

GENERAL AGREEMENT ON TARIFFS AND TRADE

Multilateral Trade Negotiations

Original: English

SUBSIDIES/COUNTERVAILING DUTIES¹

(circulated at the request of a number of delegations)

1. Subsidies

1.1 The use of subsidies of various kinds plays an important rôle in the development strategy of developing countries. Such countries have to make use of subsidies not only for promoting development of industries or different regions but also to attain their basic, nationally determined socio-economic goals. This need is a function of the general underdevelopment of the economy as a whole: it cannot be viewed in relation to particular industries or sectors which might be modernized in order to maximize export earnings from a limited range of resources.

1.2 Insofar as international trade is concerned, subsidization by developing countries serves to some extent to correct the existing disequilibrium and structural problems faced by them. It also helps in overcoming problems arising from unsuitability of a single exchange rate for different export sectors, inadequacies of technology, lack of scales of operation, weak marketing and service infrastructure, freight and shipping problems, etc.

1.3 Article XVI, read with Part IV of the General Agreement, especially Article XXXVII, gives recognition to differential treatment in favour of the developing countries. The right of the developing countries to continue to utilize subsidies for exports both of primary and non-primary products requires to be more clearly spelt out in the present negotiations.

1.4 No developed country should grant subsidies on products which compete with the exports of developing countries in their domestic market or in third country markets, to the detriment of developing country exports.

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¹The following proposals are not exhaustive.

2. Countervailing duties

2.1 The provisions of Article VI should be read with Part IV of the General Agreement, especially Article XXXVI.

2.2 Greater precision and clarity needs to be given to the concept of material injury which should be one of the essential pre-conditions to countervailing action. Participants should agree upon:

- (a) elaboration of criteria for material injury or the basis of economic indicators such as production, capacity utilization, sales, employment, return on investment, inventories, etc.;
- (b) prior determination in each case of the fact of such injury for the industrial sector as a whole;
- (c) establishment of a causal relationship between the subsidy and such injury i.e. that the subsidy is the direct and a major cause of the injury.

2.3 In fields where the comparative economic advantage is in favour of developing countries, there should be no countervailing action by the developed countries, as this would distort the natural process of transfer of factors of production.

2.4 The establishment of appropriate multilateral surveillance of countervailing actions is desirable. The developing countries must be fully represented and have an effective say in any multilateral bodies set up for this purpose.