The forms of support available are as follows:

- contribution to feasibility studies to a maximum of \$10,000.
- contribution of up to 75 per cent (maximum \$100,000) of the eligible costs of work required to apply micro-electronic devices to manufacturer's product or processes or of designing a custom micro-electronic device.

In addition, contributions under this programme will be made toward the establishment and initial operation of micro-electronics technology centres in association with Canadian universities.

#### Canadian Industrial Renewal Board (CIRB)

The establishment of the CIRB was announced in October 1981 with a mandate to assist in restructuring, consolidating and modernizing the textile and clothing industries, to renew the economic base of communities heavily dependent on those industries and to help workers affected by these changes. The CIRB which includes a majority of business leaders as well as labour and government representatives, will work in close partnership with government departments to ensure that industrial renewal, as it affects regional economies, communities and workers, is fully responsive to the economic and social dynamics at play. The CIRB will administer a budget of approximately \$250 million and provide an integrated service for the textile and clothing industries.

#### Fisheries Prices Support Board

The Fisheries Price Support Board establishes the Fisheries Prices Support Board with the statutory powers of a government corporation. The Board is responsible for investigating and, when appropriate, recommending to the Minister and Cabinet action to support prices of fishery products where declines have been experienced. The basic principle of the legislation is to protect fishermen against sharp declines in prices and consequent loss of income due to causes beyond the control of fishermen or the industry. Subject to approval of the Governor-in-Council, the Board is empowered to purchase fishery products at prescribed prices or to make deficiency payments to producers of fishery products equal to the difference between the prescribed prices or to make deficiency payments to producers of fishery products equal to the difference between the prescribed price and the average price at which such products were sold.

During 1979 and 1980, due to favourable market conditions for fishery products no price support programmes were implemented. In 1981 a short term (September through 15 December) programme of price support to pay deficiency payments on groundfish and flatfish (excluding turbot) was implemented along with a programme to support flatfish and redfish inventories. The programme cost was \$12.2 million and \$2.8 million respectively. This programme is now terminated.

Fishing Vessel Replacement Assistance

Under the Fishing Vessel Assistance Programme the level of subsidy is 25 per cent of the cost of construction of a fishing vessel less than 75 feet with a maximum of \$125,000 for a vessel with a steel hull, and \$100,000 for a vessel built with any other material. The minimum length of vessel eligible for grants is 25 feet in the sea coast fisheries on the Atlantic coast, and 16 feet for those in inland fisheries. No subsidies are payable in the Pacific sea fisheries.

The objective is to assist replacement of Canadian fishermen owned vessels. In order to be eligible for assistance vessels must meet certain eligibility criteria:

Vessels up to 44 feet in length must have reached at least ten years of age,

44 to 60 feet in length, 15 years of age

and 60 to 75 feet in length, 20 years of age.

Subsidy is earned at the rate of 20 per cent per year, i.e. a vessel must be kept in the fishery for at least five years after construction. This agreement is monitored by the Department of Fisheries and Oceans.

At the same time the Government is attempting to improve the quality of Canadian fish and fish products. This programme is also instrumental in upgrading the quality and safety of vessels. During the 1981-82 fiscal year \$7 million will be expended on this programme.

