I. SUBSIDIES

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.

Export Enhancement Program

The Export Enhancement Program (EEP) was introduced in May 1985 and is currently authorized under the U.S. Food, Agriculture, Conservation and Trade Act of 1990 (1990 Farm Bill). It authorizes the U.S. Department of Agriculture (USDA) 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 (EU) commodities, however, over time, the EEP has expanded first to include countries that have a small EU market presence, and now to countries where the EU has only the potential for future sales. As a result of the trade subsidy war between the United States and the EU, very few markets are not targeted under the EEP. This has caused a severe reduction in the overall world price and has resulted in devastatingly lowered returns to Canadian producers.

Although several agricultural commodities are eligible for export subsidies under the EEP, approximately 95% of EEP expenditures are used to subsidize grains, oilseeds and their products. Program funding for the 1994 fiscal year was US$800 million. It is expected that the Canada-United States Joint Commission on Grains will carefully examine the EEP and its effects on our traditional markets as part of its overall investigation of the Canadian and U.S. grain marketing and support systems.

Notwithstanding the export subsidy reduction commitments of the Uruguay Round, EEP has been recast as a "market promotion" program which will cover more value-added and finished products. The U.S. Administration has asked for US$ 959 million in EEP funding for 1996, which is the maximum allowed under the Aggregate Measure of Support (AMS) provision of the WTO Agreement on Agriculture.

Sugar

The United States operates a sugar price support program as well as import restrictions on sugar and certain sugar-containing products, which ensures that U.S. domestic prices remain at levels significantly above world market prices. In addition, the United States maintains re-export programs that allow U.S. exporters to import world price sugar for re-export as refined sugar and sugar-containing products. Without these re-export programs, U.S. exporters would be less competitive in world markets, due to the higher U.S. domestic price for sugar. These sugar programs are included in the recent complaint by the Canadian sugar industry seeking the imposition of anti-dumping and countervailing duties against sugar from the United States and other countries.