

CANADA - MEASURES AFFECTING THE EXPORT OF CIVILIAN AIRCRAFT

Report of the Panel

WT/DS70/R

*Adopted by the Dispute Settlement Body on 20 August 1999
 as upheld by the Appellate Body Report*

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1453
II. FACTUAL ASPECTS	1455
III. FINDINGS AND RECOMMENDATIONS REQUESTED BY THE PARTIES.....	1455
IV. REQUESTS FOR PRELIMINARY RULINGS.....	1457
A. Canada's Request Regarding the Panel's Jurisdiction.....	1457
1. General Issues.....	1457
(a) Arguments of Canada	1457
(i) The Panel's Responsibility to Decide the Scope of its Jurisdiction	1457
(ii) Request that the Panel Should Rule before the First Submissions of the Parties are Due	1459
(b) Arguments of Brazil	1460
2. Consistency with Article 4.4 of the SCM Agreement of Brazil's Request for the Establishment of a Panel with Respect to Financing by the Export Development Corporation.....	1460
(a) Arguments of Canada	1460
(i) Applicable Law	1461
(ii) Whether Brazil Requested Consultations on Financing Provided by the Export Development Corporation	1464
(b) Arguments of Brazil	1465
(c) Response of Canada	1467

Report of the Panel

	Page
3. Consistency with Article 6.2 of the DSU and Brazil's Request for a Panel in Respect of Certain Claims	1468
(a) Arguments of Canada.....	1468
(i) Applicable Law.....	1469
(ii) The Matters at Issue.....	1469
(iii) Brazil's Request for the Establishment of a Panel does not Meet the Requirements of Article 6.2 of the DSU .	1472
(b) Arguments of Brazil	1472
(i) EDC "financing"	1474
(ii) Definition of "civil aircraft industry"	1475
(iii) TPC "predecessor programmes"	1476
(iv) Benefits Provided under the Subsidiary Agreements and SDI	1476
B. Request of Canada for Preliminary Finding on Jurisdiction: the SCM Agreement does not Apply to Contributions and Transactions that Took Place Before the Entry into Force of the WTO Agreement	1477
1. Request of Canada.....	1477
2. Response of Brazil	1477
C. Brazil's Request Regarding Additional Fact Finding	1478
1. Arguments of Brazil	1478
2. Arguments of Canada	1479
(a) Background to Brazil's Motion: the Consultations, "transaction-specific" Information and Confidentiality	1479
(b) Brazil's Request is Inconsistent with WTO Law and Practice	1480
(c) Brazil's Request further Supports Canada's Preliminary Submissions	1485
3. Response of Brazil	1486
4. Rebuttal of Canada	1487
D. Canada's Request for a Deadline for the Submission of New Evidence.....	1488
1. Arguments of Canada	1488

	Page
2. Arguments of Brazil.....	1488
E. Brazil's Request Regarding Deadline for Submission of New Evidence	1489
1. Arguments of Brazil.....	1489
2. Arguments of Canada	1490
3. Actions of the Panel.....	1490
4. Response of Brazil.....	1491
5. Proposal by the Panel	1492
6. Joint letter from Brazil and Canada, and Panel Action	1493
F. Arguments Concerning the Submission of Evidence in Response to Panel Questions Posed in Connection with the Second Meeting	1493
1. Comment of Canada	1493
2. Comment of Brazil.....	1494
G. Procedures for Protection of Business Confidential Information	1496
1. Procedure Proposed by Canada	1496
2. Arguments of Brazil.....	1499
(a) Advisors of a Party should be Considered an Approved Person	1499
(b) Review of Confidential Business Information should be Permitted outside the WTO Premises	1499
(c) Third Parties should be Granted Access to Confidential Business Information	1500
(d) A complete Administrative Record should be Maintained for the Appellate Body	1501
3. Action by the Panel.....	1501
4. Statements of Canada.....	1501
V. ARGUMENTS OF THE PARTIES REGARDING LEGAL ISSUES CONCERNING SCM ARTICLES 1 AND 3.....	1504
A. General.....	1504
1. Arguments of Canada	1504
(a) Principles of Treaty Interpretation.....	1504

 Report of the Panel

	Page
(b) Burden of Proof.....	1505
(i) A complainant must Present a Prima Facie Case in Respect of Each Element of its Claim.....	1506
(ii) The Principles Applicable to the Evaluation of Evidence	1507
(c) Judicial Economy	1507
2. Response of Brazil	1509
B. "Subsidy" per SCM Article 1	1510
1. Arguments of Canada	1510
(a) The Meaning of "financial contribution"	1511
(b) The Meaning of "benefit"	1511
(i) Ordinary Meaning	1511
(ii) Context.....	1512
(iii) The Object and Purpose of the SCM Agreement.....	1512
2. Arguments of Brazil	1513
3. Response of Canada	1516
C. "Contingent, in law or in fact, ... on export performance"	1516
1. Arguments of Canada	1516
(a) Brazil's Interpretation of Article 3.1(a)	1516
(b) Article 3.1(a) Prohibits Subsidies that are Conditional on or Tied to Export Performance..	1517
(i) The Ordinary Meaning of "contingent ... upon export performance"	1517
(ii) The Context of Article 3.1(a).....	1519
(iii) The Object and Purpose of the SCM Agreement.....	1520
(iv) The Negotiating History of the SCM Agreement.....	1521
(v) The Implications of Brazil's Interpretation.....	1523
(vi) The OECD Arrangement on Guidelines for Officially Supported Export Credits (OECD Consensus).....	1524

