

## **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 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 include the Mississippi-Missouri and the Columbia-Snake river systems. These 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. Tolls have never been charged and, on the Mississippi system, there are no lockage fees or other user tolls, although barge operators do pay fuel taxes.

This system of waterways, canals, locks and the dredging that has been required 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 targeted countries.

Initially, the U.S. justification for the EEP had been to protect its market share from erosion by subsidized European Community (EC) 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.