

Subsidies: definition, classification, data collection

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Outline

- Where do we stand?
 - Definition
 - Classification
 - Data
- What are the issues?
- What are the options?

February 2012 classification

L – Subsidies (excluding export subsidies under P7)

Financial contribution by a government or public body, or via government entrustment or direction of a private body (direct or potential direct transfer of funds: e.g., grant, loan, equity infusion, guarantee; government revenue foregone; provision of goods or services or purchase of goods; payments to a funding mechanism), or income or price support, which confers a **benefit** and is **specific** (to an enterprise or industry or group thereof, or limited to a designated geographical region).

Example: The government provides producers of chemicals a one-time cash grant to replace antiquated production equipment.

Note: this category is to be further sub-divided after further study on the subject.

February 2012 classification

P - EXPORT RELATED MEASURES

Export-related measures are measures applied by the government of the exporting country on exported goods.

...

P7 Export subsidies

Financial contribution by a government or public body, or via government entrustment or direction of a private body (direct or potential direct transfer of funds: e.g., grant, loan, equity infusion, guarantee; government revenue foregone; provision of goods or services or purchase of goods; payments to a funding mechanism), or income or price support, which confers a **benefit and is contingent in law or in fact upon export performance** (whether solely or as one of several conditions), including measures illustrated in Annex I of the Agreement on Subsidies and Countervailing Measures and measures described in the Agreement on Agriculture.

Example: All manufacturers in Country A are exempt from income tax on their export profits.

Available information

- OECD:
 - National Accounts Statistics,
 - Producer/consumer Support Estimates (Agriculture)
 - Government Financial Transfers to Fisheries
 - OECD/IEA Fossil Fuel Support
- WTO:
 - Notifications (under the SCM and AoA) and responses to ad hoc questionnaires
 - TPRs and Monitoring reports
 - Accessions database and accession protocols
- Information from firm surveys
- GTA
- IMF Government Finance Statistics
- National sources

Available information

- Information on subsidies comes in various forms:
 - Information on programs (with or without total budgeted amount)
 - Information on actual expenses (more or less disaggregated)
 - Indicators
 - Information is scattered
- “The coverage and quality of data on subsidies and investment measures/incentives is much less than for traditional trade policies such as tariffs and “temporary trade” barriers.” (Hoekman 2015)

Issues

- Definition - Classification
 - Do we want a broad or a narrow definition?
 - How closely should the definition/classification be linked to disciplines?
 - What sort of subcategories do we need?
- Data
 - Do we take the status quo as given?
 - What if the required information is not available?
 - What about incentives?

Guiding principles

- Create a classification of subsidies that...
 - is not limited by existing data: making existing data "fit" is excellent, but the classification should allow to move beyond
 - allows a comprehensive mapping of all possible subsidies (and other support measures) across sectors and separates subsidy-classification from product-classification
 - avoids (where possible) a priori legal judgement implied in the classification and focuses on mechanisms

Existing definitions

- Two internationally accepted definitions
 - WTO definition
 - United Nations Statistics Division (NACC)
- A number of other notions including:
- OECD notion of support:
 - Gross transfers from consumers and taxpayers, arising from government policies
- EU definition of state aid
- FAO definition of fisheries subsidies
- Australian productivity commission assistance to industry definition

Definition: options

- NACC definition too narrow:
 - does not include transfers through tax breaks or soft loans
- WTO ASCM definition has advantages and drawbacks:
 - Internationally accepted, relevant
 - Link with disciplines raises issues for data-collection, for members, ..
 - Does not cover:
 - *de facto* subsidization that results from differential regulatory policies, and some other more controversial measures (dual energy pricing)..
 - Non-specific subsidies
- Notions of “support”
 - Delink data from disciplines
 - Used in the trade context with specific meaning: OECD and WTO (agriculture)
 - Otherwise very vague

Definition: a proposal

- [Subsidy]: [A law or a regulation / a practice] by any level of government which involves a [financial transfer] apparently attributable to an identifiable beneficiary or group thereof, which creates an [advantage / differential treatment] for this/those beneficiary(ies) relative to [the rest of the economy and/or competitors]

Definition: issues for discussion

- [Subsidy]
- [A law or a regulation / a practice]
 - discriminatory application of regulations
- [financial transfer]
- Too broad
- [advantage / differential treatment]
- [the rest of the economy and/or competitors]
- Income or price support is not included but should probably be (overlap with category F?)
- Include export subsidies?

Classification: criteria

- target (statutory incidence): e.g. consumers or producers, outputs, inputs, value-adding factors (land, labour, capital), exports;
- instrument (transfer mechanism): e.g. budgetary expenditure, tax exemption, market transfers, underpricing of publicly owned or managed assets;
- based on law/regulation or not
- conditionality: e.g. exports, imports, recipient income, production
- pathway of benefit: e.g. direct, indirect, explicit, implicit;
- purpose: e.g. regional development, energy conservation.

Classification: options

- Contingent upon choice of a definition
- Target – instrument
 - Plus link to more detailed information

Data: options

- Use existing information but think ahead about what else would be needed and how it should/could be integrated
 - First stage: emphasis on laws and regulations
 - Second stage: quantified information
- Use satellite accounts to integrate more detailed information where available