





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



(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

		Government support						
		Export credit	Export credit guarantee	Export credit insurance	Export credit financing	Export credit guarantee	Export credit insurance	Export credit financing
Trade	Export credit							
	Export credit guarantee							
	Export credit insurance							
	Export credit financing							
	Export credit guarantee							
Agriculture	Export credit							
	Export credit guarantee							
	Export credit insurance							
	Export credit financing							
	Export credit guarantee							



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

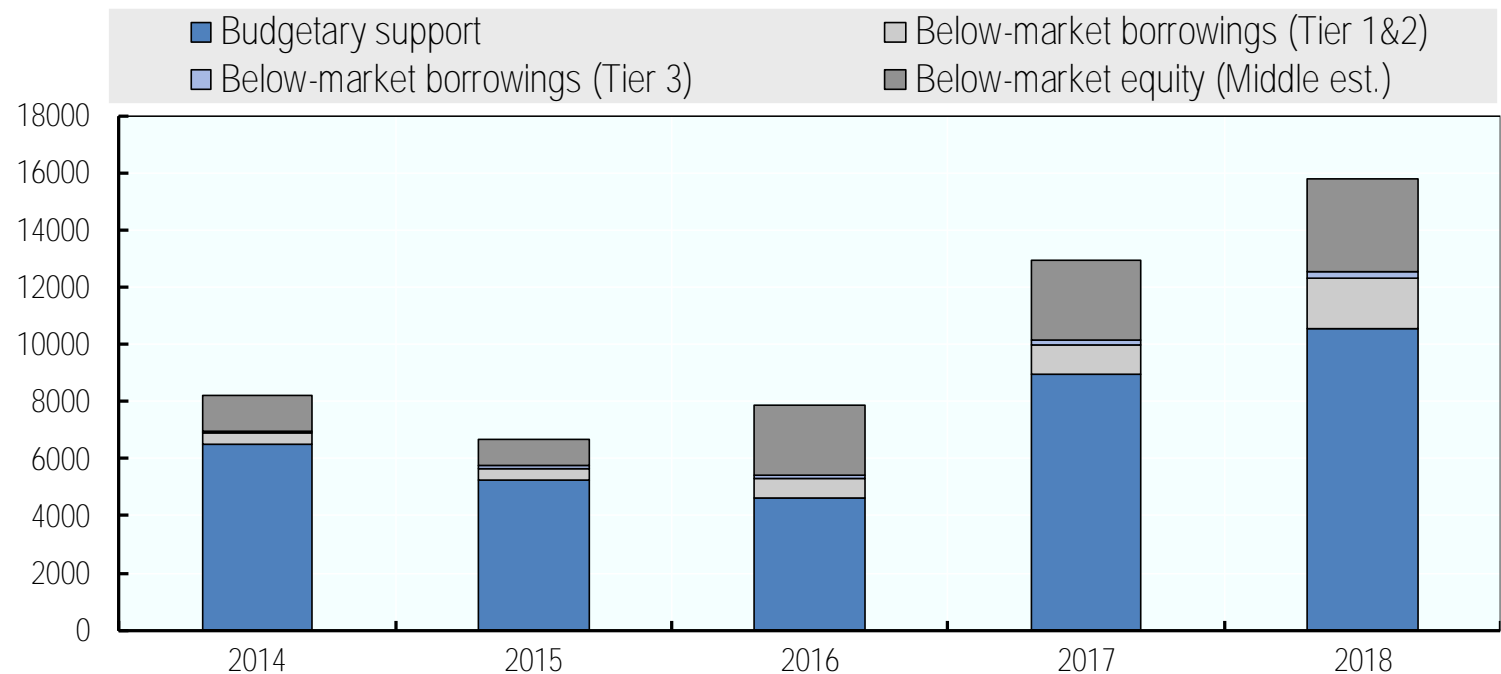
Hard to measure equity

Not just one off benefit

How to treat government ownership in firms?

