



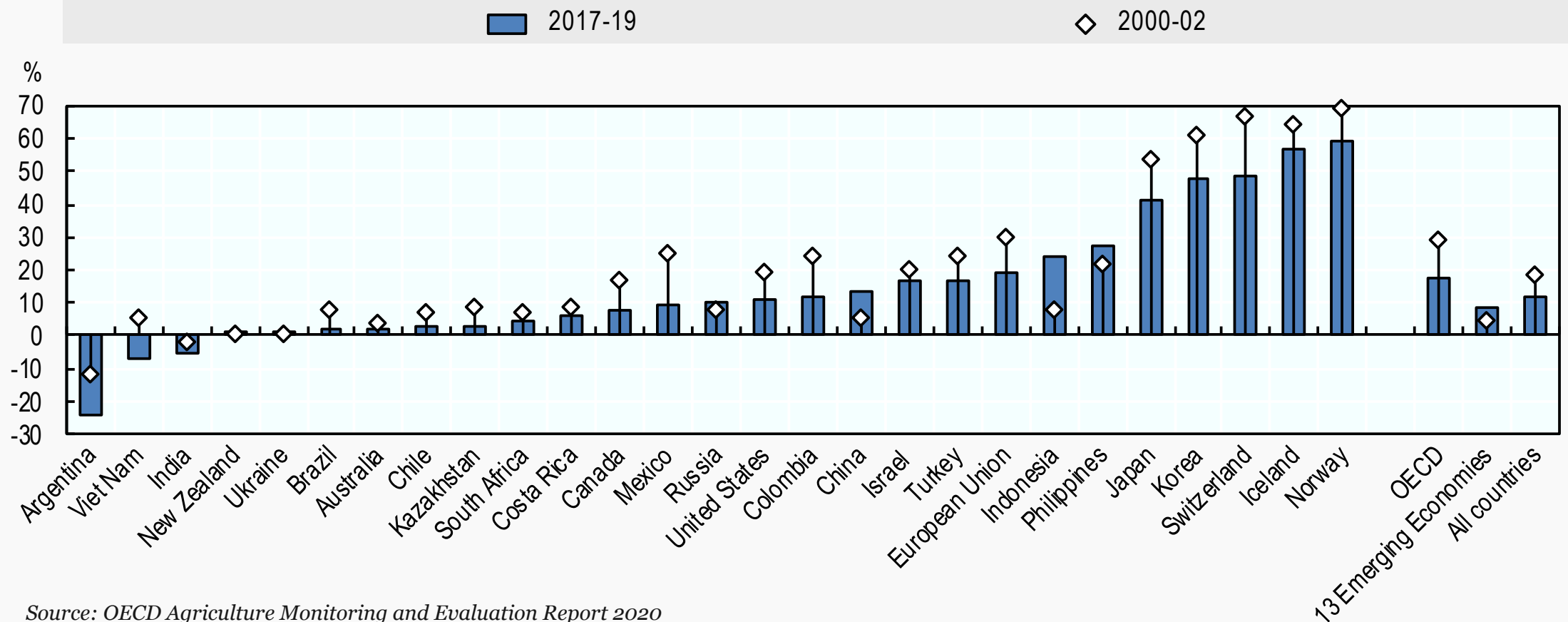
Do we need new rules on subsidies in the age of industrial policy?

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Government support is not new

Producer Support Estimates by country, percentage of gross farm receipts, 2000-02 and 2017-19





But it is set to increase following COVID-19

- Government support was a growth industry before COVID-19
 - Concerns over state capitalism
 - Digital markets (first mover advantage winner-take-most)
 - Trade tensions
- Governments extending significant support in the face of COVID-19.
 - This is necessary, and equity can be a good tool
- Two considerations:
 - Rescue design matters – how you go in affects how/if you come out
 - Some support linked to re-shoring and industrial strategies
- Against this background, what are the challenges for effective rules?



Why do we care?

