



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)



Government support is hard to reform

Producer Support Estimates by country, percentage of gross farm receipts, 2000-02 and 2018-20

Source: OECD Agriculture Monitoring and Evaluation Report 2020



(i) Significant – essential -- support in COVID-19.

Design matters – how you go in affects how/if you come out How you go out also matters – loan guarantees, tradable sectors

(ii) Resilient supply chains debate

Role of state increasing, especially on essential goods

(iii) National security/geopolitics

- Dual use and concentration concerns

(iv) Green and digital transformations

Public investments needed

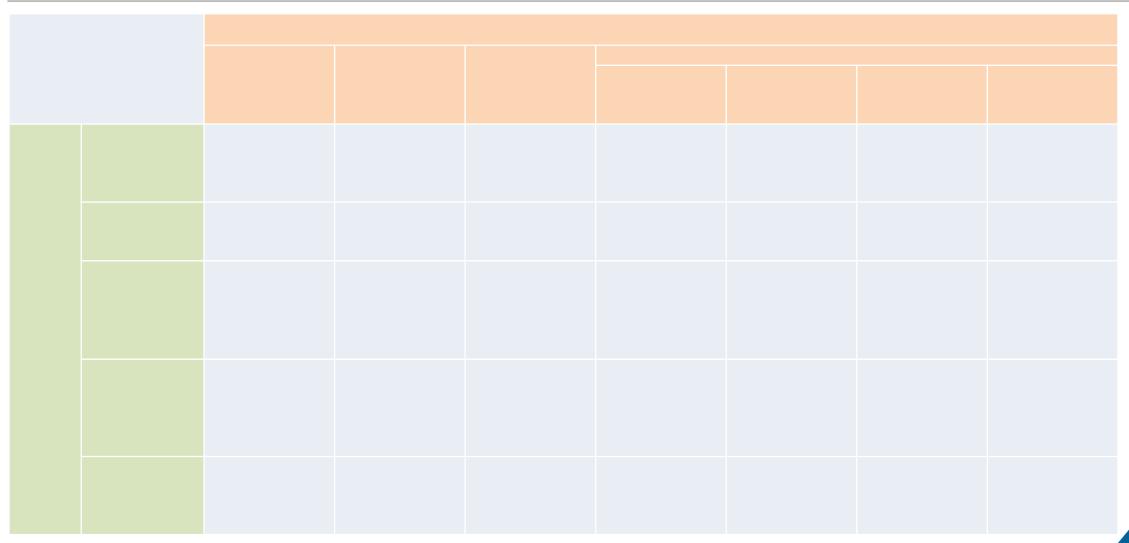
What's a good subsidy?



UNDERSTANDING GOVERNMENT SUPPORT



Government support takes many forms





Understanding support in industrial sectors is challenging

Work to date

Commodity (aluminium)

High-tech sector (semiconductors)

Below market finance (horizontal)

Ongoing work on energy inputs, impacts

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., below market finance)





What did we learn? Semiconductors

R&D subsidies are significant

But do they work in high-tech sectors?

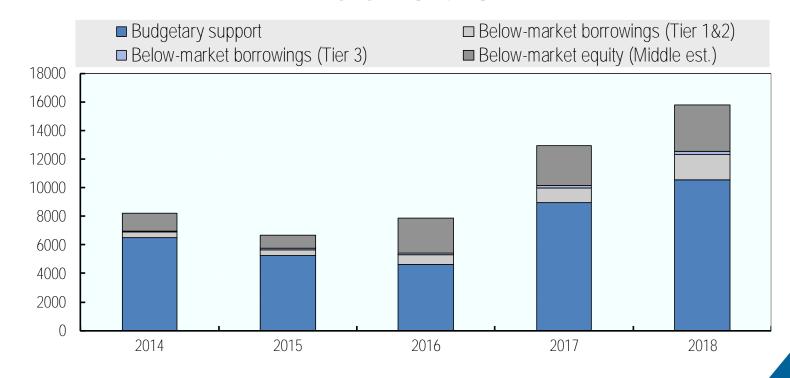
Below market finance significant: loans (debt), but also equity

> Hard to measure equity Not just one off benefit

How to treat government ownership in firms?

