

WORLD TRADE ORGANIZATION

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G/SCM/Q2/CAN/8

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Committee on Subsidies and Countervailing Measures

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SUBSIDIES

Replies of CANADA to
Questions posed by ARGENTINA¹, the EUROPEAN COMMUNITY²,
JAPAN³, NORWAY⁴, THAILAND⁵ and the UNITED STATES⁶

The following communication, dated 21 October 1996, has been received from the Permanent Mission of Canada.

Questions from Argentina

Industrial Goods

1. *“Regarding industrial subsidy programmes for research and development, can Canada specify the percentage share of subsidies in the total cost of the subsidized project, as required in Article 8.2(a) of the Agreement? Also, can Canada specify the types of costs covered by these subsidies?”*

The review of Canada's notification is in respect of assistance notified pursuant to Article 25 of the WTO Subsidies Agreement and Article XVI:1 of the GATT 1994, not Article 8 of the WTO Subsidies Agreement. Canada, to date, has not notified any programmes pursuant to Article 8 of the Subsidies Agreement.

Agricultural Goods

1. *“The presentation on general programmes and those for various products would seem to show that an extensive system of assistance for agricultural production exists. Although the information presented does not prove the existence of specific subsidies under Article 2 of the Agreement, it would*

¹G/SCM/Q2/CAN/4

²G/SCM/Q2/CAN/3 and G/SCM/Q2/CAN/7

³G/SCM/Q2/CAN/2/Rev.1

⁴G/SCM/Q2/CAN/1

⁵G/SCM/Q2/CAN/6

⁶G/SCM/Q2/CAN/5 + Suppl.1

be important to have additional information on the sectoral breakdown of the general programme so that it can be analyzed in detail and more thoroughly.”

Canada does not support the premise of the question that more information on the sectoral breakdown is required, when a programme is generally available.

2. *“Concerning the programme to subsidize transportation of livestock feed to areas lacking this input, questions arise about the effect of the subsidy on the final cost of the product. Would it be possible to find out the impact of this freight subsidy per product?”*

The Feed Freight Assistance Programme was terminated on 31 December 1995. At the time that the termination of the Feed Freight Assistance Programme was announced by the Government, the establishment of a one-time, transitional adjustment fund, the Feed Freight Assistance Adjustment Fund, was also announced. It provides funding over a 14 month period to those affected by the termination of the Feed Freight Assistance Programme. It was established in March 1996 and will be included in Canada's 1996 update of the notification under Article XVI (GATT 1994) and Article 25.

3. *“In the dairy sector, the assistance programme presented raises a question about the programme's effect on production levels and the generation of exportable surpluses that could be sent to various markets, adversely affecting competition. Would it be possible to find out the impact of this programme on the amounts exported and the export prices of dairy products?”*

The industrial milk subsidy does not affect production levels or export volumes. Milk production in Canada is restricted through farm level production quotas. The subsidy is paid directly to producers of industrial milk and cream on their production within a quota designed to meet Canadian domestic requirements. The subsidy has the effect of lowering domestic consumer prices in Canada for industrial dairy products. It is not factored into export prices.

4. *“Concerning the information presented in Tables 2 and 3, for pork and beef respectively, an increase in exports is noted that could be due to assistance programmes for these sectors, which would lead to lower export prices. Could Canada explain if there is any connection between these assistance programmes and export prices?”*

There is no connection between assistance programmes and export prices. Canada is a price-taker on international markets for beef and pork, so that Canadian export prices are not affected by any domestic support programme. Producers, whether in domestic or export markets, seek the best possible return from the sale of their products.

5. *“With regard to the information given in Tables Nos. 2 and 3 on pork and beef, respectively, an increase in exports may be noted, which could be linked with the assistance programmes for these production sectors as translated into lower export prices. Could Canada explain whether there is any such relationship?”*

There is no connection between assistance and export prices. As this question appears to be a restatement of Question 4, please see response to Question 4.

Questions from the European Community

I. NOTIFIED SUBSIDY PROGRAMMES

A. Agricultural Programmes

(i) Net Income Stabilization Account Programme

“Under this programme, contribution rates may be enhanced by governments for selected commodities, as was done in Ontario and British Columbia in 1993 and 1994. given the apparent flexibility for governments to decide on access of beneficiaries to this programme, the Community requests confirmation from Canada on whether this programme is specific under the provisions of the Subsidies Agreement.”

