

agreement, together with the improved dispute-settlement rules, should have a positive environmental impact.

Regarding specific provisions of the new Agreement on Subsidies and Countervailing Measures, both the environment and the research provisions in the non-actionable category have direct implications for the environment. In the case of industrial research and precompetitive development,<sup>7</sup> the Agreement grants non-actionable status to assistance for research activities conducted by firms or by higher education or research establishments on a contract basis with firms. This assistance must cover not more than 75 percent of the costs of the industrial research or 50 percent of the costs of the precompetitive development activity. Assistance provided for industrial research relating to the environment or the precompetitive development of new, modified or improved environmental products, processes or services, within certain limitations, would qualify under this category.

In the case of government financial assistance for adapting existing facilities to new environmental regulations, the Agreement provides that it will be non-actionable if the assistance:

- is a one-time, non-recurring measure;
- is limited to 20 percent of the cost of the adaptation;
- does not cover the cost of replacing and operating the assisted investment, which must be fully borne by the firm;
- is directly linked to and proportionate to a firm's planned reduction of nuisances and pollution, and does not cover any manufacturing cost savings that may be achieved; and
- is available to all firms that can adapt the new equipment and/or production processes.

To the extent that cost savings accrue as the result of adaptation, these would reduce the cost base to be used to assess the 20-percent maximum subsidy.

The environmental carve-out is a special exception to the GATT rules governing the use of subsidies. It is intended to encourage the adaptation of more environmentally friendly technology to deal with existing practices that appear to injure the environment.