STEEL SUBSIDIES: TRANSPARENCY AND REPORTING

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A presentation of this paper by IISD will be made at the next Steel Committee meeting in June 2009.

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# TABLE OF CONTENTS

- Executive Summary ......................................................................................................................... 3
- Background ........................................................................................................................................ 4
- Purpose of this paper ......................................................................................................................... 4
- Defining transparency .......................................................................................................................... 4
- Benefits of transparency and reporting ............................................................................................. 5
- Existing reporting mechanisms relevant to steel subsidies ................................................................. 7
- Subsidy notification within the WTO .................................................................................................. 7
- Reporting outside the WTO ................................................................................................................ 8
- Independent reporting ....................................................................................................................... 9
- Transparency options ......................................................................................................................... 11
- A steel-specific notification template ................................................................................................ 12
- Putting the template into practice ...................................................................................................... 13
- The summary table ............................................................................................................................ 14
- The notification annex ....................................................................................................................... 15
- Issues for decision by the Steel Committee ....................................................................................... 16
- Scope ................................................................................................................................................ 16
- Regional or quasi-horizontal subsidies ............................................................................................... 17
- De minimis .......................................................................................................................................... 17
- Motivating forces to encourage reporting .......................................................................................... 17
- Confidentiality ..................................................................................................................................... 18
- Determining the best reporter ............................................................................................................ 19
- Conclusions ........................................................................................................................................ 20

ANNEX A: STEEL SUBSIDY TEMPLATE – SUMMARY TABLE ......................................................... 22
ANNEX B: STEEL SUBSIDY TEMPLATE – NOTIFICATION ANNEX ............................................... 23
ANNEX C: GSI CLASSIFICATION SCHEME FOR SUPPORT .............................................................. 24
ABBREVIATIONS AND ACRONYMS ............................................................................................... 26
Executive Summary

1. The OECD Steel Committee demonstrated a strong appetite for subsidy reform earlier in this decade. A reduction in subsidies was recognised as necessary to reduce overcapacity, market distortions and trade tensions. However, an upswing in the global economy took up excess supply and reduced the pressure for reform. Also, reform proved to be more difficult to implement in practice than in theory, and some members balked at the proposed disciplines.

2. Several years later, the inefficiencies created by subsidies still underlie much of the steel sector and members continue to recognise the merit of reform, without agreeing on a clear way forward. A process is needed to build a bridge between the current lack of subsidy reform and the ambitious intentions of the Steel Committee.

3. Improved transparency provides one way forward. Greater shared knowledge of data and policies leads to improved decision-making: both within countries; and in the adaptation and implementation of international measures. It facilitates cooperation on subsidy removal, where joint “decommissioning” of subsidy policies could be in the interest of several countries. A thorough understanding of the magnitude of subsidy transfers also allows for a frank cost-benefit analysis of the merits of such payments, and how subsidies distort markets. Importantly, transparency provides the foundation for reform. Without it, information asymmetry and poor understanding of the nature, size and impact of subsidies will undermine a meaningful negotiated outcome.

4. However, taking the next step is neither easy nor uncontroversial. A questionnaire seeking information on steel subsidy measures sent to members of the Steel Committee regarding the period 2004-06 had insufficient responses. Similarly, at the WTO, only around one-half of members currently notify their subsidies, as required under the WTO Agreement on Subsidies and Countervailing Measures. Subsidy disclosure, if not undertaken by all parties, carries the risk of self incrimination, and can be seen as offering few benefits.

5. This paper therefore proposes a new subsidy reporting procedure, which would be followed by all Steel Committee members. The mechanism is fully WTO-consistent and could be used to also report subsidies to the WTO Agreement on Subsidies and Countervailing Measures, if desired, to reduce duplication in reporting procedures. It offers a “WTO-plus” approach to subsidy notifications, in the form of a template which collates country data on subsidy policies and expenditure. Initially, the information could be submitted to the Committee, on the understanding that no country-level information would be made public unless all members participate. Later, the notifications could potentially be shared with the WTO or other relevant international bodies.

