# ITEM 9: DRAFT GUIDELINES FOR SUBSIDIES AND GOVERNMENT SUPPORT MEASURES IN THE STEEL SECTOR

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# Introduction

- Market-distorting subsidies are **harmful to the global steel market**:
  - They **decrease the efficiency** of the steel market as a whole, as they maintain some inefficient firms in the market and cause others to leave
  - They impede a level-playing field, thus **creating international trade frictions** which can jeopardise free trade and have spill-over effects

- Developing guidelines concerning government support measures towards the steel industry is part of the Programme of Work and Budget 2017-2018

# Outline

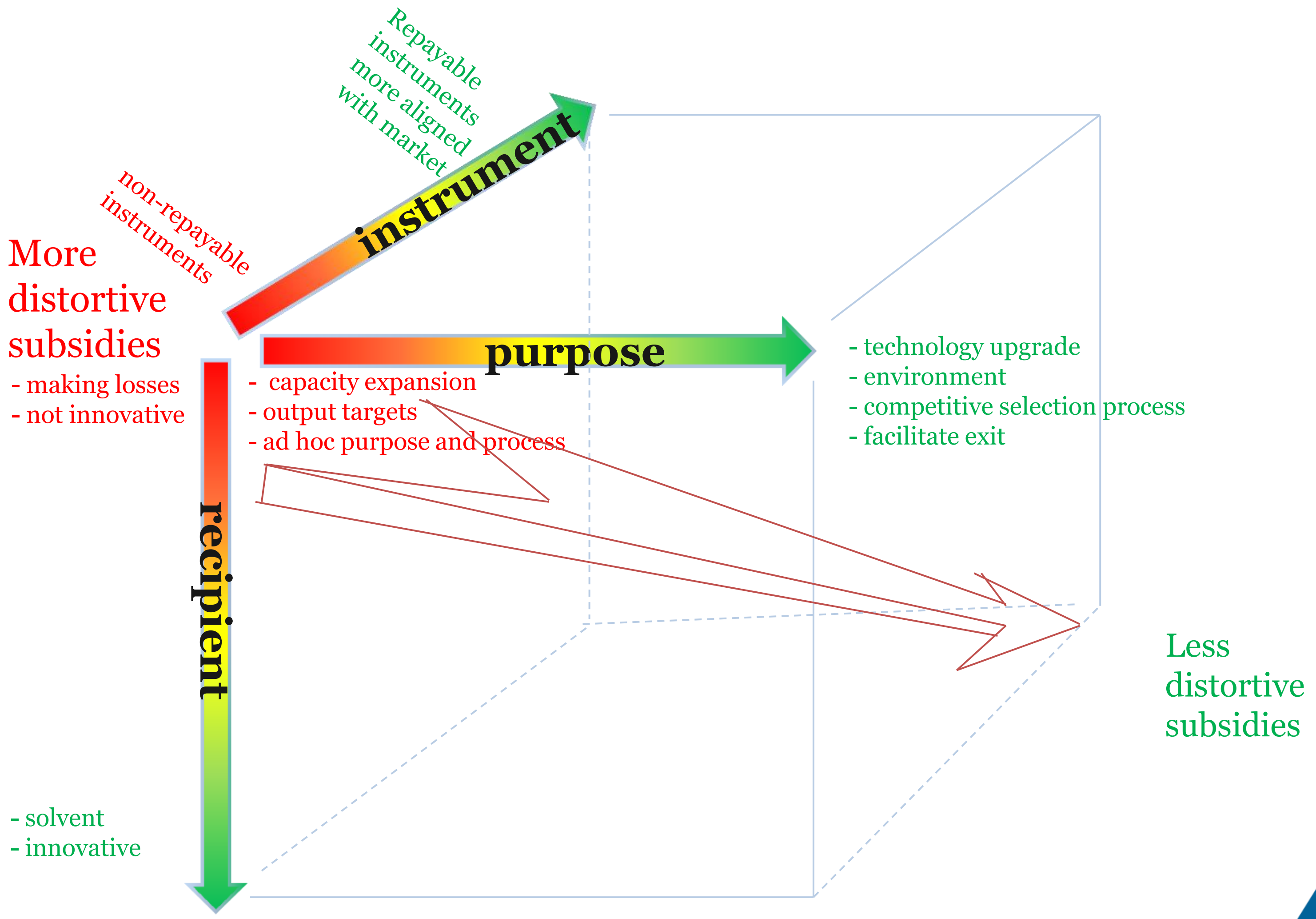
1. Three dimensions to gauge distortions

