

as a result of a comprehensive policy review, was to ensure that the SCM Agreement would not affect the U.S. domestic R&D agenda of public-sector/private-sector technology partnerships by subjecting them to countervail action. While the focus of the Reagan and Bush Administrations was on the need to limit what competitors could do in this area, the Clinton Administration, with bipartisan support, moved to increase the caps in the SCM Agreement on R&D spending from 50 to 75 percent on "industrial research", and from 25 to 50 percent on "precompetitive" development activities.⁷⁰ Moreover, it is worth recalling that the U.S. specifically lobbied, albeit unsuccessfully, against including compulsory notification of R&D subsidies under the SCM Agreement.

- **European Union**

In the EU, Governments often make up to 60 percent of the cost of an investment in select advanced technology sectors.⁷¹ The main types of incentives include: research and development incentives (as noted, billions of ECUs are available under the Fourth Framework Programme), tax incentives to "enterprise zones," and select regional incentives. Manufacturing firms, for example, often have their corporate tax rate reduced to 10 percent, instead of the statutory rate of 50 percent, once projects are up and running.

The EU has also permitted the creation of the European Development Area (EDA) which encompasses the common border areas of France, Belgium and Luxembourg. All three governments offer special export allowances and up to 37.5 percent direct financing of industrial investments in the EDA. French regions suffering structural difficulties may also be exempted from corporate tax for up to five years and are eligible to lease assets such as land at subsidized rates. Depending on the area, such measures may cover 50 to 100 percent of the total plant cost. Moreover,

(November 1993) p. 157.

⁷⁰ Industrial research involves a critical investigation that attempts to discover new knowledge that may help in the development of new or improved "products, processes or services or in bringing about a significant improvement to existing products, processes or services." (SCM Agreement Article 8(2)(a), footnote 25). Pre-competitive research converts industrial research into a "plan, blueprint or design for new, modified or improved products, processes or services ..." (SCM Agreement Article 8.2 (a), footnote 26), including the production of a first non-commercial prototype. Routine or periodic alterations of existing products are excluded (SCM, Footnote 29) and would, in theory, be actionable if a demonstration of adverse effect/"material injury" could be demonstrated. It should also be noted that there is a 100% carve-out for "fundamental" research activities (see SCM Agreement, Article 8, footnote 24).

⁷¹ For example, see *The Impact of Trade Related Investment Measures on Trade Development: Theory, Evidence and Implications*, United Nations, (1991), pp. 69-77.