6. Improved transparency has some merits in itself, but would primarily assist members of the Steel Committee to take the next step towards subsidy reform.

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Background

Purpose of this paper

7. Reform of steel subsidies has stalled. This paper proposes an alternative way forward based on improved transparency and reporting. The steel industry is now entering a cycle when subsidy reform might be seen as part of the solution to reduce any over-capacity. An improved understanding of the level and type of steel subsidies being applied would provide a foundation for such reform. In addition, improved reporting can deliver benefits in itself. By providing a comprehensive picture of subsidy expenditure and policies, national governments are better able to assess the costs and benefits of such support. This is particularly the case where assistance might be provided by different departments or jurisdictions.

8. The recommended approach is practical. Committee members are asked to notify their subsidies to the Committee Secretariat in the form of a summary table and a more detailed annex. Detailed guidance is provided regarding which subsidies should be notified. The proposed notification template is WTO consistent, reducing the need for duplicate reporting procedures, and yet more logical and information-rich than required under the WTO. Transparency, however, is neither easy nor uncontroversial. Both Committee Members and the Secretariat will need to be active to ensure success.

Defining transparency

9. In the context of public policy, transparency refers to the openness and accountability of governments, particularly regarding expenditure and decision-making. Transparent procedures include disclosure of financial transactions, budgets and audit reports. Such documents provide fundamental information regarding government activities.

10. Full transparency seeks to achieve considerably more: the provision of information allowing users to fully understand how a policy is being implemented and the underlying objectives of the policy. The detailed information revealed by full transparency can be used to improve decision-making and policy development. Chayes and Chayes define transparency as:

“[transparency is] the availability and accessibility of knowledge and information about: (1) the meaning of norms, rules and procedures established by the treaty and practice of the regime, and (2) the policies and activities of parties to the treaty and of any central organs of the regime as to matters relevant to treaty compliance and regime efficacy”.

11. Transparency has evolved rapidly over the recent past; three generations can be defined:

- **Right to Know**: Access is provided to most government processes and files;
- **Targeted transparency**: Information is structured to further particular policy objectives;
- **Collaborative transparency**: Combines 1st and 2nd generation with a new, user-centred orientation.

12. Reporting under many international agreements now demonstrates third generation transparency.

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Benefits of transparency and reporting

13. Transparency has an important "public good" element, by helping to ensure accountability. But it can also achieve government objectives more effectively than regulation. For example, government disclosure of vehicle accident data led car manufacturers to quickly improve car safety standards in the US.\(^4\)

14. In the context of inter-governmental negotiations, greater openness and shared information on data, policies and rationale for those policies provide a range of benefits. These include:

- Negotiations will not be held “in the dark”: negotiations with better information tend to produce better results, partially because the attitude of negotiators is less defensive;
- Discussion can take place as to which domestic policies are desirable and which not, and members can cooperate regarding those that are mutually agreed to be detrimental;
- The data will generate research, which will subsequently inform both domestic decision-making and the adaptation and improvement of international disciplines\(^5\);
- The playing field will be levelled, allowing countries with lower resources to: (i) develop their own positions (rather than taking those of others); and (ii) understand the positions of their counterparts (noting that without transparency, better-resourced countries can investigate the positions of the less-well resourced, but the converse is often not possible).

15. In the context of trade policy, transparency is one of the most important policy tools and already plays an important role throughout various sectors of international law.\(^6\) It is fundamental to administrative law, and it is found throughout the WTO agreements.\(^7\) There are over 150 different notification requirements in WTO agreements\(^8\), in recognition of the need for shared understanding of national data and policies as a foundation for negotiations and dispute resolution.

16. Perhaps the key benefit of transparency in trade relations is that it reduces uncertainty about current and future policy, for both trading partners and economic actors. Transparency in subsidy matters can be viewed as a first and indispensable, though not a sufficient, precondition to effectively reduce or contain economically harmful subsidies. Internationally comparable subsidy data can facilitate new negotiations on disciplines. However, nothing can be achieved without political will.