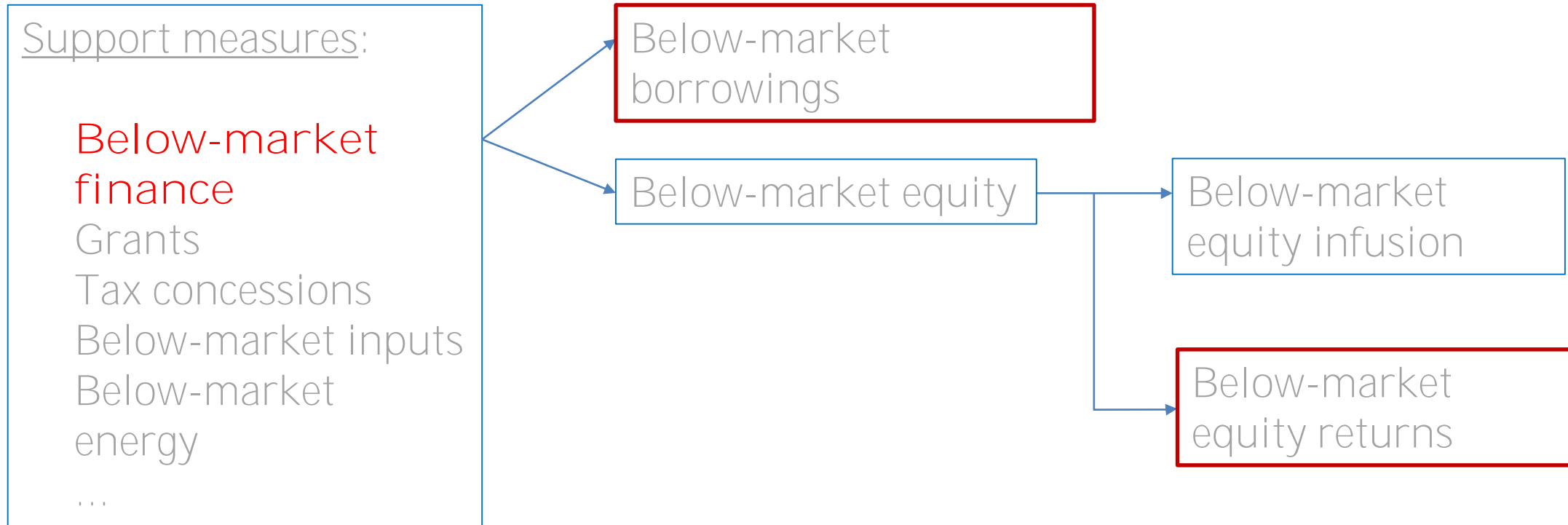
SOEs vs government invested firms

21 Semiconductor Firms received USD 50B over 2014-18