The Net Income Stabilization Account (NISA) programme is generally available to the agricultural sector. Basic coverage under NISA is identical for all producers in all provinces.

(ii) Feed Freight Assistance Adjustment Fund

“This is a programme under which payments are made to livestock producers in feed deficit areas to lower their feed costs in order to maintain a viable livestock industry. The bulk of the payments are made in Atlantic Canada, British Columbia, and eastern Quebec. Smaller amounts are paid to producers in northern Ontario, the Northwest Territories, and Yukon. The funds directed towards Feed Freight Assistance in 1994/95 totalled \$15 million. The Community requests confirmation from Canada on whether this programme is specific under the provisions of the Subsidies Agreement.”

The Feed Freight Assistance Programme, which was included in Canada's previous subsidy notification, terminated on 31 December 1995. At the time that the termination of the Feed Freight Assistance Programme was announced by the Government, the establishment of a one-time, transitional adjustment fund, the Feed Freight Assistance Adjustment Fund, was also announced. It provides funding over a 14 month period to those affected by the termination of the Feed Freight Assistance Programme. It was established in March 1996 and will be included in Canada's 1996 update of the notification under Article XVI (GATT 1994) and Article 25.

B. Industrial Programmes

(i) Industrial and Regional Development Programme

“This programme has as its objective, to promote regional industrial development through support of projects, industries and technologies having the greatest potential for economic return, sustained growth and international competitiveness. In relation to the potential of eligible businesses for international competitiveness, the Community requests information on whether grants, contributions, etc. are made based on export performance.”

Financial assistance granted under the Industrial and Regional Development Programme was not based on export performance. The assistance was based solely on an assessment of the commercial viability of the project, including the ability to realize the projected sales. Once a project is approved, the assistance is disbursed on the basis of the cost incurred and in accordance with the agreement on the cost-sharing ratio.

(ii) Microelectronics and Systems Development Programme

"This programme has as its objective, to enhance the international competitiveness and growth of the manufacturing, processing and service industries in Canada. In relation to enhancing the international competitiveness of eligible businesses, the Community requests information on whether grants, contributions, etc. are made based on export performance."

Financial assistance granted under the Microelectronics and Systems Development Programme was not based on export performance. The assistance was based solely on an assessment of the commercial viability of the project, including the ability to realize the projected sales. Once a project was approved, the assistance was disbursed on the basis of the cost incurred and in accordance with the agreement on the cost-sharing ratio.

II. ADDITIONAL PROGRAMMES NOT NOTIFIED TO THE WTO

"... Canada is requested to explain why the programmes listed below have not been notified and to provide notifications in the standard Article 25 format if appropriate. Canada is also requested to notify any other subsidies which fall within the scope of Article 25.2 and which are granted either by the federal government, jointly by the federal government and the provinces, by the provinces or by the Crown corporations."

A. Federal/Provincial Subsidies

- (i) *"The Canada/Newfoundland Fishing Industry Development Agreement has as its primary objective to provide a climate in which the Newfoundland fishing industry can be self-sustaining and viable in a present resource short environment."*

The Canada-Newfoundland Cooperation Agreement on Fishing Industry Development was signed on 25 March 1994, and will remain in effect for the period 1 April 1993 to 31 March 1998. Assistance under the agreement is available to any individual, firm, association or educational or research institution having an interest in the development of the fishing industry within the Province of Newfoundland and Labrador.

This Agreement provides a framework within which the Newfoundland fishing industry can explore and develop opportunities or modify activities to become more self-sustaining in a resource short environment. The assistance applies to research and development that encourages industry to be more efficient in the utilization of fish material currently being harvested, or encourages increased use of underutilized species as well as encourage adding value to traditional products produced.

Expenditures under the agreement were provided on a cost shared 70:30 ratio by Canada and the Province of Newfoundland. The expenditures amounted to \$496,000 in 1994-95 and \$1.1 million in 1995-96 (there was no expenditures in 1993-94). The total funding available for any project cannot exceed \$250,000.

- (ii) *"Strategic technologies - Canada/Newfoundland Strategic Investment and Industrial Development Agreement (SIID) - eligible industries are manufacturing industry, transformers and service industries which offer exporting possibilities. The type of aid offered can cover the cost of labour, special equipment, land, etc."*

The Canada/Newfoundland Strategic Investment & Industrial Development Agreement (SIID) is a part of a number of bilateral agreements administered by ACOA under its COOPERATION Programme. The Programme will be notified in 1996.