\(^4\) A much quoted example is the propensity of some early Sports Utility Vehicles’ (SUVs) propensity to tip over when cornering. The US National Highway Safety Administration chose simply to publish its ratings of rolling susceptibility rather than to regulate, and industry took care of the problem.

\(^5\) Note the numerous studies following the OECD’s PSE and CSE estimates of agriculture support in the 1980s – discussed further later in this section


\(^7\) The WTO Glossary defines “notifications” as a, “transparency obligation requiring member governments to report trade measures to the relevant WTO body if the measures might have an effect on other Members”.

\(^8\) Pascal Lamy, Director-General of the WTO, has stated that there are as many as 157 different notifications in the WTO agreements (as reported by Robert Wolfe of Queen’s University, Canada, Session 24 of the WTO Public Forum, Geneva 24-25 September 2008, Transparency as a Policy Tool - http://www.wto.org/english/forums_e/public_forum08_e/programme_e.htm)
17. In both agriculture and fisheries, the development of international data on subsidies preceded negotiations on WTO disciplines. Box 1 summarises the development of agricultural subsidy reform and the role that analysis of data and analysis provided (by OECD and others) had in influencing the discussions.

18. Similar developments could be expected for other sectors or for cross-cutting concerns such as fossil fuels.

19. Despite the advantages of subsidy transparency, voluntary efforts to improve can easily end up in a prisoner’s dilemma. Most countries’ governments are aware of the benefits of accessing information on other countries’ industry subsidies. At the same time, individual governments hesitate to report on their own subsidies out of fear of self-incrimination. As a result of this perception, no country will have a sufficient incentive to report honestly on its subsidies.

20. Yet subsidy transparency cannot rely solely on altruism. Provided a certain number of countries do decide to report on their subsidies, the strategic attractiveness of defecting quickly becomes dubious. Instead, countries reporting more or less completely on the subsidies they gave and continue to give to national steel industries can expect significant benefits for themselves. There is a simple rationale behind this. Secrecy about subsidies can only turn out to be a superior strategy if the respective subsidies are successful. Success here does not only mean keeping in operation old and overdue installations; successful subsidies really improve the long-term competitiveness of the recipient firms. Usually, steel subsidies do not have such an impact.

Box 1 History of Agricultural Subsidies Reform

- Long history of subsidisation and protection before 1947 GATT; as a result, given special treatment
- Attempts to get agreement to apply normal GATT disciplines during Tokyo Round (1973-79); failed again
- New efforts started in early 1980s, on several fronts, including OECD and GATT
- OECD work mandated in 1982; results appeared a year before the 1988/89 Mid-Term Review of the Uruguay Round
- Discussions much influenced by OECD estimates of PSEs/CSEs, and modelling work on relative trade effects of different types of subsidies
- Ultimately, more simple Aggregate Measure of Support (AMS) adopted, and many exemptions included
- Final “Agreement on Agriculture” signed December 1993, as part of the Final Act
- Specific commitments and timelines set out in detailed country schedules

21. On the contrary, in industries with a long subsidy history on all sides, national subsidies tend to counterbalance one another. Often, they effectively neutralise one another and result in pure rents for the steel industry. Under these circumstances, a lack of subsidy transparency serves the rent-seeking interests

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9 In which the best strategy of each prisoner is to “defect”, i.e. to assume that others will not act cooperatively


11 Defined here simply as a payment in excess of what is needed to keep the industry in business.
of (multinational) steel firms. The less transparent governments are about their steel subsidies, the more they pay – often enough only to uphold the current situation.

22. In the long-term, transparency on steel subsidies may help governments to abolish these support measures. But in a politically more realistic perspective, transparency facilitates the transition towards fewer and more targeted subsidies in the steel industry.

23. Fewer subsidies can be attained because transparency:

- decelerates the race for subsidies;
- reduces asymmetric information between multinational firms and national governments, thus reducing the power to “blackmail” governments with better offers from other countries;
- for government, the need to notify can serve as a welcome chance to bind their own hands and to resist subsidy-seeking companies and vested interests (note that this is a very important mechanism of EU State aid control);
- allows countries to negotiate away certain subsidies (i.e. to cooperate, rather than to assume that others will not cooperate).

