

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Note by the Secretariat

1. This note is issued under the responsibility of the secretariat and is intended to facilitate further discussion in the Preparatory Committee. It seeks to identify, in the light of the discussions recorded in PREP.COM(86)SR/2 and earlier discussions, the main considerations which would appear to be relevant should the Committee decide to formulate recommendations on subsidies. The note is not intended to be a summary of the discussions. It in no way prejudices the views that delegations may have as to whether and how the question of subsidies might figure in the Preparatory Committee's recommendations to Ministers, nor should the listing of points for further discussion be regarded as exhaustive.

Main points emerging from the discussion

2. There was a widely held view that subsidies was one of the major and priority issues to be addressed in the negotiations. Reference was made by some speakers to the considerable increase in the use of subsidies by countries with the aim of promoting their exports, to the detriment of other, and often developing, countries.

3. There was also wide support for the view that the problem of subsidies had to be seen in a wider context and that related problems, such as the application of countervailing duties, had equally to be tackled. Reference was made to the large number of countervailing measures applied and the related problems of the application of the injury test and the practice of cumulation in injury determinations, and to the use of countervailing duty investigations leading to export limitation agreements.

4. One widely held view was that, because the Subsidies Code had not contributed any significant clarity to the principles on which trade should be conducted, the area of subsidies and countervail should be reviewed in a multilateral forum, open to all participants in the negotiations, and that this review should cover all product sectors. The objectives of this review should be firstly to improve and clarify the provisions of Article XVI:1 concerning the obligations of contracting parties to limit subsidization so that its prejudicial effects might be reduced, and secondly to replace the present provisions concerning export subsidies on primary products with the same provisions as apply to export subsidies on non-primary products. Another view which also found support was that subsidies on agricultural products could be usefully discussed only in the context of trade in agriculture and that a balanced package could only be agreed by putting each area of the negotiations in the appropriate context.

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5. It was suggested that the issue of export credits for capital goods, which had first been raised in the 1982 Ministerial Declaration, should be examined in the subsidies context. It was noted that an agreement on the limitation of export credits had been reached between the member States of the OECD and that the Subsidies Code in its Illustrative List of Export Subsidies made reference to that agreement. One view put forward was that apart from considerations of transparency, control of the terms and conditions under which export credits were granted could no longer be left to the signatories of the OECD agreement; developing countries, and especially the least-developed ones, more than ever needed access to credits on terms and conditions consistent with their level of development. Another view was that it was doubtful whether problems attended to in another international organization could be addressed in the negotiations; moreover, the OECD agreement had led to a limitation of the credit race among developed countries and thus to improved disciplines in the area of subsidies.

Points for further discussion

6. What should be the objectives of negotiations in the area of subsidies and countervail?

7. Should negotiations on the issue of subsidies encompass all product sectors?

8. Can the present provisions of the Subsidies Code constitute a starting point for the negotiations?

9. Domestic subsidies with trade-distorting effects have not, in the view of some, found an adequate solution in the GATT or in the Subsidies Code. Should the negotiations include these types of subsidies?

10. Should export credits for capital goods be dealt with in the negotiations on subsidies, bearing in mind the existence of an agreement among a number of contracting parties?