- Level playing field and **distortions to competition** (beggar-thy-neighbour)
- Encourages **investment in capacity that not otherwise built**, or keeps uneconomic capacity alive (with effects on prices, jobs)
- **Other spillovers** (governance, environment)
- Increased pressure in **severe demand downturn** and different speeds of recovery
- **Undermines faith in global markets and the fair global economy**



UNDERSTANDING GOVERNMENT SUPPORT



Government support takes many forms

		Statutory or Formal Incidence (to whom and what a transfer is first given)						
		A: Output returns	B: Enterprise income	C: Cost of intermediate inputs	Costs of Value-Adding Factors			
					D: Labour	E: Land and natural resources	F: Capital	G: Knowledge
Transfer Mechanism (how a transfer is created)	1: Direct transfer of funds	Output bounty or deficiency payment	Operating grant	Input-price subsidy	Wage subsidy	Capital grant linked to acquisition of land	Grant tied to the acquisition of assets	Government R&D
	2: Tax revenue foregone	Production tax credit	Reduced rate of income tax	Reduction in excise tax on input	Reduction in social charges (payroll taxes)	Property-tax reduction or exemption	Investment tax credit	Tax credit for private R&D
	3: Other government revenue foregone		Waiving of administrative fees or charges	Under-pricing of a government good or service		Under-pricing of access to government land or natural resources	Debt forgiveness or restructuring; soft loan from the government	Government transfer of intellectual property rights
	4: Transfer of risk to government	Government buffer stock	Third-party liability limit for producers		Assumption of occupational health and accident liabilities	Credit guarantee linked to acquisition of land	Loan guarantee; non-market debt-equity swaps and equity injections	
	5: Induced transfers	Import tariff or export subsidy; LCRs	Monopoly concession	Monopsony concession; export restriction	Wage control	Land-use control	Credit control (sector-specific); non-market M&As	Deviations from standard IPR rules



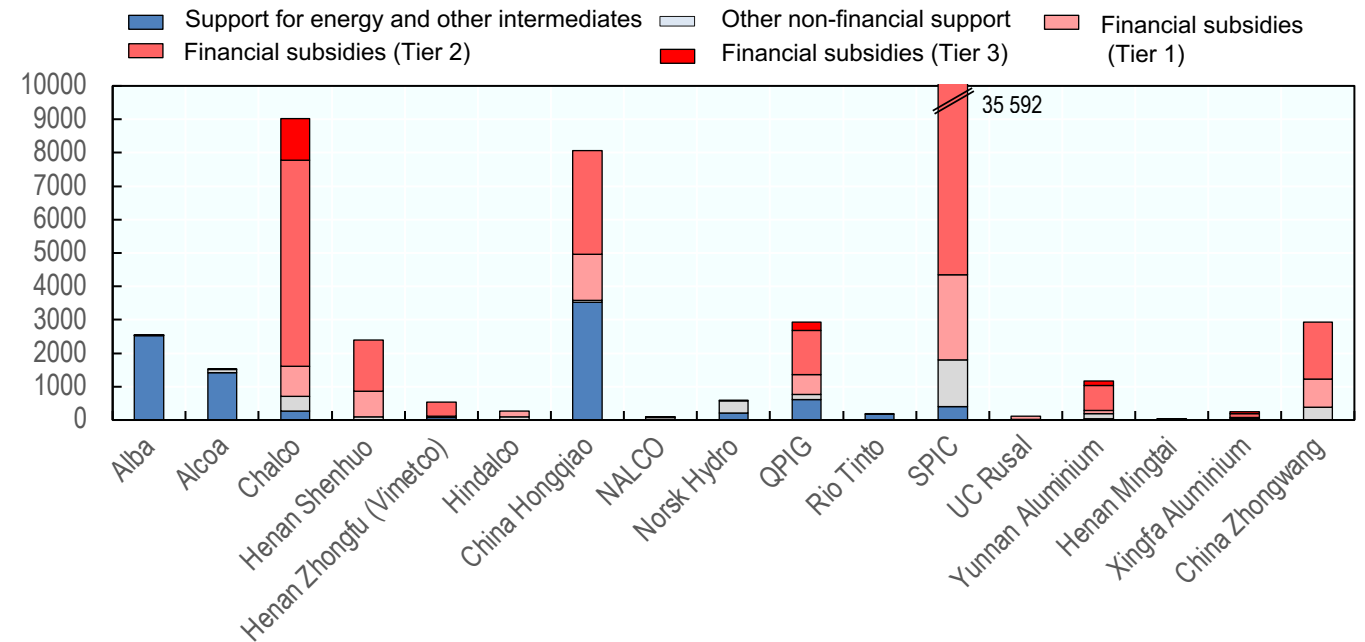
Understanding support in industrial sectors

