

Trade Remedies and R&D

Improved, more transparent trade rules related to subsidies and countervailing and anti-dumping duties will increase the long-term stability of the environment within which businesses plan their research, production and marketing activities. In this regard, the current MTN text will significantly clarify key definitions and procedures related to subsidy and countervail practices, with some modest, yet still helpful improvements related to the international disciplines on the use of anti-dumping duties.

More specifically, the MTN text is directly permissive of government funding of private sector R&D in two ways. First, generally available grants, loans or tax incentives are not subject to countervailing duties, and the scope of "general availability" encompasses classes of firms defined horizontally (e.g., by number of employees or size of enterprise), a provision that permits some tailoring of programmes to focus on the needs of small and medium sized enterprises. Second, when a subsidy is specific to an enterprise or industry and would therefore otherwise be potentially subject to countervail, it will nonetheless remain exempt if the subsidy covers only a defined proportion of basic and applied research⁵⁷. This partial carve-out would represent an improvement compared to current GATT disciplines, but a fuller exemption would be helpful and is perhaps achievable in future negotiations.

Canadian government funding of R&D is already generous by OECD standards (including investment tax credits at rates of 20%-35%) and will remain especially important into the foreseeable future until the private sector's historically weak effort improves significantly. Therefore, Canadian trade objectives must continue to focus on the successful conclusion of the MTN, including approval of the existing subsidies/countervail draft. The approach contained in this draft is important in part because it will shield Canadian exports dependent on government-financed R&D from the destabilizing threat of countervailing duties. Indeed, with or without a successful MTN, the shielding of Canadian R&D from U.S. (in particular) trade remedy action must remain an on-going priority. Greater security from the abuse of these trade rules will encourage the longer-term business planning needed to foster a greater commitment to research and development.

and investment policies can help to promote such rivalry.

⁵⁷ MTN.TNC/W/FA, pp.I.1-2, I.9-10.