

5.6 SUBSIDY NEGOTIATIONS

One of the hopes of the Government and the trade negotiators was that a definition of what constitutes a subsidy -- which government practices are acceptable, and which are not -- would be a part of the FTA. The goal was to define what "trade distorting subsidies" means, to set a timetable for the elimination of such subsidies, and to end the perceived need for countervailing actions against each other.

This question proved so difficult during the negotiation of the FTA in 1987 that it was set aside. A five- to seven-year period was provided in the FTA for completion of the negotiations on the subsidy issue. Chapter Nineteen set out new binational, but temporary, dispute settlement mechanisms to deal with particular conflicts which may arise while these negotiations are in progress¹³².

Both the Minister for International Trade, Mr. Crosbie, and his Deputy Minister on numerous occasions have stated that only subsidies which are countervailable will be on the negotiating table. In their view then, medicare, social programmes, regional development incentives, and other generally available subsidies would be excluded. However, no definition of what is countervailable has yet been commonly agreed to in the international community, nor are the Canadian and U.S. views necessarily in harmony.

There is no explicit definition in U.S. legislation of what a subsidy is, and the provisions of the new U.S. *Omnibus Trade and Competitiveness Act* increase the already wide possible grounds for countervail actions. It might be noted in passing that Canada's *Special Import Measures Act* includes a definition of subsidy as broad as that in the U.S. legislation.

Since the effect of lower tariffs under the FTA may be to increase some Canadian exports to the United States at the expense of domestic producers there, the harassment to which Canadian exporters have in the past been exposed is likely to be increased. Accordingly, concluding negotiations on what constitutes a subsidy as soon as possible should be a major Canadian policy goal.

¹³² These DSMs will not make determinations as to what is or is not a subsidy, but rather will assess the propriety of the application of existing national trade remedy laws.