2. Guidelines related to the purpose of the subsidies

3. Guidelines related to the recipients' characteristics and the selection process

4. Guidelines related to the form of the instrument chosen

# Three dimensions to gauge distortions



# Guidelines related to the purpose of subsidies

- **Guideline P.1. Subsidies that are aimed at an increase of steel production capacity or are linked to production output should be immediately removed.**

- **Guideline P.2. Even if subsidies are not provided with the explicit purpose of expanding capacity, they should not be granted to companies and corporate groups involved in steelmaking capacity development projects.**

- **Guideline P.3. Subsidies aimed at addressing market failures should be kept to a minimum and should not introduce further distortions that may restrain competitive conditions and disproportionally benefit certain firms.**

# Guidelines related to the purpose of subsidies

- **Guideline P.4. Irrespective of their stated purpose, ensure that conditions attached to government measures do not hinder capital mobility or strengthen barriers to exit**

- **Guideline P.5. Any subsidies to address market failures preventing firm exit should comply with WTO rules and be conditional on the effective and permanent closure of the facilities.**

- **Guideline P.6. Any subsidy aimed at mitigating current expenditures should be removed.**

# Guidelines related to the recipients' characteristics and the selection process

- **Guideline R.1. Subsidies should not be directed, in theory or in practice, towards insolvent firms or towards steel firms considered to be below investment grade by the market, with the exception of subsidies for the purpose of closures**

  *NB: This guideline is to be taken in conjunction with guidelines P.2*

- **Guideline R.2. "Ad-hoc" subsidies should be avoided. Any subsidies should be part of well-defined programmes that have clear oversight and a completely transparent, non-discriminatory application processes.**

# Guidelines related to the form of the instrument chosen

**Guidelines for grants, awards and cost refunds:**

- ***Guideline I.1.1. Any market-distorting subsidies provided as non-repayable cash grants and cash awards should be removed.***

- ***Guideline I.1.2. Subsidies that entail repayable forms of instruments such as repayable grants and loans should be preferred to any non-repayable instrument*****.**

- ***Guideline I.1.3. Repayable cash grants should preferably be repayable in full, and the timeframe for repayment should be consistent with the intended purpose and conditionality.***

- ***Guideline I.1.4. Loans with interest rates as close as possible to market rates should be preferred to repayable cash grants.***

# Guidelines related to the form of the instrument chosen

**<u>Guidelines for subsidised loans</u>:**

- ***Guideline I.2.1. Loans provided by the government and rates of bond purchased by the government should be sufficiently close to market rates of interest.***

- ***Guideline I.2.2. Loans and bond rates should have the similar loan terms and characteristics as in the corresponding private market segment.***

- ***Guideline I.2.3. Export credit loans and export credit interest rate support should follow the OECD Arrangement on Officially Supported Export Credits. Subsidised loans that are not export credit loans should follow the same guidelines as subsidised loans, even when provided by export credit agencies.***

# Guidelines related to the form of the instrument chosen

**Guidelines for subsidised loans (continued):**

- ***Guideline I.2.4. Governments should, whenever possible, prefer bond purchases to subsidised loans.***

- ***Guideline I.2.5. Governments should restrain from buying a large share of each bond at issuance.***

- ***Guideline I.2.6. Bond purchases by governments should preferably take place in the secondary bond market (as opposed to purchases at issuance on the primary market), and be limited to bonds that have already been issued and traded for a sufficiently length long period of time to allow for price formation.***

# Guidelines related to the form of the instrument chosen

**Guidelines for equity infusions and conversions:**

- ***Guideline I.3.1. Equity infusions and conversions should be avoided, particularly when they result in providing government control over the company.***
- ***Guideline I.3.2. Equity infusions and conversions should be made on similar terms to what private market participants would have demanded and in line with WTO disciplines. Governments should always ensure that a sufficiently large share of private market participants would be willing to accept the same terms as the government for equity infusions and voluntary conversions***
- ***Guideline I.4.1. Provision of government guarantees and other transfers of liabilities should be avoided, with the exception of export credit guarantees and export credit insurance that respect the OECD Arrangement on Officially Supported Export Credits***.

