

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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Group of Negotiations on Goods (GATT)
Negotiating Group on Subsidies
and Countervailing Measures

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I. Introduction

I am happy to have the opportunity to once again address this Group. As we are all aware, the area of Subsidies/Countervail is full of conflict, and the failure to make substantial progress will have serious implications for the trading system.

Progress will not be easy. The number of issues that have been the subject of disputes is indicative of the challenges facing us. We are now, however, close to the mid-point in the negotiations and we need a common understanding of how to proceed if real negotiations are to be initiated. I hope we are all prepared to show the necessary determination, commitment and flexibility to reach this understanding.

The first step, in our view, is agreement on a balanced and comprehensive negotiating agenda as was foreseen in the Punta del Este Declaration. Mr. Chairman, we have had a number of proposals submitted to this Group reflecting a variety of interests and concerns. These proposals now need to be woven into a comprehensive negotiating framework under which discussions can take place and the negotiations can advance. The comments I will be making today are designed to provide a skeleton for this negotiating framework. Canada intends to put flesh on this skeleton and submit a paper before the next Negotiating Group meeting. Your comments on our ideas will be welcomed so they can be taken into account in preparing this paper.

Before describing this framework, I think it is useful to recall that a primary purpose of the GATT is to allow comparative advantage to operate and in so doing encourage the efficient allocation of resources. Subsidies, like tariffs, can deny countries the benefits they can otherwise expect to derive from comparative advantage and thereby inhibit efficient resource allocation. Article XVI of the GATT, when it was first drafted, showed concern with subsidies by recognizing the adverse effects they can cause. But it did not go so far as to impose direct disciplines on subsidies. Article VI, of course, provided a limited remedy in the form of countervailing duties to protect domestic industries against injurious subsidized imports.

Further attempts to improve the rules resulted in the 1955 Prohibition on Export Subsidies and the Tokyo Round Negotiation of the Subsidies/Countervailing Code. This Code, however, has had only a limited success in disciplining subsidies and the use of countervail. It has not effectively addressed the import replacement and third country displacement effects of subsidies. Furthermore, the Code has been ineffective in resolving disputes as is evidenced by the number of outstanding Panel reports.

In summary, despite the long-standing awareness of the negative effects of subsidies and the attempts to clarify rights and obligations in the subsidies/countervailing area, we are in a situation where:

- there are few effective disciplines on the provision of subsidies;
- governments are faced with the large financial costs associated with subsidies;
- there is a misallocation of productive resources because of subsidies;
- there is expanded use of countervail which causes a great deal of uncertainty and trade harassment; this too results in a misallocation of productive resources;
- not one of the Panel reports made under the SCV Committee has been adopted.

It is clear, therefore, that there is a need in this negotiation to seek agreement on greater subsidy disciplines, clearer rules on the use and scope of countervail and other remedies and more effective dispute settlement.

II. Subsidy disciplines

Regarding subsidies, it is important to accept the basic premise that subsidies should not be used in ways that distort comparative advantage and increase exports or reduce imports. Export subsidies and subsidies increasing production are the worst offenders in terms of production and trade distortions. This has become most painfully apparent in the agricultural sector where the provision of subsidies has reached crisis proportions. However, subsidies in other sectors, such as manufacturing, are also worrisome.

Mr. Chairman, my delegation believes that if this Group is going to achieve any meaningful success in dealing with these problems, there is a need to commit ourselves to effective and strengthened subsidy disciplines including prohibitions on subsidies having obvious and direct negative trade and production effects. This will help to remove distortions in trade and production and allow for more efficient resource allocation. It will also help free our governments from extensive financial burdens.

I recognize that any government could theoretically take unilateral action to reduce its level of subsidization. In practice, however, this is extremely difficult to do in an environment where other countries continue to offer subsidies. The Uruguay Round provides a unique opportunity to do what we each know should be done. That is, the Uruguay Round provides an opportunity to accept disciplines multilaterally which would be difficult, if not impossible, to undertake unilaterally.

III. Parameters for the scope and application of countervail

While virtually any government action could be construed as having possible effects on production and trade, there need to be some outside limits on the scope of government activity that can be considered a subsidy and subject to countervail. Article VI was designed to permit countries to offset subsidies. Failure to reach an agreement on the concept of a subsidy has led to unilateral interpretation and expanding use of countervail against a wide variety of practices. Such unilateral interpretations have caused uncertainty and trade conflicts. Unilateral action outside of a common understanding is surely incompatible with a strong multilateral system. There need to be limits on the use of countervail to reduce the uncertainty of the present system.

In addition, it has been recognized that not all subsidy practices have significant negative production or trade effects. As such, consideration should be given to developing precise criteria which, if met, would preclude the application of countervailing duties to certain subsidy practices. In this regard, subsidies for infrastructure, research and development and regional development come to mind.

Establishing parameters for the application of countervail is evidently not an easy task. The parameters cannot be so broad as to permit any and all government practices to be subject to countervailing action. Nor can they be so narrow as to permit abuse of the principle that subsidies should not distort comparative advantage. We must be extremely careful that these parameters are not used in a shell game where governments try to hide subsidies from countervail. Furthermore, even with the most skilful drafting, there will be disputes as to the application of the parameters. Nevertheless, I believe it should be possible to develop clear, consistent and comprehensive parameters acceptable to all. In reaching such an agreement this will help avoid disputes in the future.

IV. Remedies

Experience has shown that the GATT and the Code contain only one truly effective remedy to the trade problems caused by subsidies: the unilateral use of countervail. Unfortunately, countervail deals only with direct exports which is only one of the negative trade effects of subsidies. It does not deal with subsidies increasing exports into third markets nor subsidies resulting in import substitution.

While increased disciplines on subsidies will reduce the import replacement and third country displacement problems, it will not eliminate them. Some imaginative thinking is needed to ensure that effective remedies for these problems are available. Perhaps a multilateral standing panel and compensation/retaliation system, as suggested by some, could be used to deal with the harm caused by subsidy practices not subject to the remedy of countervailing action.

Regarding countervailing, increased disciplines are required on the use of countervail to ensure it is not used in a capricious and harassing manner. Its use has created a great deal of friction and has had an unsettling and distorting effect on trade, production and investment decisions. Many delegations have made specific suggestions for improvements.

V. Dispute settlement

With clearer rules about subsidies, countervail and other remedies, the number of disputes should diminish. Nevertheless disputes will inevitably arise. As such an effective and fair dispute settlement mechanism will be necessary in order to generate confidence in the subsidies/countervailing system. While much work remains to be done in this area and the Negotiating Group on Dispute Settlement may provide some guidance and ideas, I think it is clear that any subsidies/countervailing mechanism must, at the minimum, ensure that obligations will be upheld. Without this assurance, I am doubtful that countries will be willing to accept the constraints necessary in the subsidies/countervailing area if real and substantive progress is to be made.

VI. Conclusion

I believe the comments I have made cover the essential elements of a framework which will allow the concerns of all at this negotiating table, including developing countries, to be addressed. If we each continue to insist on narrow issues of specific interest to each country being addressed as a priority, this Committee will continue to tread water. I believe that sufficiently broad scope for real negotiations is accomplished by grouping issues under the four categories of: subsidy disciplines, parameters for the scope and application of countervail, remedies and dispute settlement. There is no need to attach priority to any one issue. They can all be dealt with in parallel.

Before the next meeting we will be developing our ideas in greater detail and will be circulating a paper. Any comments on these ideas would be helpful in our development of this paper.