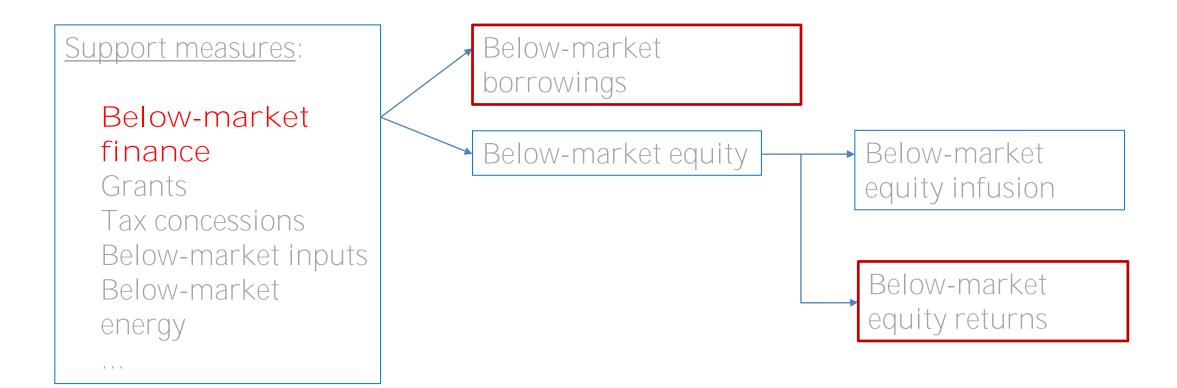
SOEs vs government invested firms

21 Semiconductor Firms received USD 50B over 2014-18





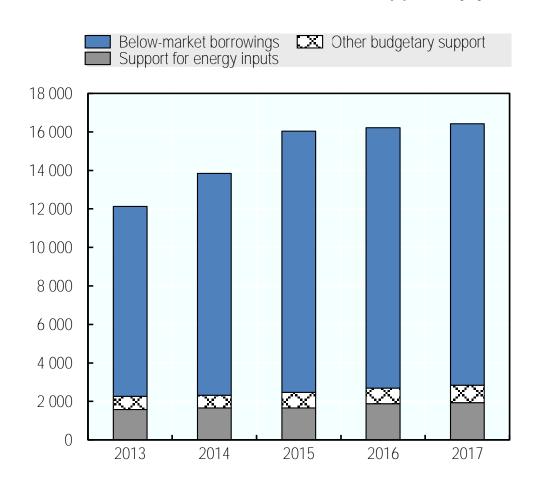
What did we learn? Below market finance

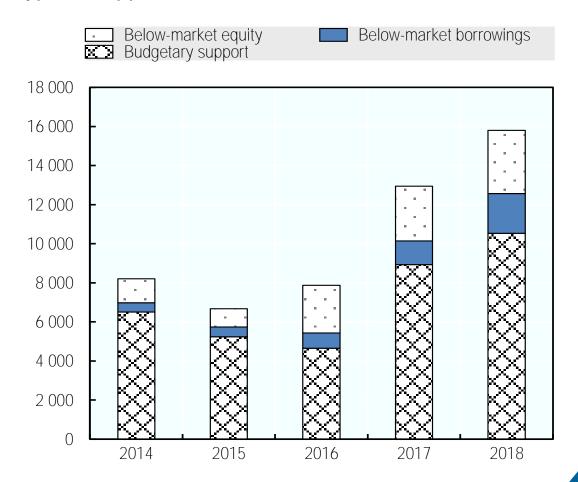




Below-market finance is a large source of support in aluminium (left) and semiconductors (right)