The COOPERATION Programme includes all ACOA cost-shared federal-provincial agreements. The objective of the programme is to improve the environment for economic growth in Atlantic Canada through cooperation with all levels of government, the private sector and institutions.

Assistance is provided under the legislative authority of the Atlantic Canada Opportunity Agency Act, and is usually provided in the form of a non-repayable contribution.

The programme provides assistance to provincial and municipal governments, economic development and business associations, universities, research institutes and businesses principally in five areas, entrepreneurship, innovation, and technology transfer, in human resource development, marketing and trade development, and the environment.

ACOA disbursed \$70.7 million in 1993-94, which include payments to the provincial and municipal governments.

B. Provincial Subsidies

- (i) *Prince Edward Island allegedly spent in grants to enterprises: C\$ 149 million in 1994, C\$ 136 million in 1995 and C\$ 119 million in 1996.*

Concerning assistance noted from the provinces of Prince Edward Island (P.E.I.) and Ontario, a more detailed description of the assistance in question is required by provincial government officials in order to respond to the EC's request for information. For example, in the case of P.E.I., the EC has not mentioned any particular programme under which the amounts noted by the EC have been provided by the government of P.E.I. In the case of Ontario, officials could not identify the two programmes cited by the EC as "MDNM". Regarding the programme noted from the province of British Columbia, the federal government is discussing the programme with British Columbia to determine if the programme meets the notification obligations under the Agreement. Provided below, however, is information on the particular programmes noted from the Provinces of Alberta, Manitoba and Quebec.

- (ii) *The ED & T Market Development Assistance Programme (MDAP) in Alberta provides cost share financial support."*

MDAP provides assistance to any Alberta business seeking entry into new geographic markets outside Alberta, including either within Canada or outside Canada, for exporting their goods and services, on a basis that is commensurate with benefits to Alberta.

The programme does not support export initiatives to maintain existing markets or obtain new business where the applicant is already established. Other limitations of the programme include: non-availability for applicants receiving similar funding from the federal government or any other funding agency; maximum payment available to any applicant within a fiscal year is \$7,500; and, eligible costs are restricted to out-of-province market identification and/or sales trips, trade show exhibitions and buyer's visits. Total funding for the programme for fiscal year 1995-96 was roughly \$440,000.

- (iii) *"The Hydrogen Technology Research Programme in Alberta is a programme jointly funded by government and industry to provide financial support."*

While there does not appear to be a programme entitled "Hydrogen Technology Research Programme", there is a programme entitled "The Alberta Hydrogen Research Programme (AHRP)". The aim of this programme is to find ways of producing and using hydrogen more efficiently.

Programme priorities and projects to be funded are made by a Steering Committee comprising representation of industry, government, universities and research institutes.

Eligible research includes fundamental research, pre-competitive technology development, and demonstration projects. Eligible applicants include individual firms, industry associations, universities and research institutes. The programme encourages joint industry/university/institute proposals, including joint proposals in partnership with Canadian or international firms or research institutes provided that such proposals fulfil an Alberta need and involve an Alberta company or institution.

Current funding for the programme is approximately CAN\$1.28 million of which the Alberta Government contributes CAN\$600,000. The programme aims at maintaining a private industry contribution of greater than 50 per cent. Firms and institutions from Canada, the US, France and Italy are currently involved in some of the projects under the programme.

- (iv) *British Columbia's Partners in Progress Programme in Alberta is a programme jointly funded by government and industry to provide financial support.*

Answer still pending.

- (v) *Quebec's "financial support for the marketing of underfished species" provides grants of up to 60 per cent of the total cost of a project to a maximum of \$500,000 per project.*

The programme is aimed at developing fishing of underexploited species or stocks, diversifying the activities of processing enterprises in maritime regions and developing the marketing of underfished species.

The aid offered is primarily technical, in the form of governmental supply of advisory services on progress of work or action programmes, preliminary technical checks, inventories of resources, and available and necessary equipment.

The technical aid may be supplemented by financial aid that may cover up to 60 per cent of the total cost of a project. The minimum project cost is \$100,000, maximum annual aid may not exceed \$350,000, and the total for the duration of a project may not be more than \$500,000.