# Guidelines related to the form of the instrument chosen

**<u>Guidelines for tax benefits and administrative fees</u>:**

- ***Guideline I.6.1. Governments should avoid providing tax benefits specific to the steel sector or to certain steel firms.***
- ***Guideline I.6.2. Tax benefits that are structurally embedded in the tax code to benefit the steel sector should be phased out.***
- ***Guideline I.6.3. Temporary and non-recurring/one-off cash grants for the purpose of tax refunds should be preferred over more permanent and recurring forms of tax benefits and be in line with WTO disciplines.***
- ***Guidelines I.6.4. Firms in the steel sector should not benefit from preferential treatment concerning the payment of administrative fees or other charges. Similarly, simplified administrative processes should not benefit only some steel firms***

# Guidelines related to the form of the instrument chosen

**Guidelines for government approach to M&As:**

- ***Guideline I.7.1. Governments should remove unnecessary institutional barriers to mergers and acquisitions.***

- ***Guideline I.7.2. Proposed mergers and acquisitions should be reviewed by competition authorities and in accordance with competition laws and market principles. The detection and enforcement of laws against collusive behaviour should be stringent.***

- ***Guideline I.7.3. Governments should refrain from explicitly or implicitly influencing M&As, including through their minority participation shares in a steel company's board.***

# Guidelines related to the form of the instrument chosen

**Guidelines for government approach to M&As (continued):**

- ***Guideline I.7.4. The board of government-controlled steel companies should approach mergers and acquisitions as profit-oriented private companies would and frame terms and conditions in accordance with market principles.***

- ***Guideline I.7.5. Governments should refrain from any type of subsidies during a reasonable period of time before and after any merger, to avoid interfering with market restructuring.***

# Guidelines related to the form of the instrument chosen

**<u>Guidelines on input support</u>:**

- ***Guideline I.8.1. All forms of input support for steel firms should be eliminated. This includes input price support, as well as any export quotas forbidden by WTO agreements.***

- ***Guideline I.8.2. Governments should not set specific prices for inputs used by steel firms. Market forces should be allowed to determine steel input prices.***

- ***Guideline I.8.3. In cases where input prices seem to be distorted, governments should enhance market transparency to allow for efficient pricing in the concerned sector.***

# Guidelines related to the form of the instrument chosen

**<u>Guidelines on input support (continued)</u>:**

- ***Guideline I.8.4. If input prices are distorted as a result of a very specific market structure, governments should take the necessary steps to align rules and regulations governing the concerned input sectors with international best practice.***

- ***Guidelines I.8.5. Government should not artificially insulate domestic trading prices on steel inputs from international price arbitrage, nor should they rely on trading structures that result in domestic prices being artificially different from international ones.***

# Guidelines related to the form of the instrument chosen

**<u>Guideline on export subsidies</u> :**

- ***Guideline I.9.1. Export subsidies are forbidden, in line with WTO rules.***

**<u>Guideline on tariffs on imports</u>:**

- ***Guideline I.9.2. The imposition of import tariffs and trade remedies need to follow WTO rules.***
- ***Guideline I.9.3. WTO rules and international agreements concerning import quotas need to be strictly followed.***

**<u>Guidelines on foreign investment</u>:**

- ***Guideline I.9.4. Lift all barriers to foreign investment in the steel industry, in line with the OECD Code of Liberalisation of Capital Movements, as well as the OECD Policy Framework for Investment.***
- ***Guideline I.9.5. SEZ should always be temporary in nature. The laws and regulations that benefit steel firms in those zones should be extended to the whole economy if they are deemed beneficial, or terminated otherwise.***

# Guidelines related to the form of the instrument chosen

**Guidelines on local content support to downstream industries or end-consumers:**

- ***Guideline I.9.6. Policies to support steel demand that include local content requirements should be forbidden, in accordance to the WTO SCM agreement.***

**Guidelines on government procurement and local content requirements for government purchases:**

- ***Guideline I.9.7. Avoid local content requirements for government procurement and government purchases of steel as well as goods that are steel-intensive.***
- ***Guideline I.9.8. Ensure that public procurement is fully transparent.***
- ***Guideline I.9.9. Foresee a sufficient period of time for applicants to bid for government contracts.***
- ***Guideline I.9.10 Treat all applicants to tenders fairly, regardless of their ownership status, of whether they are domestic or foreign, and of whether they are incumbents or entrants.***

# Guidelines related to the form of the instrument chosen

**Guidelines to lax enforcement of regulation:**

- ***Guideline I.10.1. Ensure that adequate regulation is in place and is enforced.***

- ***Guideline I.10.2 Penalise non-compliant steel firms to avoid distortions associated with improper enforcement of regulation and intellectual property laws.***

Thank you for your attention