

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 also offer incentives to attract investments that might otherwise locate in Canada. The subsidy disciplines in the WTO and domestic countervailing duty law, including, the introduction of the "serious prejudice" provision in the Uruguay Round Agreement on Subsidies and Countervailing Measures, provides a recourse against U.S. subsidies which may harm Canadian interests in the United States and other export markets.

The WTO Agreement on Agriculture has a direct effect on some U.S. export support programs. Subsidies under the Export Enhancement Program (EEP), Dairy Export Incentive Program (DEIP), Sunflower seed Oil Assistance Program (SOAP), Cottonseed Oil Assistance Program (COAP) and Commodity Credit Corporation (CCC) direct sales are required to be reduced from either 1986-1990 or 1991-1992 average reference levels, totalling approximately US\$930 million, to approximately US\$595 million in 2001. Under the WTO Agreement on Agriculture export subsidies must be reduced by 36% in expenditure terms and 21% in volume terms from the 1986-1990 base period on a product grouping basis (e.g. wheat and flour, coarse grains).

Export Enhancement Program

The Export Enhancement Program (EEP) was introduced in May 1985 and is authorized under the U.S. Food, Agriculture, Conservation and Trade Act of 1990 (1990 Farm Bill). The 1990 Farm Bill authorizes the U.S. Department of Agriculture to use Commodity Credit Corporation-owned stocks or cash payments to subsidize a range of U.S. agricultural exports to targeted markets. Initially, the U.S. justification for the EEP had been to protect its market share from erosion by subsidized European Union commodities, however, over time the EEP has expanded to include the majority of export markets. This resulted in a severe reduction in overall world prices and lowered returns to Canadian producers.

Total EEP expenditures in the 1995 fiscal year equalled US\$335 million. Although several agricultural commodities are eligible for export subsidies under the EEP, historically, approximately 90% of EEP expenditures are used to subsidize grains, oilseeds and their products. However, given strong international prices the United States has not used the EEP for wheat since July 1995.

The Canada-United States Joint Commission on Grains (the Commission) examined the EEP and its effect on third country markets as part of its overall investigation of Canadian and U.S. grain marketing and support systems. The Commission recommended the elimination of, or significant reduction with a view to eliminating, the EEP for all cereals and their products and a commitment not to implement replacement programs with similar effects.

The U.S. Administration has requested US\$959 million in EEP funding for the 1996 fiscal year, which is the maximum allowed under the WTO export subsidy commitment of the WTO Agreement on Agriculture. Canada will monitor closely the United States use of previously appropriated funds under the EEP to ensure that they are not transferred to another program and used in a way as to circumvent the U.S. WTO export subsidy commitments.