24. More targeted subsidies can be attained because transparency allows comparisons to be made and the dissemination of best practice. Countries are able to ask what subsidies have been designed to do, how they are doing it and what value for money they offer.

Existing reporting mechanisms relevant to steel subsidies

Subsidy notification within the WTO

25. Within the WTO, the most important reporting procedure relating to non-agricultural subsidies is within the Agreement on Subsidies and Countervailing Measures (ASCM). Transparency is a foundation stone of the ASCM – the first multilateral agreement to establish disciplines on its members’ use of subsidies. Under Article 25.2 of the ASCM, countries are obliged to submit notifications describing those subsidies that have an impact on global trade.

26. According to Article 25 of the ASCM, countries are obliged to submit notifications describing the essential features of all specific subsidies, as defined in Articles 1 and 2 of the Agreement (see Figure 1). But Article 25 is not the only multilateral obligation on transparency of subsidies. Countries are also obliged to report all other subsidies that operate directly or indirectly to increase exports of any product from, or to reduce imports of any product into, the territory of the Member granting or maintaining the subsidies. This follows from an obligation already established in Article XVI:1 of the 1947 (now “1994”) General Agreement on Tariffs and Trade (GATT).

27. Figure 1 gives a straightforward overview of which subsidies in principle must be notified under the ASCM and those that do not. The decision-tree in Figure 1 does not always follow the legal sequencing of the ASCM. In order to qualify as a "notify-able" subsidy, cumulative conditions must be met.

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12 Figure 1 is taken from Thöne, Michael and Stephan Dobroschke, WTO Subsidy Notifications – Assessing German subsidies under the GSI notification template proposed for the WTO, FiFo Institute of Public Economics, University of Cologne, Germany. Prepared for the Global Subsidies Initiative of the International Institute for Sustainable Development, April 2008.
met. The sequencing presented in Figure 1 is intended to present the most efficient way to identify the relevant subsidies. We do this by first listing those conditions which call for the least effort in identification.

**Reporting outside the WTO**

28. In addition to the WTO, there are several processes that provide insights into reporting of steel subsidies within the OECD Steel Committee. However, none are as practically applicable as the WTO notification procedure, either because they are likely to be considered too ambitious at this time or because they could not easily be adapted to an international context.

29. In the first category is subsidy reporting mechanisms employed by other OECD committees. The analysis provided for agricultural subsidies in the OECD for over twenty years provides the deepest economic insight into the size and potentially market-distorting power of government aid. Instead of measuring subsidies only in disaggregated monetary terms, the Producer Support Estimate (PSE, formerly Producer Subsidy Equivalent) gives “the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm-gate level, arising from policy measures that support agriculture, regardless of their nature, objectives or impacts on farm production or income.” Together with the analogous Consumer Support Estimate (CSE) the economic impact of agricultural subsidies can be deemed more transparent than any other subsidies.

30. PSE and CSE measures could also be calculated for steel. The proposed Steel Subsidy Template (see below) provides information in monetary volumes of support programs without linking these amounts with the masses of steel affected by them. Further steps would be required in order to move to assessing the market distorting power of government assistance.

31. European Union State aid control produces subsidy transparency as a by-product. The process is driven by the general prohibition of State aid in the EC Treaty and by the manifold exceptions to this rule. Despite these exceptions, the State aid regime can be judged the most disciplinary transnational process applied to subsidies in the whole world. Subsidy transparency is very high, because every EU and EFTA Member state has a clear incentive to notify all subsidies with potential effects on the Single Market: every subsidy not notified to the EU Commission automatically is deemed illegal. In the most extreme case, firms must pay back subsidies granted that have not received prior approval from the Commission.

32. The EU model appears attractive because it combines restrictive disciplines (in most sectors) with a high degree of subsidy transparency. But, again, EU state aid control could only serve as a long-term prospect for international steel transparency. It requires binding regulations to outlaw prohibited steel subsidies, as well as a strong and comparatively independent authority to enforce the subsidy regulations.

