

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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PROGRESS REPORT OF THE CHAIRMAN OF SUB-GROUP III-A ON SUBSIDIES

The terms of reference of the Sub-Group involve the consideration of:

- direct export subsidies;
- other export incentives;
- domestic subsidies, and
- countervailing measures and anti-dumping duties.

Of these subjects, time allowed for a detailed discussion only of export subsidies, though the proposals considered by the Sub-Group included the existing provisions of Article XVI of the Agreement which provides for consultation in the case of any subsidy, including a domestic subsidy, which operates to increase exports or reduce imports.

Export subsidies

In the consideration of export subsidies, the Sub-Group had before it three basic proposals:

1. a proposal by Denmark (L/273) which provided for the total prohibition of all export subsidies after a transitional period;
2. a proposal by the United States (W.9/103) which provided for the prohibition of all export subsidies with the exception of agricultural products which meet certain proposed criteria, and
3. a proposal by the United Kingdom (W.9/104) which went considerably further than the United States proposal by providing an escape from the general ban against export subsidies only for primary goods which are the object of a support programme, and which provided for prior approval by the Organization after a transitional period.

In addition to the drafts submitted by these delegations, the Sub-Group heard the orally stated positions of some delegations who have expressed the desire to see the present provisions of the Agreement retained, and a number of suggestions by the French representative for alteration of the United States and United Kingdom drafts if there should be a general desire to amend the text of the present Article XVI.

Despite a fairly detailed discussion of the implications of each of the proposals, the principal differences of view which were held at the outset remain. Some progress was made, however, in clarifying the issues and in eliminating some of the minor divergences of view which had appeared to exist at the outset.

At the conclusion of its discussions, the Sub-Group had succeeded in identifying a number of major issues on which a clear difference of view remained. In the following summary, I am omitting a reference under each subject to the positions of those delegations who favour the existing text of Article XVI without change. It goes without saying that they did not accept any of the changes proposed.

Prohibition of export subsidies

I have already mentioned that the Danish proposal involved a complete prohibition of all export subsidies. Most other delegations in the Sub-Group either opposed any general rule against export subsidies or favoured a general rule with exceptions. An important difference of opinion emerged as to whether the exceptions allowed should make any distinction between different classes of goods. While the United States and the United Kingdom drafts limited the exceptions to "agricultural" and "primary" goods respectively, the representative of France made it clear that if there were to be a prohibition of export subsidies in general (which his delegation was not proposing), the exceptions to the rule should make no distinction between these goods and manufactured goods. He was supported by those delegations who wanted the retention of the present provisions of the Agreement. It was not entirely clear, however, whether there was a substantive difference between the positions of the United Kingdom and the United States delegations on the definition of the goods which should be excepted.

Criteria for the exceptions

The United States position was that export subsidies on agricultural goods should not be applied in a manner which results in the contracting party having more than an equitable share of world trade in the product, account being taken of the shares of the contracting parties during a previous representative period and of any special factors which may have affected or may be affecting such trade.

While the United Kingdom draft was expressed in different terms, it appeared that no substantial difference in substance was intended and that the United Kingdom accepted the concept of an equitable share for the category of goods to which they would have the exception apply, namely those primary goods which are the object of domestic price support programmes.

The representative of France felt that the concept of equitable share was a difficult one to apply, and preferred a criterion that would provide that there should be no distortion of normal commerce. He also proposed, however, that subsidized products should not be offered at below current market prices.

The United Kingdom was prepared to accept the French proposal for an alternative price criterion, but the United States opposed the introduction of any criterion other than that of an equitable share.

Other export incentives

The United Kingdom draft provided for an absolute prohibition on export incentives other than subsidies expressly permitted under their proposal. The Sub-Group found that there was considerable opposition, especially from the under-developed countries, to such a prohibition, particularly as applied among others to incentives provided through exchange action. The United States was not prepared to amend its proposal to conform to the proposal of the United Kingdom, but agreed that the Organization might study at a later date the special problem of other export incentives. The representative of France, while opposed to a flat prohibition, agreed that the Organization might deal with the problem through a later review or through consultations and recommendations to members under the procedures of Articles XXII and XXIII.

Transitional period

All delegations, with the exception of that of the United States, appeared to be in agreement that if stricter rules against subsidies are adopted a transitional period would be required before these rules come fully into effect. The United Kingdom delegation explained that the date provided for such a transition in its draft was simply illustrative and that the date chosen would naturally depend upon the date on which the new Agreement becomes effective.

Prior approval or review by the Organization

The proposal of the United Kingdom provided that, during the transitional period, any contracting party maintaining an export subsidy must obtain the concurrence of the Organization that the criteria for exceptions are met. After the transitional period, any new export subsidy would require the prior approval of the Organization on the basis of the criteria. The proposal of the United States included no similar provision for action by the Organization, but did provide that the Organization should review from time to time the provisions of the Article, with a view to avoiding subsidization seriously prejudicial to the trade of contracting parties. The position of most other delegations was consistent with their attitude expressed on other points and the French representative indicated that either the United Kingdom or the United States position would be acceptable.

CONCLUSION

In conclusion, I should say that, although the deliberations of the Sub-Group did not succeed in eliminating any of the important differences of view held on the subject of export subsidies, they did succeed in clarifying the issues outstanding. The delegations in the Sub-Group fall generally into two major camps:

1. those who would retain Article XVI in its present form without any further provisions on export subsidies, and
2. those who would tighten the existing rules, though with considerable differences among themselves as to the degree and nature of that tightening.

There was also a clear issue between those who felt that all commodities should be treated alike, and those who felt that any exceptions to the rules should be limited to primary or agricultural commodities. There was a division between those who believed that subsidies as such should be prohibited, subject to certain exceptions, and those who felt that subsidies should be judged entirely by their effects on the trade of other contracting parties.

Finally, there was a difference between those who believed that the Organization should act only upon the basis of complaints and those who felt that it should play a more active rôle.