Government support by year and type of support, USD millions, current







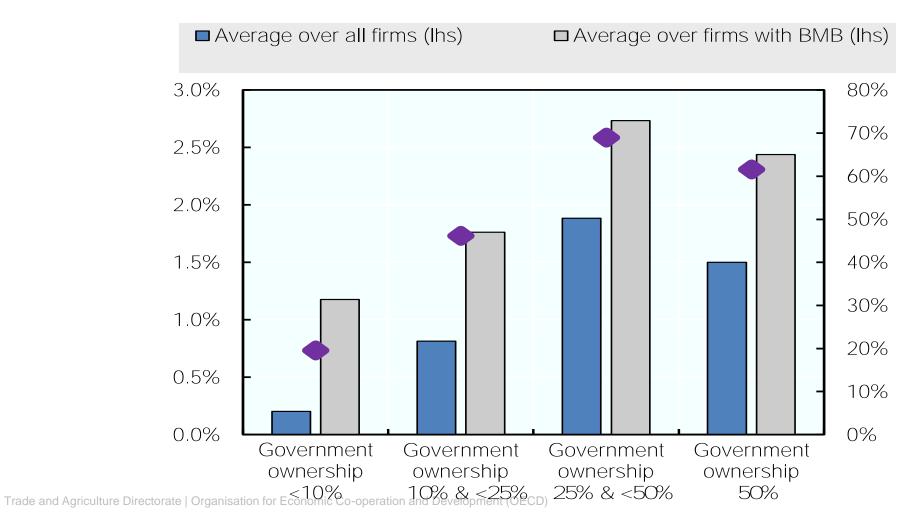
Below-market borrowings appear especially marked in industries with excess capacity

Average below-market borrowings, % of revenue



Government-invested firms tend to benefit more from below-market borrowings

Average below-market borrowings [BMB], % of revenue





Firms with more than 25% government ownership receive more support



Understanding impacts is a further challenge

Support builds along value chains

Attribution of benefit (downstream and upstream)

Interacts with other government policies

E.g., export restrictions lower input costs

Interactions among different forms of government support

Cheap inputs enhances profitability, masks below market equity or loans

Technically challenging

Market benchmarks

Causality vs correlation



INTERNATIONAL DISCUSSIONS



G20: Italian Presidency

G20 MINISTERIAL STATEMENT ON TRADE AND INVESTMENT (https://www.g20.org/wp-content/uploads/2021/10/G20-TIMM-statement-PDF.pdf):

We will continue to work to ensure a level playing field to foster an enabling business environment and to support the integrity and sustainability of the rules-based multilateral trading system, as affirmed in Riyadh and Tsukuba. We under score the importance of fair competition, as we recognised in the context of the Riyadh Initiative on the Future of the WTO. Reducing trade tensions, tackling distortions in trade and investment, addressing supply chain disruptions and fostering mutually beneficial trade relations will be critical as economies respond to and recover from the COVID-19 pandemic. We reaffirm that structural problems in some sectors, such as excess capacities, can cause a negative impact.

Many G20 members affirm the need to strengthen international rules on industrial subsidies and welcome ongoing international efforts to improve trade rules affecting agriculture. Many of us highlighted agricultural subsidies and agricultural market access.

We recognise the importance of transparency of government support and WTO members meeting their transparency obligations. We reaffirm our commitment to fulfil those obligations and call on other WTO members to also do so.

Difficult debate:

Industrial vs all subsidies

Excess capacity?

Abuse of national security and trade remedies

Development issues and policy space

Transparency and burden





Global Forum on Steel Excess Capacity (GFSEC)

Est. in German G20 presidency for 3 years to promote multilateral dialogue and cooperation on steel excess capacity. Extended in Tokyo 2019 for 3 years. OECD acts as facilitator.

No longer includes major EMs (China, KSA, India, Indonesia); invitation to (re)join.

Ministerial took place on 1 October; current mandate ends in 2022.

OECD Recommendation on Competitive Neutrality

Competition and trade policy, implications global markets
Definitions SOFs

US-EU

Trade and Technology Council (TTC), Pittsburgh on 29 September 2021,

Work closely together to address global challenges, including unfair trade policies and practices

Desire to co-operate and adopt co-ordinated approaches for improving their domestic tools to tackle such policies and practices

Working group on 'Global Trade Challenges'





