

Strengthening International Cooperation on Subsidies

Presentation of a Joint Report by IMF, OECD,
World Bank and WTO

Geneva,

3 October 2022

Motivation

- Why now?
 - Subsidies long an issue in trade (Jackson, 1969)
 - ‘Justifiable’ policies v. ‘exporting one’s own problems’
 - Worrisome dynamics: one subsidy invites counter-subsidies
 - Especially urgent now:
 - New issues
 - Trade tensions and costs to the global economy
- Focus: subsidies with possibly harmful int’l effects to (a) trade / investment, or (b) global commons
- Recognizes that subsidies can be ‘good’ and/or ‘bad’
- Builds on past work, including by other organizations

Design and Rationale

- Subsidies have many forms & are taken at many levels ... and have a variety of motivations
- There are sound *rationales* for some subsidies ...
 - Examples: basic R&D; green products
- ... but *design* matters too – economics can help
 - Does it achieve its goal? At what domestic cost?
 - International effects: trade, investment, global commons, development
 - Improved design could often achieve better outcomes & fewer negative effects – at home and abroad

New Challenges, New Debates

- What new challenges make the issue of subsidies urgent today? Examples:
 - Climate change
 - Digitalization
 - Changing role of state
 - Emergency support
 - GVCs...
- Addressing these challenges requires a clear sense of the positive & negative aspects of existing subsidies
- *That* starts with better understanding the current landscape of subsidies in the global economy...

Global Landscape of Subsidies

- There are important gaps in our knowledge of subsidy practices
- Information is at different stages, fragmented, often incomplete as to different providers/beneficiaries and size of support
- Interpretation is complicated by several factors:
 - Varying levels of transparency across countries/sectors
 - Counts of measures do not necessarily convey magnitude or level of distortion
 - Definitional boundaries of subsidies

Current Extent and Nature of Subsidies

- Several important patterns can be discerned
 - Subsidies are prevalent: The most frequent form of government intervention post financial crisis
 - Trade remedy actions around the world have increased sharply
 - Subsidies are not a single-country or single-region “issue”, while there is high concentration
 - Many sectors appear to benefit from subsidies
 - Different forms of subsidies are employed (grants, preferential loans, tax incentives), with variation across countries
 - Sub-central government entities account for the vast majority of subsidy programs

Sectoral Observations

- Support to agriculture is significant, although concentrated by country
- Fossil fuel subsidies remain high
- Subsidies to services sectors are common (e.g., in financial and transport services, construction), but information on level of support is lacking
- Industrial subsidies are also prevalent but evidence on scope and scale is relatively scarce
- Role of SOEs in subsidies seems important, especially in certain sectors, but information on subsidization is difficult to compile

WTO rules and discussions

- SCM, e.g.
 - Definition of a subsidy (financial contribution by government or public body; benefit; specific)
 - Categories (prohibited, actionable, [non-actionable])
 - Transparency and notifications
- Agriculture, e.g.
 - Categories (e.g. Green Box, Amber Box, ...)
 - Transparency and notifications
- Fish

WTO rules and discussions

- Services
 - MFN and transparency
 - Scheduled NT limitations
 - Lack of progress in negotiations on subsidy disciplines
- Fossil fuels plurilateral initiative

In sum:

- Existing rules provide a strong basis, but longstanding and more recently-exposed gaps remain.
- Improved transparency, analysis, and consultation around subsidies can improve the application of existing rules and norms and inform their further development.

Priorities for Action

Not all subsidies are problematic; some are appropriate. Working out which is which is the key issue for international cooperation.

- IOs can help

1) Transparency and analysis

- Improving measurement and access to information
- Understanding impacts
 - development,
 - environmental challenges,
 - digital transformation,
 - SOEs/role of the state
 - emergency support

Priorities for Action

2) Consultation and dialogue

- Multiple approaches
- Cooperation can encourage and help inform reform
- Existing fora + new mechanisms

3) Rules and norms

- New issues and pressures
- Improve operation existing rules
- Develop effective, balanced new rules and norms
 - Based on transparency, analysis and dialogue