Fishermen, processing enterprises and consortiums of processing firms are eligible under the programme.

The programme came into force on 1 April 1994 and will end on 31 March 1997. A total amount of \$154,346 was granted to four projects in 1994-95. The programme does not include any local or Canadian content constraints for the purchase of equipment.

The programme is aimed at all the fisheries sector, including marketing enterprises and processors. The goal is to develop the use of underfished species and it is aimed at the maritime regions, and thus has a high component of regional development and economic diversification (remote regions).

This programme was not notified because it has no trade incidence in view of the small amounts involved.

- (vi) *Quebec - The Quebec Industrial Development Corporation (Société de développement industriel du Québec - SDI) - "Export" programme. The SDI financially supports the export activities of small and medium enterprises.*

The SDI's financial participation takes either of the following forms: a loan at market interest rates (variable or fixed) or a financial commitment guarantee. This financial participation is provided in line with financial market terms.

Consequently, the SDI programme was not notified because it is not a subsidy programme within the meaning of Article I of the Agreement on Subsidies and Countervailing Measures.

- (vii) *The Manitoba Industrial Opportunities Programme allows the provincial government to enter into an agreement with a company whereby, in return for certain provincial incentives, the firm will establish new operations or expand existing operations in Manitoba."*

The *Manitoba Industrial Opportunities Programme* is a broadly based programme that provides seed funding for commercially viable projects. Any firm investing in projects that meet the criteria of the programme is eligible for secured loan or loan guarantee assistance. Eligible projects include private capital investment in manufacturing, processing or production of any other value added goods and services.

- (viii) *The Manitoba Capital Fund, which provides investment capital, focuses on, among others, export oriented industries.*

The Manitoba Capital Fund provides non-subsidized loans, to any small and medium-size province-based firms that meet the criteria of the Fund. The Fund is largely capitalized by private sector contributions, although the Province provided some initial capital. The Fund operates at arm's length from the government.

- (ix) *Ontario - "MDNM - Programme d'encouragement au développement commercial"*

- (x) *Ontario - "MDNM - Programme d'aide au secteur des services échangeables"*

No information on these programmes.

C. Crown Corporations

Export Development Corporation (EDC)

The services offered through the Export Development Corporation (EDC) were not included in the WTO subsidy notification process as these are offered at terms consistent with the OECD Consensus on Export Credits. EDC is a self-sustaining Crown corporation that operates on commercial principles. EDC generates its operating revenues through fees, premiums and interest on loans, and does not receive Parliamentary appropriations. Profits are reinvested in the corporation's capital base to support future growth of Canadian exports. EDC funds its capital requirements in international and domestic capital markets through the issuance of bonds, debentures, notes and other evidence of indebtedness of the corporation.

Supplementary Question From the European Community
(Document G/SCM/Q2/CAN/7, 16 September 1996)

1. *When will Canada be in a position to notify all specific subsidies granted by sub-federal entities?*

Canada has notified all programmes, including sub-federal programmes, in its new and full notification (submitted in December 1995) that Canada determined met its notification obligations. Canada intends to submit an update to its current new and full notification in the coming weeks which will contain all programmes that Canada determines meets the notification requirements. A number of provincial government programmes were raised by the European Community in the context of the review of Canada's notification, held during the week of 22 July 1996. Canada is discussing these programmes with the relevant provinces. In the preparation of its notification, Canada generally consults with sub-federal entities with a view to including programmes that meet the notification criteria of the WTO Subsidies Agreement.

Questions From Japan

1. *“We hear there is a subsidy programme to automobile components industries called Automobile Components Initiative (ACI). Please explain the contents and the reason why the subsidy is not notified.”*

The Automotive Components Initiative is not a programme *per se*. It is an initiative under the Sector Campaigns Programme, which itself was notified in 1995.

2. *“We hear that there is a subsidy programme to support pre-competitive development activities in the fields of information technology, new materials and biotechnology called ‘Strategic Technologies Programme’. Please explain the contents of the subsidy and the reason why the subsidy is not notified.*

The Strategic Technologies Programme was notified under Section XVII (see page 32 of G/SCM/N/3/CAN/Rev.1, dated 7 February 1996).

