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. federal programs that affect Canadian business prospects are set out below. State and local governments are increasingly offering incentives to attract investments that might otherwise locate in Canada.

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 Defense 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.

U.S. Inland Waterway Transportation Subsidies

Major inland waterways in the United States (e.g. the Mississippi-Missouri and the Tennessee-Tombigbee river systems) have been developed by and are maintained at the expense of the federal government, with services provided by the U.S. Army Corps of Engineers. There are no lockage fees or other user tolls. However, barge operators pay fuel taxes which are targetted for new construction only.

This system of waterways, canals, and locks, and its maintenance, constitutes a subsidy to inland transportation. By reducing the cost of bulk transportation for products, significant benefits accrue to users of the inland waterways.

Export Enhancement Program

The Export Enhancement Program (EEP) is authorized under the U.S. Food, Agriculture, Conservation and Trade Act of 1990 (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 to targetted markets.

Initially, the U.S. justification for the EEP had been to protect its market share from erosion by subsidized European Union (EU) commodities, and to encourage the EU to negotiate trade reform within the context of the Uruguay Round. Thus, the EEP was