		Canada - Aircraft
		Page
	(vii) The United States Misunderstands Canada's Interpretation of Article 3.....	1525
	2. Arguments of Brazil.....	1529
	3. Response of Canada.....	1532
VI.	ARGUMENTS OF PARTIES REGARDING CANADIAN MEASURES ALLEGED BY BRAZIL TO BE PROHIBITED EXPORT SUBSIDIES IN THE SENSE OF SCM ARTICLES 1 AND 3	1533
	A. Export Development Corporation ("EDC")	1534
	1. General Arguments of the Parties	1534
	(a) Alleged Concessionary Terms of EDC Financing; EDC Risk Level and Performance ...	1534
	(i) Arguments of Brazil	1534
	(ii) Arguments of Canada	1538
	(iii) Rebuttal of Brazil on EDC's Risk Level and Performance.....	1544
	(iv) Response of Canada on EDC's Risk Level and Performance.....	1546
	(b) Contingency on Export Performance.....	1547
	(i) Arguments of Brazil	1547
	(ii) Arguments of Canada	1548
	(iii) Response of Brazil	1549
	2. EDC Debt Financing.....	1549
	(a) Arguments of Brazil	1549
	(b) Arguments of Canada	1552
	(i) Substantive Issues	1552
	(ii) Arguments Regarding whether Brazil has Presented a Prima Facie Case against EDC Financing.....	1557
	(c) Response of Brazil.....	1559
	3. Loan Guarantees	1560
	(a) Arguments of Brazil	1560
	(b) Arguments of Canada	1561
	4. Equity Infusions into Corporations Established to Facilitate the Export of Civil Aircraft.....	1562

Report of the Panel

	Page
(a) Arguments of Brazil	1562
(b) Arguments of Canada	1568
(c) Response of Brazil	1570
5. Residual Value Guarantees	1572
(a) Arguments of Brazil	1572
(b) Arguments of Canada	1573
(c) Response of Brazil	1573
6. Canada Account	1574
(a) Arguments of Brazil	1574
(b) Arguments of Canada	1578
(c) Comments of Brazil	1581
B. Technology Partnerships Canada ("TPC") and Predecessor Defence Industry Productivity Programme ("DIPP")	1582
1. General Arguments of the Parties	1582
(a) Arguments of Brazil	1582
(b) Arguments of Canada	1583
2. Subsidy	1584
(a) Arguments of Brazil	1584
(b) Arguments of Canada	1589
(c) Comments of Brazil	1591
(i) TPC's Anticipated or Expected Return is below Market	1592
(ii) TPC's Expected Return - "expected" at the Time the Loan Commitment was Made - was Insufficient, even under Canada's "cost of funds" Test	1593
3. Export Contingency	1595
(a) Arguments of Brazil	1595
(b) Arguments of Canada	1599
(c) Comments of Brazil	1606
C. Sale by Ontario of Ownership Share in De Havilland	1607
1. Subsidy	1607
(a) Arguments of Brazil	1607
(b) Arguments of Canada	1609

	Page
(c) Response of Brazil.....	1611
(d) Comments of Canada.....	1613
2. Export Contingency	1613
(a) Arguments of Brazil	1613
(b) Arguments of Canada	1613
D. Canada-Québec Subsidiary Agreement on Industrial Development.....	1616
1. Subsidy	1616
(a) Arguments of Brazil	1616
(b) Arguments of Canada	1617
(c) Comments of Brazil.....	1618
2. Export Contingency	1619
(a) Arguments of Brazil	1619
(b) Arguments of Canada	1620
(c) Response of Brazil.....	1622
E. Société de Développement Industriel du Québec ("SDI")	1622
1. Subsidy	1622
(a) Arguments of Brazil	1622
(b) Arguments of Canada	1624
(c) Comments of Brazil.....	1625
2. Export Contingency	1625
(a) Arguments of Brazil	1625
(b) Arguments of Canada	1626
F. Arguments Regarding the Finan Report Submitted by Brazil..	1627
1. Arguments of Canada	1627
2. Response of Brazil.....	1630
(a) The Time Frames over Which Subsidies are Quantified and Aggregated.....	1630
(i) EDC Equity Infusions	1630
(ii) Can\$87 Million "Investment" in the 70-seat CRJ-700.....	1631
(iii) Can\$57 Million "Investment" in the Dash 8-400	1631

