

need to ensure resources dedicated to constituency building within both the U.S. and European R&D communities and private sectors, with a view to ensuring more liberal terms of access to our primary sources of advanced technology.

#### **Recommendation 4. Transparency and Quantitative Limits on Investment Locational Incentives**

Questions about the transparency of investment subsidies offered by national and sub-national governments remain problematic. What should be disciplined? Investment measures having anticipated adverse effects on trade or the effects themselves (i.e., what is described as *ex ante* and *ex post* approaches)? I would argue for an *ex ante* approach, including prompt and full disclosure, particularly for subsidies that could have a distorting effect on industries that invest heavily in R&D and thus influence investment behaviour. Canada could also work for expenditure caps on locational subsidies within North America and more generally. In practice, the U.S. is unlikely to engage unless the other global players participate as well (i.e., unilateral North American disarmament on the use of locational incentives is improbable). Nor should Canada legally bind itself in this area more than its trading partners. These considerations argue for working on this subsidy issue during the current OECD-sponsored negotiations to establish a Multilateral Agreement on Investment (MAI) and eventually in the WTO context.

#### **Recommendation 5. Possible Quantitative Limits on R&D Subsidies**

One medium-term option could also be to seek quantitative limits on total national spending on direct R&D subsidies. Tightening subsidies targeted at promoting advanced technology sectors remains an issue for future negotiations and will require clearer definitions of pre-competitive and competitive R&D, as well as a careful re-evaluation of the economics of the spill-over benefits derived from R&D subsidies versus the potentially trade and investment distorting impact of the far greater resources that the U.S. and the EU can spend compared to Canada and other smaller economies.

#### **Recommendation 6. Transparency with regard to R&D Subsidies**

Canada should seek to ensure that its trading partners promptly and fully notify their R&D subsidies in the WTO context. See also Recommendation 5.