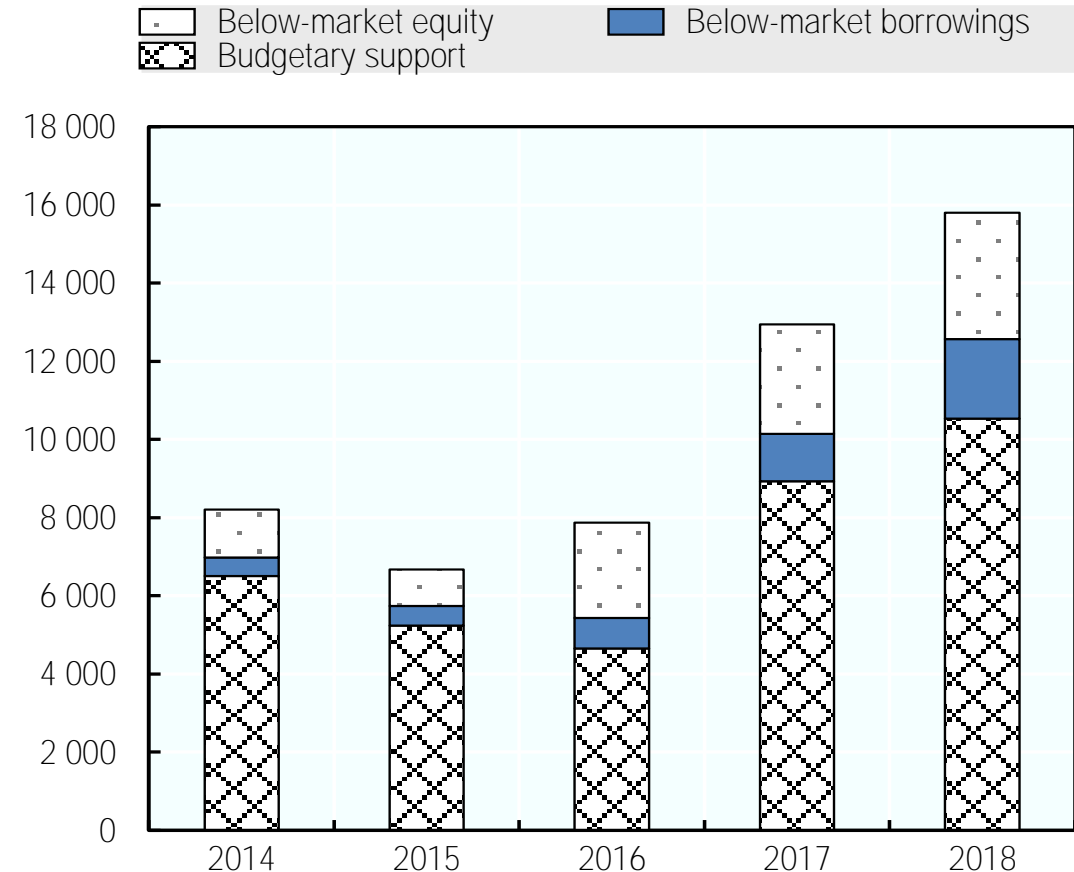
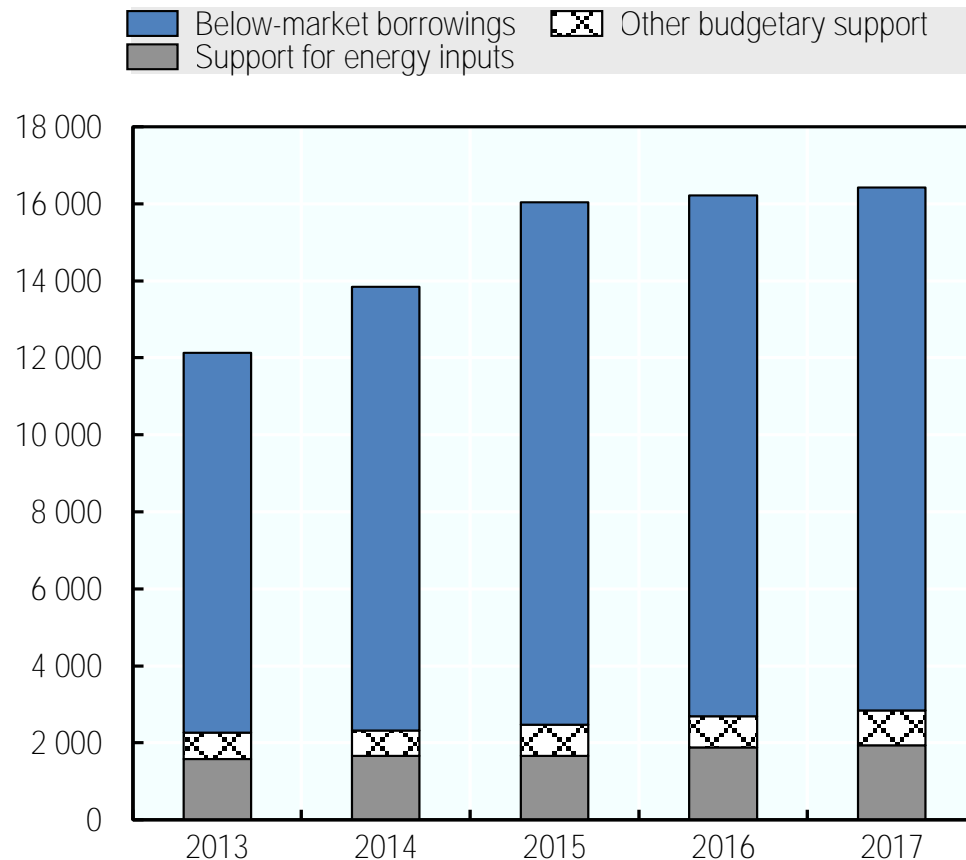
What did we learn? Below market finance





