

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

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MTN.GNG/NG10/9
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Group of Negotiations on Goods (GATT)
Negotiating Group on Subsidies
and Countervailing Measures

MEETING OF 3-4 OCTOBER 1988

Note by the Secretariat

1. The Group held its ninth meeting on 3-4 October 1988 under the Chairmanship of Mr. Michael D. Cartland (Hong Kong). The Group adopted the agenda set out in GATT/AIR/2662.

Continuation of the discussion of proposals made by participants

2. One participant said that, from an economic policy standpoint, some subsidies distorted trade and an efficient allocation of resources, whereas some others played an important rôle in enhancing efficiency of the economy in the long run, a rôle which had been recognized in the GATT (e.g. in Article 11:1 of the Subsidies Code). In this respect he referred to subsidies used for research and development and for structural adjustment. This participant further said that the absence of a clear definition of subsidies had been one of the main causes of international disputes; working out such a definition was therefore indispensable for strengthening effective disciplines on both subsidies and countervailing measures. He considered that the standard for deciding whether or not a subsidy existed should be government's expenditure, whereas the "benefit to the recipient" concept could lead to protectionism. He also reiterated his delegation's view that the concept of industrial targeting was unworkable and emphasized that each assistance measure included in a policy package should be examined in terms of whether or not such a measure possessed characteristics of subsidies. Regarding subsidy disciplines, he considered that it was necessary to clarify the scope of subsidies that should be prohibited. On the other hand it was also important to clarify the scope of subsidies which should be non-actionable a priori, in particular those which were legitimate under the GATT or granted for legitimate domestic policies and those which did not have trade distorting effects. As to countervailing measures, they should be used against subsidies which were neither prohibited nor non-actionable a priori. Remedies for displacement should be improved and new types of remedies could be explored. However, the abuse of countervailing measures and other remedies should be avoided through a clarification of the parameters for their application.

3. In another participant's view a logical negotiating framework should provide for sequential negotiations on subsidies and countervailing measures. This would enable the disciplines achieved on subsidies to set the parameters for negotiations on countervailing measures. Participants should accept effective subsidy disciplines including prohibitions on subsidies having obvious and direct negative trade and production effects. He suggested that a pragmatic approach to formulating subsidy disciplines could be to develop objective and verifiable criteria in order to establish circumstances under which domestic subsidies would be prohibited or where action would be required to have subsidies removed or reduced. Such criteria could include, for example, the proportion which subsidies represented of an industry's total value added or turnover. A direct trade impact criterion could also be developed to prohibit those subsidies where a demonstrable link could be established between the subsidy measure and production, and where an increment in subsidization resulted in increased production or was necessary to sustain production levels.

4. This participant recognized that subsidies other than export subsidies were widely used in meeting the objectives detailed in Article 11:1 of the Subsidies Code but he considered that a balance needed to be established between meeting socio-economic objectives and prohibiting trade distorting subsidies. In this respect he suggested that the Group should establish criteria relating to conditions under which domestic subsidies could be used (for example subsidies considered necessary for structural adjustment but with a built-in pressure in the form of subsidy reductions, a phasing-out mechanism and periodic reviews). All measures falling within this category should be subject to strict notification procedures and effective surveillance mechanism.

5. One participant, referring to the proposal circulated in MTN.GNG/NG10/W/17, said that the approach based on three classes of subsidies was a constructive one, although his delegation had some problems with the category of non-actionable subsidies. In his view there was no economic basis for classifying certain subsidies, because of their objectives (e.g. structural adjustment subsidies), as a priori non-trade distorting, nor was there any such basis in the existing GATT rules. Nevertheless, in general terms, the approach which could be called a "traffic light approach" should be pursued further.

Discussions of a possible framework for the negotiations

6. One participant introduced his delegation's proposal circulated in MTN.GNG/NG10/W/23. He said that the framework outlined in this proposal was based on the need to take account of the intertwining of the issues of subsidies, countervailing measures and other remedies, and dispute settlement. He stated that an examination of the linkages between these issues was as crucial to the success of the negotiation as the consideration of the issues individually. The proposed framework was structured under four headings: subsidy disciplines; remedies, direct disciplines and their relationship; improvement and clarification of

countervailing duty rules; dispute settlement and institutional provisions. Each heading contained a brief statement of the problem facing the Negotiating Group that was intended to be clear and non-controversial. Issues to be addressed under each heading were then set out in some detail. Having explained the content of each heading, he concluded by saying that the progress in the Group had been slow, not to say elusive, and that it was imperative to engage in a negotiating process that would bring out the linkages between the issues facing the Group. Otherwise the widely varying priorities of the countries represented in the Group would move quickly towards a stalemate. The Group should therefore provide its support to his delegation's initiative, if not necessarily to each and every word in the paper.

8. The Group then discussed the proposal contained in MTN.GNG/NG10/W/23 at an informal meeting.

9. The Chairman said that the proposal in MTN.GNG/NG10/W/23 was very timely as it focussed the Group's attention on the important issue of structure and direction of the negotiations. He noted that there was broad support for a framework approach and for moving into a more substantive negotiation along the lines outlined in this proposal, but the comments made on that proposal as well as other proposals which had been submitted to the Group should also be taken into account. He thought therefore that there was a good basis to elaborate a framework that would take into account all points of view and which, using neutral language and not anticipating any specific outcome of the negotiations, would be acceptable to all participants. The Chairman said that he would prepare a possible framework on that basis, which he would send to participants before the next meeting.

Arrangements for the next meeting

10. The Group agreed to hold its next meeting on 10-11 November 1988. The agenda for this meeting will include:

- (a) A possible framework for the negotiations
- (b) Preparation of the report for the Ministerial Meeting

The Group also noted the Chairman's suggestion to hold its subsequent meeting in the week starting 13 February 1989.