

**REGULATION OF SUBSIDIES ACCORDING TO THE AGREEMENT OF THE WORLD
TRADE ORGANIZATION**

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Akhmedova Bernara Khabibullaevna

independent researcher

Abstract: *the article discusses the types of subsidies in accordance with the Agreement on Subsidies and Countervailing Measures, the reasons for limiting subsidies within the WTO, as well as disputes between countries under this agreement*

Key words: *World Trade Organization, subsidies, WTO accession*

As is known, Uzbekistan has set a course for joining the World Trade Organization (WTO). Thus, in March 2024, the eighth meeting of the working group on this issue was held. In addition, in June of the same year, the Director General of the WTO visited Uzbekistan officially.

The Presidential Decree⁵ created a system for the Republic's accession to the WTO. An important condition for membership is the harmonization of national legislation with agreements of the organization. One such agreement is the Agreement on Subsidies and Countervailing Measures. It sets out the rules for governments to use subsidies for national production, as well as the actions countries can take to counteract subsidies.

According to the Agreement, a subsidy is (a) financial support (b) provided by the government or any public body (c) provides a benefit. All three elements must be present for the subsidy to be considered provided. The subsidies themselves in the Agreement are divided into two types: **prohibited subsidies, as well as actionable subsidies.**⁶

A prohibited subsidy is one that is given by the government to local producers on the condition that the recipient of the subsidy achieves certain export goals (export subsidy) or uses domestic goods instead of imported ones. Such subsidies are strictly prohibited because they distort international trade and therefore may harm the trade of other countries.

For example, the government of country A subsidized the production of items for export to manufacturers in its country. As a result, cheap subsidized products flooded the market of country B, and its domestic industry suffered. This example illustrates unfair competition, where subsidized exports can undermine the competitiveness of producers in other countries that do not benefit from similar subsidies.

The provision by the government of direct subsidies to an enterprise conditioned on export performance, preferential treatment of domestic transport tariffs for export

⁵ Resolution of the President of the Republic of Uzbekistan dated June 2, 2023 No. PP-181

⁶ https://www.wto.org/english/tratop_e/scm_e/subs_e.htm

shipments, full or partial exemption from payment, reduction or deferment of direct taxes in connection with exports are some of the clear examples of prohibited types of subsidies listed in the Agreement.

The second type of subsidies, which provide actionable subsidies, are not prohibited. However, they can be challenged by other WTO members if they cause harm to the interests of another member, such as harm to domestic industry caused by subsidizing imports in the territory of the complaining member.

The agreement also established the concept of “specificity” of the subsidy. This means that the subsidy is provided to a specific enterprise or group of enterprises, industry sector, and is limited to certain enterprises in a certain geographical region. Also, a subsidy conditional on the results of exports and the use of domestic goods instead of imported ones is considered specific. Specificity falls under both the category of prohibited subsidies and actionable subsidies. It is the specificity of the subsidy that gives rise to the adoption of protective measures by members, such as appealing to the subsidizing state with a request for consultations, appealing to the WTO Dispute Settlement Body, and taking countervailing measures.

To elaborate on the application of countervailing measures, if a WTO member government believes that a prohibited or actionable subsidy is being provided or maintained by another member government, it may request consultation with that government.

If no mutual resolution is reached during the consultations, the issue may be referred to the WTO Dispute Settlement Body. If the measure in question is found to be a prohibited subsidy, the subsidizing government must withdraw it immediately. In the case of actionable subsidies, the subsidizing government must either remove the subsidy or eliminate its adverse effects.

If the prohibited subsidy has not been withdrawn within a certain period of time, the Authority may allow the complaining country to take retaliatory (countervailing) measures

So why are subsidies prohibited under WTO membership? There are many reasons.

First, subsidies can distort market prices by artificially lowering the cost of production for the exporting country, making its goods cheaper on the international market than they would otherwise be. This may lead to unfair competition among producers in importing countries.

Second, export subsidies can lead to overproduction and inefficient allocation of resources within the exporting country, as industries may become dependent on government support rather than responsive to market demand. This could distort global supply and demand dynamics, leading to market imbalances.

Third, export subsidies may provoke countervailing measures from other countries, leading to trade disputes, subsequently damaging overall international trade relations and economic stability.⁷

Overall, export subsidies can create an uneven playing field in international trade, distorting market forces and potentially leading to negative consequences for global trade relations.

The implementation of the Agreement is monitored by the WTO Committee on Subsidies and Countervailing Measures. If a country provides subsidies, it must notify the Committee of this. Notifications are subject to careful review and discussion by the Committee.

The use of prohibited subsidies using examples of WTO member countries (cases)

On March 14, 2018, the US requested consultation with India regarding India's provision of export subsidies to goods produced in the Electronic Equipment Technology Park, SEZ, by exempting them from customs duties and other taxes. The US stated that these measures were inconsistent with Article 3 of the Agreement. As a result, the Dispute Resolution Commission ordered India to remove the prohibited subsidies and set a deadline for doing so.

On 2 April 2019, the EU requested consultations with Turkey regarding Turkey's prioritization of domestic pharmaceutical products in licensing, reimbursement schemes and pricing processes. An Arbitration Tribunal was established in this case, which ruled in favor of the EU. As a result, on April 25, 2023, Turkey adopted a new act in the field of pharmaceuticals, bringing it into compliance with the WTO Agreement

It is important to note that as part of the process of Uzbekistan's accession to the WTO, in accordance with the decision of the President of the Republic of Uzbekistan adopted in June 2023, since July last year the development of draft regulatory legal acts that do not comply with the rules and regulations of the WTO has been prohibited. This means that acts that provide for prohibited types of subsidies under the WTO Agreement cannot be adopted.

Thus, the goal of subsidies minimization within the WTO is to eliminate barriers to trade and create a transparent, fair and free trading system between countries.

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