- **Work to date**
 - Commodity (aluminium)
 - High-tech sector (semiconductors)
 - Ongoing horizontal work
- To assess government support in industrial sectors, we looked at **individual firms**:
 - Necessary given lack of policy transparency;
 - Enables greater granularity (e.g., of subnational measures)
 - Enables identification of support beyond traditional forms (e.g., support provided through the financial sector)



What did we learn? Aluminium

- **Support upstream** can have sizable **effects downstream**.
 - Need to take a **value chain approach**
- Support mostly takes the form of **energy subsidies** and **below-market financing**.
 - Below-market financing is hard to measure but even conservative estimates suggest it is significant. (USD 7-56 billion)
 - Aluminium multinationals obtain support in the different countries in which they operate, but large SOEs get most support from their home countries.
- There **is strong involvement of the state** in the aluminium value chain, and SOEs are both recipients and providers of support:
 - SOEs account for almost half of all smelting capacity
 - Cheap finance (debt) is often delivered through state-owned financial institutions
 - Issues for transparency

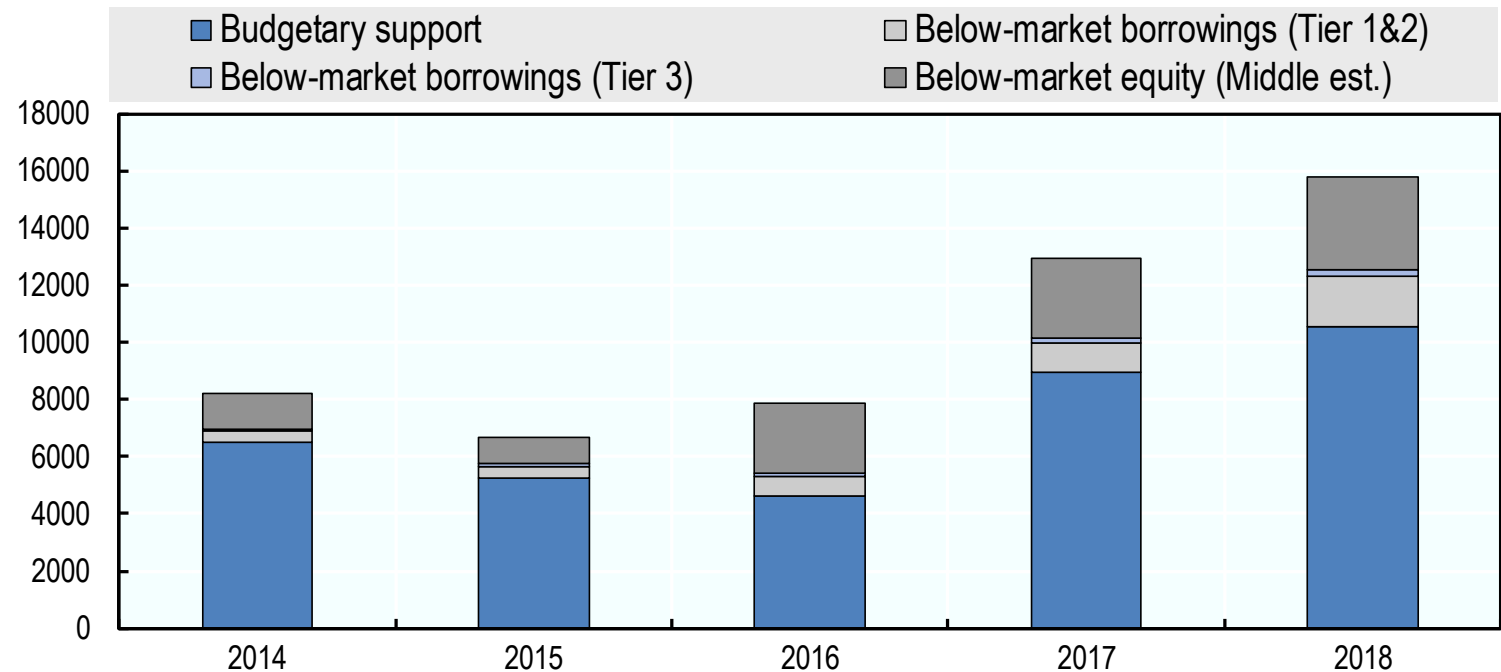




What did we learn? Semiconductors

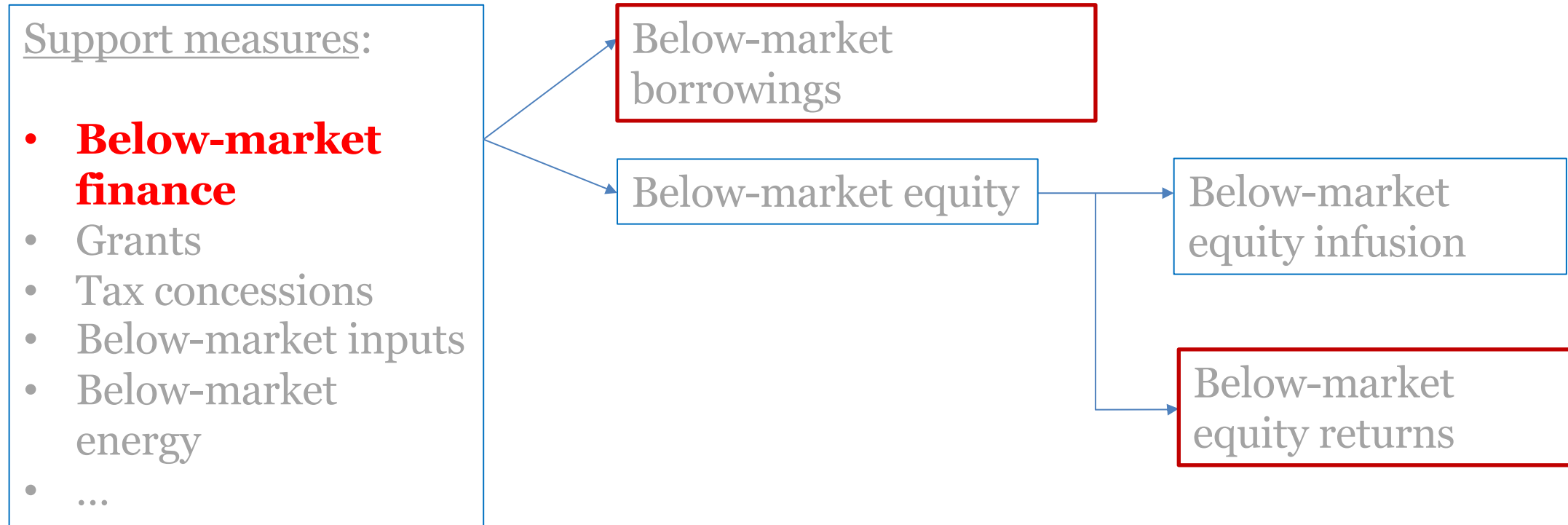
- R&D subsidies are significant
 - But do they work in high-tech sectors?
- How to treat government ownership in firms?
 - SOEs vs government invested firms
- Below market finance significant: loans (debt), but also equity
 - Hard to measure equity
 - Not just one off benefit