33. Within the OECD, subsidies for some sectors are (or have been) reviewed with questionnaires comparable to the one used for the steel sector (OECD 2008). Here, the fisheries sector gives an example: work undertaken by the Fisheries Secretariat of the OECD in 1998 eventually led to a questionnaire developed by the Secretariat being issued in 2004, to which ten OECD Member economies (the EU has a common fisheries policy) have submitted inventories to date.

34. Questionnaires can be strong tools if most of the relevant actors participate. If not, as in the examples cited, the notification process may remain below the critical threshold and will not become self-sustaining.
35. Two kinds of national-level reporting mechanism are also relevant to steel subsidies:

- **National Accounts:** Subsidy data compiled according to the universally applied System of National Accounts standards are one of the only aggregate data which enable true and unbiased comparisons. Investment figures are reported separately.

- **Domestic reporting:** Some countries have established far-reaching systems to report regularly on national subsidies (usually for central government). Where mechanisms like this are in force (e.g., Switzerland, Germany), the additional costs of notifying steel subsidies will be comparatively low. But the systems themselves may not always be easily transferred to an international application.

**Independent reporting**

36. In recognition of the benefits generated by transparency, several independent organisations compile and publish comprehensive data on government policies and expenditure in specific sectors. Examples of independent reporting of subsidy issues by non-government organizations (NGOs) are below.

- **FarmSubsidies.org** provides comprehensive data on European agricultural subsidies, going beyond information that is likely to be captured in official negotiations.

- **Greenpeace** has funded studies on energy subsidies in Australia, Europe and the United States.

- **The IISD’s Global Subsidies Initiative** comprehensively quantified subsidies to biofuels over the past three years in many jurisdictions and analysed the effectiveness of these policies in achieving governments’ stated policy objectives.

- **The World Wildlife Fund** has published data on fisheries subsidies, which has influenced negotiations in the WTO on disciplining subsidies. The Open Budget Initiative rates countries on how open their budget books are to their citizens. The ranking provides citizens, legislators, and civil society advocates with the practical information needed to gauge a government’s commitment to budget transparency and accountability.
Figure 1 Notification requirement of Article 25.2 ASCM (Thöne and Dobroschke, 2008)

1) Measure covered by ASCM?  
   - Trade in non-agricultural goods  
     - No  
     - Trade in agricultural goods*  
     - Agreement on Agriculture*  
     - Service-agreement (planned)
     - Yes

2) Subsidy?  
   - Prohibited subsidy (Art. 3 ASCM)  
     - No
     - Subsidy under Art. XVI of GATT 1994  
       - No  
       - Subsidy under criteria (i)-(iv) of Art. 1.1(a)(1) ASCM  
         - No  
         - No Notification
       - Yes  
       - Yes
     - Yes

3) Benefit conferred?  
   - A benefit is conferred  
     - No  
     - No Notification

4) Specificity?  
   - Automatically specific  
     - Regional subsidy (Art. 2.2 ASCM)  
       - No  
       - Specific subsidy under criteria (a)-(c) of Art. 2.1 ASCM  
         - No  
         - No Notification

5) Notification  
   - Subsidy must be notified (Art. 25.2 ASCM)

Further steps:  
- Red light: Prohibited subs.  
- Yellow light: Actionable subs.  
- Green light: Non-actionable subs.

* In principle, agricultural subsidies are not exempted from ASCM-notification. In practice and for the time being, they are.

Thöne (IToK) 2008
Transparency options

37. With a view to the different subsidy notification processes described above and to the transparency needs of the steel sector, the Steel Committee has a range of options available. These can be categorized in two broad types. The Steel Committee could either:

- establish its own, tailor-made framework for reporting on subsidies in the steel sector; or
- adopt an existing instrument of subsidy reporting; under this approach, reporting tools that have been proposed for other and broader fields of application could also be considered.