Questions From Norway

Q.1 *“The notification from Canada does not seem to include notifications on the provincial level. Could Canada explain why they have not made these notifications and refer to the articles in the Agreement on Subsidies and Countervailing Measures that exempt these subsidies from notification.”*

Canada agrees that sub-federal subsidy programmes that are determined to meet Canada's obligations under WTO Subsidies Agreement and Article XVI of the GATT 1994 should be notified. Canadian provinces have not advised the federal government of any programmes that meet the criteria under Article 25 of the Subsidies Agreement and Article XVI of the GATT 1994, for the purposes of notification.

Q.2 *“Could Canada also given an indication on how much the provincial subsidies amount to as a part of the total amount of subsidies.”*

Since provinces have not advised of any programmes that have been determined to meet the notification obligations under Article 25 of the Subsidies Agreement and Article XVI of the GATT 1994, it is impossible to provide an indication of how much provincial subsidies might amount to as part of total subsidies.

Questions From Thailand

1. *“The Canadian Export Development Corporation (EDC) is the authority which provides export financing guarantee and insurance. According to the Secretariat report of Canadian TPRM (C/RN/G/51), the volume of exports financed or insured by EDC during 1993 totalled a record CAN\$ 13.1 billion. To get assistance, a Canadian content requirement must be fulfilled, generally it is a minimum of 50 per cent. Please give details of the export assistance programmes provided by EDC, particularly the local content requirement. Will Canada terminate the local content requirement by 1997?”*

The services offered through the Export Development Corporation (EDC) are offered at terms consistent with the OECD Consensus on Export Credits. EDC is a self-sustaining Crown corporation that operates on commercial principles. EDC generates its operating revenues through fees, premiums and interest on loans, and does not receive Parliamentary appropriations. Profits are reinvested in the corporation's capital base to support future growth of Canadian exports. EDC funds its capital requirements in international and domestic capital markets through the issuance of bonds, debentures, notes and other evidence of indebtedness of the corporation. Regarding the matter of local content requirement, Canada does not have a local content requirement.

Questions From the United States

1. *"Your notification indicates that the 'Sector Campaigns' programme assistance is provided to selected sectors to enhance international competitiveness. Could Canada please identify the specific sectors which participate in this programme?"*

The Sector Campaigns programme was notified under Section XIV of the Notification submitted in December 1995. Assistance was provided to: advanced manufacturing technologies; automotive components; environmental industries; fashion apparel; furniture; forest products; medical devices; microelectronics; telecommunications equipment and software products.

2. *"With respect to the Atlantic Enterprise Programme, is this programme administered by the ACOA? If not, please explain the nature and functions of the ACOA."*

The Atlantic Enterprise Programme is administered by the Atlantic Canada Opportunities Agency (ACOA) for the provision of assistance to businesses located in the provinces of Newfoundland, New Brunswick, Nova Scotia and Prince Edward Island, and by the Federal Office of Regional Development (Quebec) for the provision of assistance to businesses located in the Gaspé region of Quebec. Since 1988, ACOA has not approved assistance to new projects in the Atlantic provinces. However, it has continued to make payments relating to both loan insurance and interest baton contracts which had been authorized under the programme. ACOA's expenditures under the AEC amounted to \$2.2 million, \$2.8 million and \$1.5 million for fiscal years 1992-93, 1993-94 and 1994-95, respectively.

ACOA is a regionally-based agency which, in partnership with the private sector and federal and provincial departments and agencies, works to increase opportunities for economic development in Atlantic Canada and, more particularly, to enhance the growth of earned incomes and employment opportunities in the region. The Agency is mandated to develop and deliver locally-sensitive business programmes and services, coordinate federal economic development programme activities and advocate the region's interests in the development of national policies, programmes and services. It is also mandated to provide a single point of access to federal government programming and services for the small business sector in Atlantic Canada.

3. *"Under the NISA programme, we understand that the percentages that producers and the governments may contribute to the programme have been changing. Are the most recent levels reflected in Canada's notification?"*

In the 1995 stabilization year, producers can contribute up to 3 per cent of their net eligible sales with matching federal and provincial government contributions of up to 2 per cent and 1 per cent, respectively.

4. *"Why was the information on the dairy stabilization programmes shifted from being listed under the Livestock and Products section in Canada's previous notification to being listed as a component of the FIPA in this notification?"*

The previous general subsidy notification was the first one prepared since the establishment of the World Trade Organization (WTO), and the combination of the notification requirements for Article XVI of the GATT 1994 with Article 25 of the Agreement on Subsidies and Countervailing Measures. As a result, the organization of our submission and coverage of our notification was examined.

