

## SUBSIDIES AND COUNTERVAILING MEASURES

Many of the current trade irritants and disputes affecting world trade stem from disagreements in the area of subsidies and countervailing measures. Improving and clarifying GATT rights and obligations with respect to subsidies as well as countervailing measures and improving the dispute settlement process are important elements in the Uruguay Round agenda.

Under the Canada-U.S. Free Trade Agreement (FTA), a bilateral Working Group will address the issue of subsidies and countervailing measures over the next five to seven years with a view to developing an agreed substitute system of rules and disciplines. Of course, the Canada-U.S. discussions will take as their starting point the existing GATT rules relating to subsidies and countervailing measures.

The multilateral trade negotiations (MTN) will also seek to bring about greater clarity and certainty in trade rules and their application, particularly in terms of trade-distorting subsidies. The MTN will proceed in parallel with the Canada-U.S. Working Group but may have an earlier time horizon. Until a new bilateral regime of rules has been successfully negotiated and implemented, GATT rules will apply to Canada-U.S. trade.

Since its inception, GATT has recognized the potential harm that undisciplined subsidization can do to the proper functioning of the international trade system. A prohibition was established early on for export subsidies on non-primary products. But the GATT has been much less successful in developing agreed disciplines on other trade-distorting subsidies, particularly in relation to primary sectors. The current agricultural crisis is testimony to this. In this situation, heavy reliance has been placed on an importing country's right to take countervailing duty action. The injury test on countervail negotiated in the Tokyo Round was a positive but insufficient improvement to prevent harassment to legitimate trade.

At the same time, subsidies are recognized in the GATT as legitimate instruments to promote important national policy objectives such as