21 Semiconductor Firms received USD 50B over 2014-18



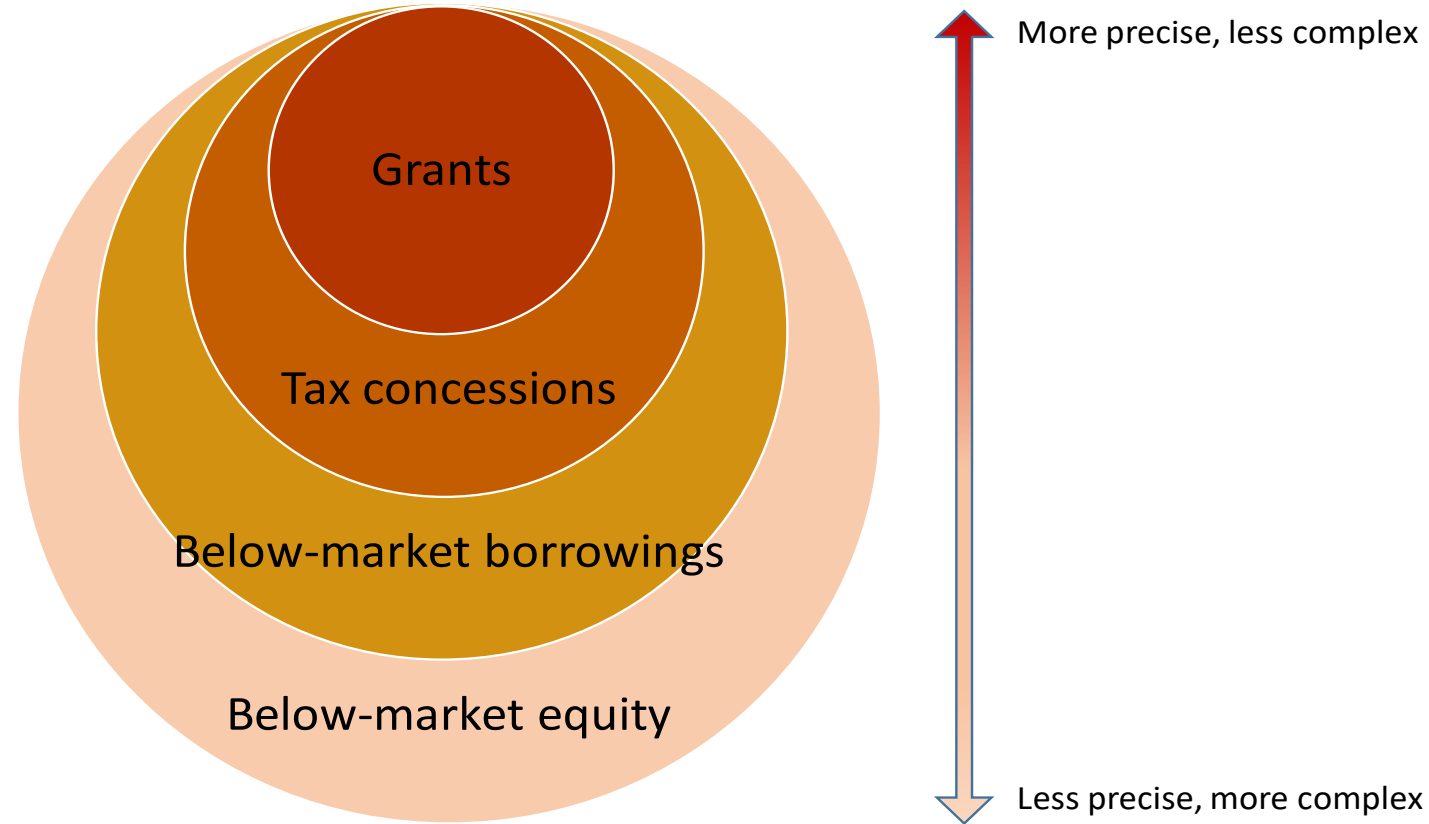


Support provided through the financial system





Support estimates differ in precision and complexity





IMPLICATIONS FOR TRADE RULES

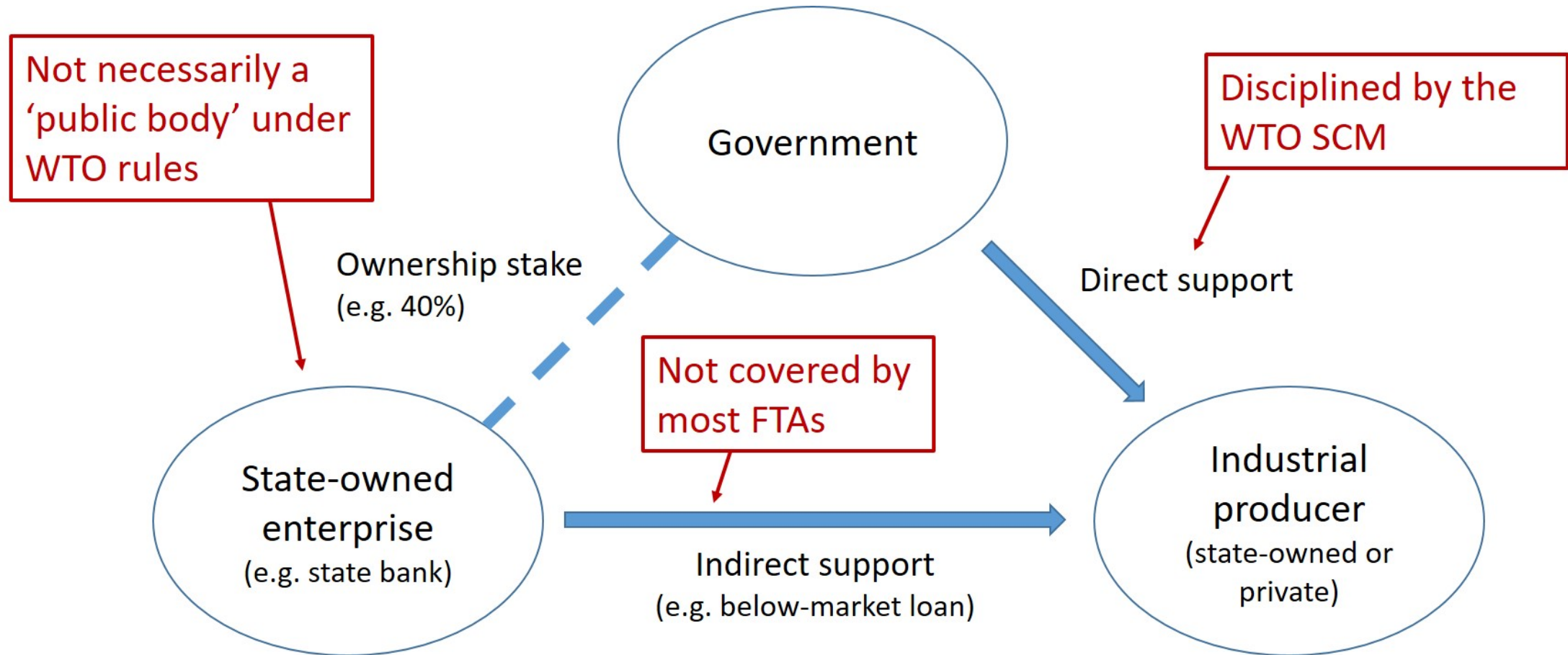


1. Transparency, transparency, transparency

- **No information available from governments**
 - WTO notification gaps on support
- But also, lack of transparency in particular on **below-market finance**
 - The need for agreed market benchmarks
 - Insufficient information on government ownership of companies



2. Capturing support provided through the financial system





3. Enabling the right support

- International co-operation needed for ground rules on how to provide support measures that
 - Are **beneficial to society**
 - Are necessary for fixing **market failures**
 - Enable **markets to play their role** in boosting productivity and living standards
- **Some challenges require public support.**
 - E.g., mitigate environmental harm, R&D efforts that may otherwise be under-supplied by markets
- **Design matters.**



Moving ahead on government support

- Government support needs to be **addressed multilaterally**
 - Transparency (what's going on)
 - Predictability (lock in)
 - Reduction (starting with the most egregious)
 - Prevention (tomorrow's subsidisers in tomorrow's sectors)
- But need to **make the domestic case for global policy reform**
 - Is support achieving its claimed objectives – or doing so efficiently?
 - USD 700B/ year in support to agriculture: USD 536B in support to producers vs general services (+ consumers) USD 172B
 - **Opportunity costs of scarce public resources**
 - Necessary investments for the public interest (education, digital infrastructure, health systems!)



Thank you

We look forward to answering any questions you may have!



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