The Farm Income Protection Act (FIPA) collects under one legislative framework a set of farm programmes and safety nets for a wide range of agricultural commodities. As a result, it was decided

to report all of the programmes for which FIPA provides the legislative authority under one heading, although the individual sub-programmes were also identified and reported separately by name.

The authority provided under the FIPA replaces the authority previously provided by the Agricultural Stabilization Act for the industrial milk subsidy. The Federal Budget of 1995 announced a 30 per cent reduction in the industrial milk subsidy in the 1995-96 and 1996-97 dairy years (15 per cent in each year); while the Federal Budget of 1996 announced the phased elimination of the programme in five equal steps starting with the 1997-98 dairy year, and ending as of 1 August 2001.

5. *“Could Canada better explain how the dairy subsidy operates? For example, please explain to whom it is paid and how it gets factored into the export price. In addition, an explanation of how the subsidy functions in relation to the new pooling structure would be appreciated.”*

The industrial milk subsidy is paid directly to producers of industrial milk and cream on their production within a quota designed to meet Canadian domestic requirements. The subsidy has the effect of lowering domestic consumer prices in Canada for industrial dairy products. It is not factored into export prices. Dairy producers receive a payment from the federal government equal to the amount of the subsidy per standard hectolitre times their eligible production. This payment is independent of the operations of the dairy price pooling system.

The rate of the direct payment is currently \$4.62 per standard hectolitre (containing 3.6 kg of milkfat) and will be reduced to \$3.80 per standard hectolitre on 1 August 1996. The federal government announced in its March 1996 budget that the subsidy would be phased-out in five annual reductions of \$0.76 per hl, starting August 1997. This will end the direct support payment completely as of 1 August 2001.

6. *“Why is there no description of the new dairy pooling programme? Is it Canada’s view that this programme does not fall within the notification requirements of either Article 25 of the Subsidies Agreement or Article XVI of the GATT 1994? Please explain.”*

The dairy price pooling system does not fall within the notification requirements of Article 25 of the Subsidies Agreement because it is neither a financial contribution by a government or public body, nor price or income support in the sense of Article XVI of the GATT 1994. The dairy price pooling system does not fall within the notification requirements of Article XVI of the GATT 1994 because it does not confer a subsidy.

7. *“Under the Western Grain Transportation Act there is no indication of the lump sum payouts that were made to farmers after this programme expired. Does the Government of Canada not consider that payout to be a subsidy subject to notification?”*

At the time the agricultural component of the previous subsidy notification was prepared (June 1995) the Western Grain Transportation Act was still in effect. This programme terminated on 1 August 1995, eliminating all government financed export subsidies in the grains and oilseeds sector.

In the February 1995 federal budget, the Government of Canada announced the Western Grain Transition Payments Programme (WGTPP). Under this adjustment measure, a one-time, capital payment of \$1.6 billion is being made to owners of prairie farmland in recognition of the impact on land values that are expected to result from the termination of the long-standing WGTA freight subsidy. The Western Grain Transition Payments Programme will be included in Canada's next Article 25 - Article XVI notification.

8. “We are aware of the following programmes, measures and activities in Canada, all or some portion of which may meet the notification requirements referenced above. Please explain the basis on which Canada determined that each of the following activities did not fall within the notification requirements of GATT Article XVI:1 and Article 25.2 of the Agreement on Subsidies and Countervailing Measures.”

A. *Investment Tax Credits*

Canada has eliminated all regional investment tax credits with the exception of the Atlantic Canada Investment Tax Credit. This ITC is available in respect of any investment in qualified property for use in Canada's four Atlantic provinces and the Gaspé Peninsula in the province of Québec. The tax credit is broadly based and not targeted to any particular industry. Any taxpayer anywhere in Canada or abroad, that is subject to taxation in Canada, may be eligible to benefit from the ACITC.

B. *Export Credit Insurance through the Export Development Corporation (EDC)*

The services offered through the Export Development Corporation (EDC) were not included in the WTO subsidy notification process as these are offered at terms consistent with the OECD Consensus on Export Credits. EDC is a self-sustaining Crown corporation that operates on commercial principles. EDC generates its operating revenues through fees, premiums and interest on loans, and does not receive Parliamentary appropriations. Profits are reinvested in the corporation's capital base to support future growth of Canadian exports. EDC funds its capital requirements in international and domestic capital markets through the issuance of bonds, debentures, notes and other evidence of indebtedness of the corporation.