Report of the Panel

	Page
(iv) Can\$100 Million "Investment" in Turboprop Engines	1631
(v) The Acquisition and Restructuring of De Havilland	1631
(b) The Comparative Treatment of Repayable and Non-Repayable Contributions	1632
(c) The Comparative Treatment of Actual and Anticipated Benefits	1632
3. Rebuttal by Canada	1633
G. Arguments Regarding the Clark Report.....	1633
1. Arguments of Canada	1633
(a) Saturation of the Canadian Regional Turboprop Market.....	1633
(b) The 26 CRJs Delivered to Air Canada	1634
2. Response by Brazil	1636
3. Rebuttal of Canada	1637
4. Rebuttal of Brazil	1640
VII. ARGUMENTS OF THIRD PARTIES	1641
A. European Communities.....	1641
1. Export Contingency.....	1641
2. Annex I (k), First Paragraph SCM Agreement	1644
B. Submission of the United States	1646
1. Applicability of the SCM Agreement to Subsidies Provided Prior to the Entry into Force of the WTO Agreement	1646
2. Canada's Interpretation of "export subsidy"	1648
3. The Relevance of Item (k) of the Illustrative List to Export Financing Activities of the EDC.....	1651
VIII. INTERIM REVIEW	1653
A. Comments by Brazil	1653
B. Comments by Canada	1654
IX. FINDINGS.....	1655
A. Introduction	1655
B. Preliminary Issues.....	1656
1. Jurisdiction of the Panel	1656
(a) Article 4.4 of the SCM Agreement.....	1656

	Page
(i) Arguments of the Parties	1656
(ii) Evaluation by the Panel.....	1657
(b) Specificity of Brazil's Request for Establishment of a Panel.....	1660
(i) Arguments of the Parties	1660
(ii) Evaluation by the Panel.....	1663
2. Temporal Application of the SCM Agreement.....	1667
3. Fact-Finding by the Panel	1668
(a) Arguments of the Parties	1668
(b) Evaluation by the Panel	1669
4. Procedures Governing Business Confidential Information	1670
(a) Arguments of the Parties	1670
(b) Evaluation by the Panel	1671
5. Deadline for the Submission of New Evidence or Allegations.....	1675
(a) Submission of New Evidence.....	1676
(b) Submission of New Allegations.....	1676
6. Deadline for the Submission of Affirmative Defences .	1677
7. Panel's Right to Seek Information in Respect of Defences Canada has not Made	1678
8. Panel's Right to Seek Information in the Absence of a Preliminary Ruling on the Establishment of a Prima Facie Case.....	1679
9. Panel's Right to Seek Information in the Absence of an Allegation by the Complaining Party.....	1680
C. Definition of "Subsidy" within the Meaning of Article 1 of the SCM Agreement	1681
1. Arguments of the Parties.....	1682
2. Interpretation by the Panel.....	1684
D. Export Development Corporation.....	1687
1. Is the EDC Programme per se a Prohibited Export Subsidy?	1688
2. Does the EDC Programme as Applied Provide Prohibited Export Subsidies?.....	1690

Report of the Panel

	Page
(a) EDC Debt Financing	1690
i) Arguments of the Parties	1690
(ii) Evaluation by the Panel	1697
(b) EDC Loan Guarantees.....	1703
(c) EDC Residual Value Guarantees	1705
(d) EDC Equity Financing	1706
E. Canada Account.....	1708
1. Is the Canada Account Programme per se a Prohibited Export Subsidy?	1709
2. Does the Canada Account Programme as Applied Provide Prohibited Export Subsidies?	1711
3. Is there a Prima Facie Case Against Canada Account Financing in the Regional Aircraft Sector?	1712
4. Has Canada Rebutted the Prima Facie Case?	1713
5. Is the Canada Account Debt Financing Contingent on Export?	1713
F. Sale to Bombardier by the Ontario Aerospace Corporation of a 49 per Cent Interest in De Havilland Inc	1715
G. Benefits Provided under the Canada-Quebec Subsidiary Agreements on Industrial Development.....	1719
1. Arguments of the Parties	1719
2. Evaluation by the Panel	1722
H. Société de Développement Industriel du Québec	1725
1. Arguments by the Parties.....	1725
2. Evaluation by the Panel	1727
(a) Assistance Provided under the IQ Programme... ..	1728
(b) Assistance Provided under the SDI Programme.	1728
I. Technology Partnerships Canada and DIPP	1729
1. Does the Application of the TPC Programme Result in Subsidies for the Canadian Regional Aircraft Industry?	1730
(a) Arguments of the Parties	1730
(i) \$87 million to Bombardier.....	1730
(ii) \$57 million TPC Contribution to De Havilland; and \$100 million TPC Contribution to Pratt & Whitney.....	1731