38. From the organisational point of view, the tailor-made approach looks more appealing. With an insular solution, no third parties need to be consulted, and no exogenous factors must be taken into consideration. Also, insular solutions can be easily restricted to the minimum query necessary. These reasons may explain the popularity of insular approaches. But tailor-made subsidy reporting schemes display major shortcomings as well. Under all circumstances, they call for additional effort and some duplication, as they are applied independently of other reporting obligations. Even more important than cost-effectiveness is the potential loss of information and control due to independent reporting approaches. Wherever two or more separated reporting obligations have to be fulfilled, insular systems cannot guarantee the consistency between them. It can become difficult to even assess whether separate monitoring systems are reporting on the same or on different subsidies.

39. As a consequence, a transparency tool for steel subsidies can be managed more easily and will produce more valuable information if it makes use of existing reporting tools. Among the schemes employed internationally, the reporting obligation according to the Agreement on Subsidies and Countervailing Measures (ASCM) is the mechanism of choice here. This WTO responsibility covers virtually all members of the Steel Committee. What is more, the ASCM obliges all WTO members to notify their subsidies within the steel sector to the WTO Secretariat biannually, therefore additional effort for the Steel Committee reporting requirements would draw up, and improve, WTO notifications. The ASCM contains concessions for least-developed country Members regarding prohibited and actionable subsidies. But this exemption does not cover notifications.

40. In theory, the WTO subsidy notification obligation is the most far-reaching transparency tool ever conceived at the international scale. If it were fully implemented, there would be little need to discuss separately the benefits of subsidy transparency in the steel sector: transparency would be adequate. However, compliance with the ASCM's obligations to notify subsidies is low, both in terms of the number of Members submitting notifications and the completeness and timeliness of those notifications.

41. In 2001, WTO Members agreed to submit new and full notifications of all specific subsidies every two years. In its World Trade Report 2006—a special issue on subsidies—the WTO paints a discouraging picture of the reporting situation: as of early 2006, 29 of the WTO’s 149 Members had not submitted any notification pursuant to the ASCM, and many other countries had not provided quantitative information on subsidy programs or had not provided it systematically. As a result, in most years, information is only available for less than half of the WTO Membership.

42. Possible reasons for this under-reporting are manifold. One of the primary causes of this unsatisfactory situation can be identified in the notification process itself. Numerous WTO Members consider the notification procedure too complicated and too burdensome, and they are uncertain as to what information should be reported, and what left out. There are of course a number of options for this situation to be improved. For example, the WTO could review transparency obligations in its committees and in new negotiations.
43. Reacting to this problem, in 2006 the GSI developed a new template for notifying subsidies to the WTO. The GSI Notification Template is intended to standardize the format in which WTO Members can report subsidies and thereby increase the quantity and quality of the information that they provide. In a trial run, the GSI Notification Template was applied to Germany in 2008. It was found to be an easily accessible and transparent instrument to record specific subsidies as part of the overall notification process. The results it yielded were also extremely interesting: in 2006, Germany notified 11 subsidies with a total value of EUR 1.25 billion; the study’s conservative approach yielded 180 specific subsidy programs that should have been notified, with a total value of EUR 10.8 billion. It must be noted that Germany was only taken as a proof of concept and many other countries under-report (or do not report at all) their subsidies. The study did not attempt to comment on whether Germany’s performance was better or worse than some norm. The GSI has also created a searchable database that compiles existing WTO subsidy notifications from all WTO Members.

A steel-specific notification template

44. Against this background, we recommend that the Steel Committee adopts a reporting mechanism based on the GSI's Notification Template. A proposed version of such a steel-specific template is annexed to this document. This Steel Subsidy Template divides information into two parts: a summary table (see Annex A) and a separate section containing details on the individual programs (a "notification annex", included as Annex B). The summary table would provide readers with a quick scan of a country's subsidies and allow the information to be provided in a systematic way, amenable to digital storage, sorting, retrieval and quantification.

45. The Steel Subsidy Template is organized around the subsidy categories used in the OECD Steel Subsidy Inventory (first outlined in OECD 2002, then finalised in OECD 2008), given that the Committee is already familiar with this way of distinguishing subsidies (Table 1). The summary table requires that members explicitly state when a category of subsidies are not provided. This removes the ambiguity regarding whether the absence of subsidies is because they do not exist, or because the WTO member has neglected to notify them.

