

## **I. SUBSIDY PRACTICES**

Canadian producers face competition from subsidized U.S. goods not only in the Canadian market but also in the United States and other export markets. Some U.S. practices that affect Canadian business prospects are set out below.

### **Defence and Research and Development**

Preferential government procurement (which allows contractors to add overhead charges on the value of their sales to government departments or agencies) represents an excess payment for goods and services, and constitutes a subsidy. For example, the Independent Research and Development Program allows contractors supplying NASA and the Department of Defence to apply additional charges to the selling price.

The U.S. Manufacturing Technology Program provides capital assistance to defence contractors for general plant capacity increases and upgrades, unrelated to specific procurement contracts.

### **Export Enhancement Program**

The Export Enhancement Program (EEP) is authorized under the U.S. Farm Bill. It authorizes the U.S. Department of Agriculture (USDA) to use Commodity Credit Corporation-owned stocks or cash payments to subsidize U.S. agricultural exports (particularly in the grains and oilseeds sector) to targeted countries. EEP bonuses are currently being paid in cash.

The U.S. justification for the EEP has been to protect its market share from erosion by subsidized European Community commodities, and to encourage the EC to negotiate trade reform within the context of the Uruguay Round. Thus, the EEP was to be used in markets that had a strong EC presence. However, this has not always been the case, since the nature of the foreign competition is only one of the criteria determining whether EEP allocations will be issued.

Over time, the EEP program has expanded to include countries that have a small EC market presence, and then to countries where the EC has had potential for sales. As a result of the trade subsidy war between the United States and the EC, very few markets are not targeted under the EEP. This has caused a severe reduction in the overall world price and has resulted in devastatingly low returns to Canadian producers.