

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG10/20

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Special Distribution

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

MEETING OF 21 JUNE 1990

Note by the Secretariat

1. The Group met on 21 June 1990 under the Chairmanship of Mr. Michael D. Cartland (Hong Kong). The Group discussed issues related to the informal paper submitted by the Chairman.
2. One participant provided the following clarifications of circumstances in which the concept of targeting should apply:
 - targeting must involve a coordinated plan or scheme of definite actions and policy tools utilized by governments, not an isolated incident or an uncoordinated series of actions;
 - the targeting scheme must benefit certain enterprises;
 - in combination with the above circumstances, targeting exists where at least two other policy tools are combined in a programme which also includes a subsidy.

He found that among the policies most frequently used were the following: protection of the home market, promotion or toleration of cartels, discriminatory or preferential government procurement practices, direction of capital (government or private) to certain enterprises, export restrictions, and manipulation of the user market to reduce the risk associated with product development and commercialization. He considered that these programmes of support were pursued with objectives and resulting trade distorting effects identical to those more commonly associated with subsidies and therefore a balanced outcome in this Group should address this problem.

3. Several participants recognized that there might be a genuine concern with the so-called targeting, but doubted whether this practice could come under the category of subsidies and be dealt with by this Negotiating Group. Some other participants pointed out that the concept and ideas on targeting were still too general and therefore were susceptible to cover too many governmental policies having nothing to do with subsidization. They considered that a more precise definition was needed before they could examine this issue any further.

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4. One participant expressed his concern about two-tier pricing of natural resources, particularly energy resources and the distorting effect this practice could have on international trade in resource-based products. Dual pricing could distort trade by providing an artificial advantage to producers of resource-intensive or derivative products who export their goods in competition with other suppliers who did not benefit from the lowered import costs, and thus have a subsidy-like effect. This participant did not question the rôle of governments in the natural resources area, but he believed that certain mechanisms for exercising that rôle were preferable to others and that guidance for the international rules in this regard should be provided.

5. Several participants said that the issue of natural resources was discussed in another negotiating group and that that other group constituted the most appropriate forum for further discussions. It was pointed out that natural resources pricing frequently reflected comparative advantages certain countries had in this area and it was legitimate a policy measure that the producers of these countries benefited from this advantage. They also did not consider that this could lead to trade distortions, at any rate not to higher distortions than those caused, for example, by tariff escalation.

6. One participant referred to the categorization of subsidies in the Montreal framework and the Chairman's informal paper based on this framework. He proposed that the list of non-actionable subsidies include governmental measures necessary to implement programmes agreed with relevant international institutions in the context of transforming state trading economies into market economy.

7. The next meeting of the Group will be held on 12-13 July 1990.