46. The proposed template offers two ways to lower the administrative burdens of subsidy notification:

1. A Steel Committee Member could choose to notify the minimum information required: “obligatory” columns are identified in the summary table, which indicate those elements that are considered to be the core information needed to make reporting worthwhile. This allows a minimalist and simple notification option for Committee members constrained by resources.

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14 Thöne and Dobroschke, 2008.
2. Alternatively, an individual Steel Committee Member could decide to economise with respect to its obligation to notify steel subsidies also with the WTO. Since every aid measure in the steel sector in principle must also be notified according to Article 25.2 ASCM, collecting the information necessary for the WTO along with the information for the Steel Committee means killing two birds with one stone. In this case, the Member State completes also the columns marked “voluntary” for the purposes of the Steel Subsidy Template.

Table 1 Subsidy categories and sub-categories used in the proposed steel-specific template

<table>
<thead>
<tr>
<th>Purpose</th>
<th>1. Investment Promotion Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The creation of new capacity</td>
</tr>
<tr>
<td></td>
<td>The creation of new capacity under regional policy schemes</td>
</tr>
<tr>
<td></td>
<td>Modernisation of existing facilities</td>
</tr>
<tr>
<td></td>
<td>Expanding existing facilities</td>
</tr>
<tr>
<td></td>
<td>Provide investment tax incentives</td>
</tr>
<tr>
<td>2. Assistance to ailing enterprises</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Assume or forgive debt</td>
</tr>
<tr>
<td></td>
<td>Provide conversion of debt to equity and equity capital injections</td>
</tr>
<tr>
<td></td>
<td>Provide tax holidays or other tax exemptions</td>
</tr>
<tr>
<td></td>
<td>Relieve firms of financial obligations for environmental issues</td>
</tr>
<tr>
<td></td>
<td>Relieve firms of contributions to the healthcare, pension, and other labour-related social systems</td>
</tr>
<tr>
<td></td>
<td>Create export or foreign trade zones that exempt firms located there from the normal taxes or fees</td>
</tr>
<tr>
<td></td>
<td>or rules applicable to firms outside that zone</td>
</tr>
<tr>
<td></td>
<td>Provide subsidies to address environmental concerns</td>
</tr>
<tr>
<td></td>
<td>Provide closure aid to help workers and assistance for environmental clean-up</td>
</tr>
<tr>
<td></td>
<td>and for the dismantling of permanently deactivated facilities</td>
</tr>
<tr>
<td></td>
<td>Provide natural disaster aid</td>
</tr>
<tr>
<td></td>
<td>Provide aid for R&amp;D</td>
</tr>
<tr>
<td></td>
<td>Cover operating losses</td>
</tr>
<tr>
<td></td>
<td>Clean up balance sheets</td>
</tr>
<tr>
<td>3. Trade-related support measures</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Export credit facilities</td>
</tr>
<tr>
<td></td>
<td>Preferential tariffs for raw materials, energy and transportation</td>
</tr>
<tr>
<td></td>
<td>Export insurance offered at below-market rates</td>
</tr>
<tr>
<td></td>
<td>Subsidies to assist exports</td>
</tr>
<tr>
<td></td>
<td>Subsidies contingent on the use of domestic goods</td>
</tr>
</tbody>
</table>

Source: OECD, 2002

Putting the template into practice

47. We start with a discussion of the information deemed necessary for an effective, and not overly-intrusive, monitoring of government subsidies in the steel sector. All “obligatory” elements of the Steel Subsidy Template are also required for WTO notifications, apart from the "subsidy category," which is adapted from the recent Steel Committee Inventory and Questionnaire (OECD 2002 and 2008).