C. *Programme for Export Market Development (PEMD)*

This programme was not notified as it is generally considered that any countervailable benefit would be negligible. Under PEMD, any company with annual sales of \$10 million or less is eligible for a repayable financial contribution (up to a maximum of \$50,000) to assist with the implementation of a market development plan targeted at a new export market. There are also repayable contributions for small companies that are new to exporting and want to visit an export market/trade fair (up to \$7,500) or are bidding on a major international capital project and require bid preparation assistance (up to \$50,000). The programme contribution cannot exceed a 50 per cent sharing of the eligible costs with the company and the contribution is repayable by the company out of any company sales or revenues earned in the target market over the subsequent four years.

D. *Industrial Research Assistance Programme (IRAP)*

The programme will be notified in 1996. The fact it was not notified was an omission on our part.

IRAP's objective is to assist firms in Canada to improve their technological capability. Assistance is provided through short term non-funded technical advice and non-repayable contributions to approved industrial research and development projects, usually less than 50 per cent of project costs.

Assistance is for technical work only, not for capital, commercialisation or other business expenses. There are no restrictions as to company ownership, industry sector, region in Canada or technical field. Company-proposed projects are reviewed and approved according to objective criteria.

Expenditures were \$52.0 million in 1992-93, \$52.2 million in 1993-94.

E. Canada-Quebec Subsidiary Agreement on the Economic Development of Quebec

The proper title is: Canada-Quebec Subsidiary Agreement on the Economic Development of Quebec Regions (Entente Auxiliaire Canada-Québec sur le développement économique des régions du Québec).

This programme will be included in the update to Canada's current full notification.

This Agreement was concluded on 9 June 1988 in order to establish a concerted and harmonized programme of activities to meet the specific needs of the Quebec regions and to agree on a flexible and efficient management and cooperation mechanism to carry out the programmes.

The programmes under this subsidiary agreement provided for the grant of financial aid to manufacturing or tourist enterprises in central regions and resource regions of Quebec. The aid was granted to projects relating to technological studies, innovation and development, fixed assets or marketing. Financial aid could also be granted to facilitate the launch and development of small firms engaged in technological innovation, to increase the possibilities of recreational fishing, and to support the establishment of infrastructure to facilitate the establishment of manufacturing or tourism enterprises. The aid thus granted represented a percentage of allowable costs and varied from one programme to another.

Outlays by BFDR(Q) for these programmes totalled \$57.0 million for 1992-1993 and \$69.8 million in 1993-1994.

F. Research and Development Assistance Under the Canadian Forest Services

The Canadian Forest Service (CFS) does not grant funds to private sector companies for the express purpose of research and development assistance. Funds are, however, disbursed to universities, non-government organizations and not-for-profit research agencies (specifically FORINTEK and FERIC) as the federal government's contribution to specific collaborative research projects. On occasion, the CFS will support a specific private sector research endeavour pertaining to the mandate and objectives of its main budget science programme. On these occasions, it is preferable there be other contributors commensurate with the anticipated future benefits of the research.

G. Cooperative Industrial and Market Development Partnership (CIMPD)

The Cooperative Industrial and Market Development Partnership was, and is, not a financial programme *per se*. It is a delivery mechanism for a number of programmes. Assistance provided under this initiative was charged to the Sector Campaigns programme, which, itself, has been notified.

H. Export Promotion Assistance under the Canada Business Service Centres (CBSC)

The purpose of the Cooperative Industrial and Market Development Partnership is to provide streamlined "single window" access to business-related programmes and services offered by federal departments and agencies, including Crown corporations. Assistance distributed through this vehicle has been reported under the appropriate programmes.

I. Canadian Commercial Corporation

The Canadian Commercial Corporation (CCC) is a Crown Corporation, wholly owned by the Government of Canada which facilitates trade between Canada and other nations. It does so normally by acting as prime contractor in a transaction. This is the Government of Canada's mechanism for

facilitating sales on a government-to-government basis where that is the contract structure preferred by the buyer abroad. As prime contractor, CCC conducts a technical, managerial and financial review of a company, assesses the attendant risks of the proposed sale and determines whether, according to its policies and procedures, the Corporation is able to act in a particular transaction. If so, CCC signs the contract with the buyer abroad, and then signs a back-to-back contract which flows those obligations to the Canadian exporter.

