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CANADA TABLES FIRST COMPREHENSIVE PROPOSAL  
FOR NEW GATT SUBSIDY-COUNTERVAIL RULES

The first comprehensive proposal for reforming international rules and procedures on trade-distorting subsidies and countervailing measures was tabled today by Canadian negotiators in Geneva, International Trade Minister John Crosbie announced today.

Mr. Crosbie released a summary of the Canadian position following a wide-ranging speech to the Pacific Economic Co-operation Conference Trade Policy Forum and the Institute for Research on Public Policy, in Vancouver.

In its proposal, Canada called on the 96 members of the General Agreement on Tariffs and Trade (GATT) to clearly identify the criteria for legitimate countervailing measures, in order to stop the growing trend towards disruptive trade actions.

Countervail actions can be launched when one country feels another country's subsidies unfairly damage its domestic industry. The existing GATT Agreement on Subsidies and Countervailing Measures contains imprecise language and has not been adopted by all GATT members. This has created uncertainty, a rising tide of bilateral disputes and unilateral trade actions.

Mr. Crosbie noted Canada's continuing commitment to the Uruguay Round of multilateral trade negotiations, and said, "It is no exaggeration to state that the continued health of the world economy depends on the progress we make in the current Uruguay Round."

By deciding on which types of subsidies are trade-distorting, the current Uruguay Round of multilateral trade negotiations can help ensure that Canadian exporters, and other trading nations, can act with greater certainty in world markets. The multilateral negotiations should also help guide forthcoming negotiations with the United States, under the Free Trade Agreement, on bilateral subsidy and countervail rules.

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Mr. Crosbie called on Asia-Pacific nations to take a more active role in building a fair world trading system, and said the development of a Pacific Rim forum for economic co-operation could help advance this goal.

The Minister pointed out that the Asia-Pacific Region, by the year 2000, will account for 60 per cent of the world's population, 50 per cent of economic production, and 40 per cent of consumption. Trans-Pacific trade between Asia and North America exceeds \$300 billion per year, and is expected to exceed \$500 billion by the year 2000.

Canada's two-way trade with Asia-Pacific last year totaled roughly \$36 billion. Japan, for example, is Canada's largest single offshore market.

To help Canadian business develop its full export potential, the federal government is pursuing a "Going Global" trade policy, which will help lead Canadian exporters beyond their traditional markets in the United States to the other two "megaeconomies", Asia-Pacific and Europe.

"The Canada-U.S. Free Trade Agreement is truly a stepping stone for our producers to offshore markets. For it increases our ability to seize the opportunities in freer trade around the world -- to participate in global developments from a position of strength," Mr. Crosbie said. "As a middle power with a small domestic market, it is absolutely critical that we support the goal of an open world economy, based on respect for the rule of law in multilateral trade."

To help focus the public's recognition of the federal department primarily responsible for Canada's trade policy and international market development, Mr. Crosbie also announced that the Department of External Affairs has been renamed External Affairs and International Trade Canada.

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MTN: SUBSIDIES AND COUNTERVAILING MEASURES  
BACKGROUND ON CANADIAN SUBMISSION  
TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE,  
GENEVA, JUNE 28, 1989

The proposal being tabled by Canada at the Multilateral Trade Negotiations (MTN) in Geneva is based on the Framework for Negotiations which Trade Ministers agreed to at the Mid-Term Review of the MTN in Montreal in December 1988.

The Framework, which developed from an earlier Canadian initiative, envisages comprehensive and balanced negotiations aimed at developing better and more precise international rules and disciplines, building on the existing GATT Agreement on Subsidies and Countervailing Measures. The Framework calls for negotiation on various issues related to government subsidies and trade remedies. It envisages negotiations on which practices should be prohibited; which should be countervailable or actionable under GATT trade remedies; which assistance measures are not trade-distortive and should not be actionable or countervailable; and, what improvements can be made to the multilateral system of rules and procedures for addressing disputes and enforcing rules.

Canada's primary MTN objectives in the area of subsidies and countervail are:

- To seek disciplines on trade distortive subsidy practices.
- To add precision to the rules and procedures governing countervail so as to avoid countervail being used as an instrument to harass legitimate trade.
- To obtain multilateral understanding that certain forms of government assistance are not trade distorting and should not be subject to trade remedy action.
- To establish a stronger basis in the GATT to resolve disputes in a timely fashion and enforce the multilateral rules.

The Canadian proposal - the first comprehensive submission since the Framework for Negotiations was agreed to - builds upon the agreed Framework and contains these major elements:

- extension of the existing GATT prohibition on industrial export subsidies to primary products, notably agriculture;
- enshrining in the GATT, as conditions for countervail, the "specificity" and "financial contribution" requirements which would define the parameters of countervailable subsidies;
- introducing a requirement on a country taking countervail action to "net out" or deduct the subsidies received by its own industry;
- establishing a tighter injury standard for application of countervail;
- establishing a minimal level of subsidization below which countervail would not apply;
- strengthening the existing multilateral rules and conditions of the GATT subsidies agreement, to ensure that certain forms of government assistance, such as regional development, would not be subject to countervail;
- establishment of a standing multilateral panel to hear disputes, interpret the rules and authorize trade remedies where warranted.

The proposal would maintain the necessary flexibility for Canadian governments to pursue economic development policies and social programs. This would be achieved mainly through building on the concept of general availability, which is now accepted by many GATT members as a basic criterion for non-countervailability. This concept of general availability would then become enshrined in a revised GATT subsidies agreement. Specific conditions for non-countervailability would be set out with reference to regional development subsidies, research and development, infrastructure, and worker adjustment assistance.

Future foreign countervail actions against non-trade-distorting Canadian programs could be forestalled by references to a multilateral panel for rulings as to whether a program falls within the non-actionable category.

The vulnerability of Canadian programs to countervail harassment would also be reduced by, for example, a tighter injury standard, the specification of the "net" subsidy requirement and a de minimus level of subsidization below which countervail would not apply.

The proposed submission would eliminate the artificial distinction in GATT between primary product export subsidies and industrial export subsidies and subject such practices to the same discipline. This would provide a framework for bringing agricultural export subsidies under increased discipline, as agreed to by GATT participants in April. The specific negotiations on rules to be developed in respect of agriculture subsidies will occur in the Agriculture Negotiating Group.

The MTN subsidy and countervail negotiations are scheduled to conclude in 1990. Progress in the MTN can have important implications for the activity of the Working Group on Subsidies under the FTA, which has a 5-7 year time horizon and which will want to take full account of and build on the MTN results.