

attention and perhaps fresh thinking from the global community.

Several recent issues highlight this. In this regard, I should like first to draw attention to the recent WTO dispute settlement process over the United States Financial Sales Corporations (FSC) policy. In this case, the European Union was given the right to retaliate in the amount of several billions of dollars for a violation of export subsidy laws by the United States which, by any reasonable economic assessment, did little actual harm to commercial interests, being a broad and shallow subsidy with *de minimus* impacts on any particular industry. If the EU exercised its right to impose countermeasures against US exports, it could do so with large and narrow tariffs that significantly impact on particular industries.

This award underscores the ongoing transformation of the management of the trading system from a practical commercial exercise towards legalistic formalism. If the EU prudently decides not to exercise its right to retaliate, and the US finds a way to redesign its tax laws to bring them into formal compliance with WTO commitments, real damage will be avoided. However, the fact that the system yielded a cure which was, in economic terms, clearly worse than the disease suggests that there is now a serious imbalance between the commercial pragmatism that was the traditional hallmark of the GATT system and the legalism to which the WTO has been moving.

A rather different but equally troubling situation is unfolding in the case of the Canada-Brazil disputes over regional aircraft subsidies. Unlike the FSC case, these involve large and very narrowly targeted subsidies that have a direct impact on major sales in an industry that has become a global duopoly. Viewed in game theoretic terms, the pay-off matrix facing Canada and Brazil in this instance is such that both countries have been driven to courses of action that the WTO has found to be in violation of their multilateral commitments and which constitute a "lose-lose" outcome for both parties—the classic Prisoner's Dilemma outcome. Caught in this lose-lose situation, Canada has been granted the right to retaliate massively against Brazilian imports and Brazil requested still larger countermea-