

7. In view of the damage caused by PROEX subsidies, Canada brought this matter to the attention of Brazil two years ago and attempted to resolve it through negotiation, both within and outside the framework of the WTO dispute settlement mechanism. Despite expressions of concern by Canada and other members of the WTO, Brazil has, contrary to Article 3.2, continued to grant and maintain such prohibited subsidies.

8. Further, Brazil has done nothing to phase out these export subsidies. Indeed, it has expanded the scope and availability of PROEX subsidies. It has progressively increased expenditures under PROEX, both generally and more specifically with respect to regional aircraft. It has increased the value of the financing to which PROEX subsidies apply from 85 percent to 100 percent of the purchase amount. It has, in practice, waived Brazilian content requirements and increased the period in which PROEX subsidies are available from ten to fifteen years. It has increased the term for which PROEX subsidies are available for spare parts and engines for regional aircraft. Finally, it has made PROEX subsidies available as lump-sum grants and therefore more attractive to purchasers.

9. Canada seeks a resolution of this matter before the WTO that will put an end to the serious market distortions caused by PROEX subsidies. Canada seeks a finding that payments made under PROEX on export sales of Brazilian regional aircraft constitute export subsidies prohibited by Article 3. Canada requests that the panel recommend, in accordance with Article 4.7, that Brazil withdraw without delay PROEX subsidies granted under the "Interest Equalization" component of PROEX, as set out in paragraph 80 below.