CCC's programme and services are not directed to helping any particular industries or enterprises. Eligibility to utilize CCC services is automatic once established objective criteria as set out under the CCC Act are met.

J. Canadian Advanced Technology Programme

This is not a programme. Canada, however, has notified the Advanced Manufacturing Technology Application Programme and Advanced Train Control System Programme.

K. Centre for Information Technology Innovation (CITI)

The Centre for Information Technology Innovation is not a programme, it is an administrative unit of the Department of Industry. As such, the CITI does not provide financial assistance to businesses.

L. Communications Research Centre (CRC)

The Communications Research Centre is a component of Industry Canada. Any assistance provided by the Centre would be normally be reported under the relevant programme's name.

M. Access North America

This programme was discontinued this year. Access North America was a generally available programme offering access to databases and market information, as well as cost-shared trade missions for Canadian companies that wished to pursue emerging opportunities in the North American marketplace.

N. Industry Canada Grant and Contribution Programmes

Industry Canada Grant and Contribution Programmes are not separate programmes. Canada has notified all grants and contribution programmes administered by the Department of Industry at the time the notification was prepared.

O. Exchange Programme for the Innovation Centre for Information Technologies

The Exchange Programme for the Innovation Centre for Information Technologies could not be identified. Further detail on the nature of assistance allegedly provided further to this item is required in order to respond to the USA's request for information.

P. Network Centres of Excellence

The Network Centres of Excellence are a joint effort between the Department of Industry and the Natural Sciences and Engineering Research Council and the Medical Research Council. The purpose is to stimulate the carrying out of leading-edge fundamental and long term applied research of importance to Canada. Virtually all the financial assistance for 1992/93 and 1993/94 was granted to university and research centres.

Q. National Technology Investment Programme

To Canada's knowledge, the "National Technology Investment Programme" does not exist.

R. Freight Transportation Subsidies under the Atlantic Region Freight Assistance

The programme provided a subsidy for movements by truck and rail originating in the Atlantic region and for movements within the region as defined under the *Atlantic Region Freight Assistance Act* and the *Maritime Freight Rates Act*, for a wide range of commodities. These programmes were terminated 30 June 1995.

S. Science Research and Experimental Development (SR&ED) to small Canadian-Controlled Private Corporations (CCPCs)

There is not a Science Research and Experimental Development Programme to small Canadian-Controlled Private Corporations *per se*. The Canadian *Income Tax Act*, however, provides for a tax credit for qualifying expenditures on scientific research and experimental development. This tax credit is available to all companies and individuals, not just R&D firms, that meet the criteria under the Income Tax Act. An enhanced tax credit is available to all small CCPCs that meet the criteria under the Act. The formula under the Act phases out this enhanced credit on the basis of taxable income.

Supplementary Questions From the United States

1. Regarding US Question 8.A: "Could Canada provide additional explanation and information with respect to the question of whether such investment tax credits are regionally specific?"

As indicated in the response to US Question 8.A., special investment tax credits for regional development were eliminated as of 31 December 1994, other than the 15 per cent "Atlantic Canada" investment tax credit (ACITC). The ACITC, however, was reduced to 10 per cent (subject to transitional relief) for property acquired after 1994. This 10 per cent ACITC is available for investment in qualified property acquired after 1994 for use in the provinces of Newfoundland, Nova Scotia, New Brunswick, Prince Edward Island and the Gaspé Peninsula in the Province of Quebec, as well as a prescribed offshore region off the Atlantic coast. The ACITC is available in respect of capital property that is qualified property acquired primarily for use in the Atlantic region noted above.

The ACITC is available to all taxpayers liable for taxation in Canada (whether resident in Canada or abroad) that purchase "qualified property" for use in the area described above. Qualified property is defined as a new building or new equipment primarily used for manufacturing or processing of goods for sale or lease, certain activities involving oil and gas operations, mining and certain primary processing of minerals, oil and gas exploration, prospecting, logging, farming or fishing, grain storage, producing industrial minerals or producing energy or steam. The ACITC is not directed at a specific industry; it is available for all of the foregoing economic activities.

2. Regarding US Question 8.F: "Could Canada provide an illustrative description, including examples if possible, of the kinds of entities which participate in this programme?"

- Reply will come soon.