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





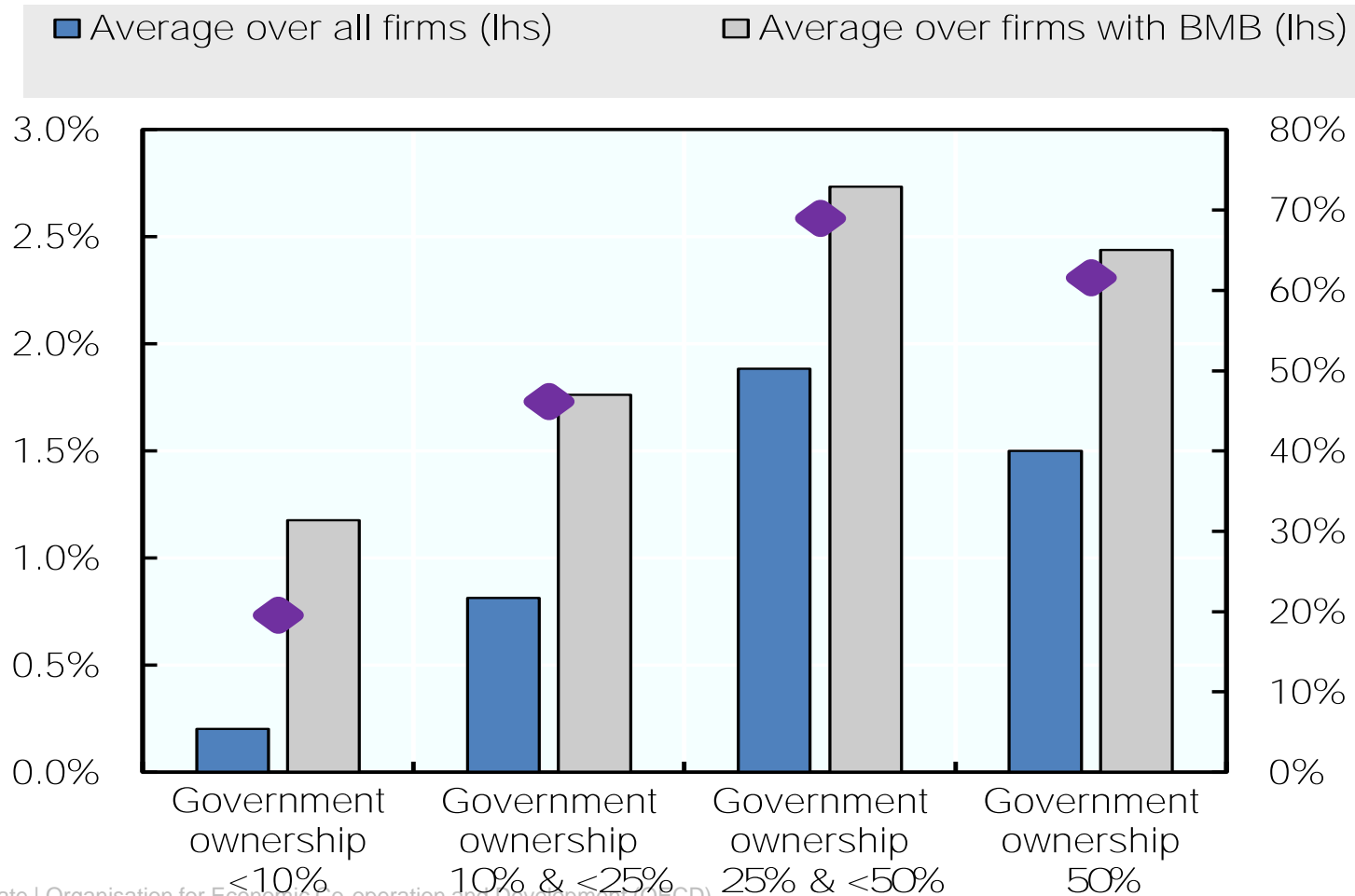
Below-market borrowings appear especially marked in industries with excess capacity

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>) :

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 SOEs

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'