It should be noted that the GSI notification template is a proposal, which it is hoped will become a de facto standard due to its progressive adoption by individual Member economies.
The summary table

48. **Columns A and B: Subsidy category and sub-category.** The first columns of the Steel Subsidy Template reports the 22 different purposes of subsidies in the steel sector agreed upon with the OECD 2008 inventory. It serves as a direct “translator” for past or planned notifications into the proposed layout of the Steel Subsidy Template. This column also serves as the organizing principle of the template. This principle leads to the arrangement of all notified subsidies in an orderly and easily accessible fashion.

49. **Column C (Is a subsidy provided?):** Members would be required to explicitly state whether subsidies are provided in each category and sub-category, therefore removing the chance of ambiguity if a subsidy were not listed.

50. **Column D (Subsidy Type):** The GSI has developed a comprehensive and hierarchical reference table of instrumental types of subsidies and allocated individual codes to them (see Annex C). The steel subsidy template would presumably need to draw on only a subset of this list.

51. **Column E (Title of Program):** This information is essential and self-explanatory.

52. **Column F (Beneficiaries):** This information is essential and self-explanatory.

53. **Column G (Government unit granting the subsidy):** In most cases, this information is uncontroversial and can be provided without much additional effort. Obviously, Members States with a federal constitution and significant subsidies competencies on the sub-national level will face higher administrative burdens.

54. **Column H (Start date - End date):** This information is essential and self-explanatory.

55. **Column I (Amount):** The total amount of government money spent within a certain subsidy program in a certain year is, of course, crucially important for a subsidy report. This may be viewed as sensitive information from the perspective of countries hesitant to notify subsidies at all. But one must be aware that the budgetary volumes of subsidies do not convey the degree of subsidisation per tonne of steel or anything comparable to the PSE used in agriculture. Budgetary subsidy volumes are already a compromise from the perspective of good subsidy transparency.

56. **Column J (Loan or Loan Guarantee):** This column serves as qualifying information for the preceding data on the amount. Obviously, the difference between a certain amount of a direct subsidy or a tax expenditure on the one side and the same amount of a government loan or loan guarantee is substantial. The true aid equivalents of loans and loan guarantees usually account for only a fraction of the total loan.

57. Information within columns A to J is considered necessary (or “obligatory”) when applying the Steel Subsidy Template. The information recommended in subsequent columns would serves to lower the burden of notifying steel subsidies with the WTO according to the ASCM-obligations. Within the Steel Subsidy Template itself, this information is not considered crucial, thus it is labelled “voluntary”.

58. **Column K (Product groups—Central product classification (CPC)—or productive activities—International Standard Industrial Classification (ISIC)):** For WTO notifications, which potentially cover many sectors and products in an economy, clarity is vastly improved by identifying subsidy programs and individual subsidies according to their field of application, either with a view to the products produced (UN-standard classification CPC) or to the productive activities (UN-standard classification ISIC). For

the Steel Subsidy Template, this effort could be omitted. But it can also be provided quite easily. All relevant products will fall under the CPC-groups 411 “Basic iron and steel” or 412 “Rolled, drawn and folded products of iron and steel”. The respective industrial activities are captured under the ISIC-division 24 “Manufacture of basic metal”.

59. If a subsidy targets a specific steel input or end-product, commodity classification systems could be used to identify the range of applicable products. The Harmonized System, for example, allows for highly specific identification of steel products with the use of 6-digit codes.19

60. **Column L (Regional subsidies):** The main transparency problem for regional programs – also for horizontal programs, e.g. to promote R&D – is that they can hide specific subsidies which have the potential to cause steel market distortions. Nevertheless, those regional subsidies with the highest potential to harm competition in the steel market are reported as class 102 “Creation of new capacity under regional policy schemes” in “subsidy type”. Thus, general information on the regional nature of a certain subsidy program mainly serves as a confirmation of "subsidy type".

61. **Column M (Unique Subsidy Identifier - USI):** A “Unique Subsidy Identifier (USI)” helps to unambiguously identify a subsidy scheme or a single discretionary subsidy, enable the recognition of older, possibly slightly changed subsidies which were already notified in previous years (i.e. enable a time series to be constructed), and allow cross-links to be established among different subsidy schemes via unmistakable references. The USI is constructed from a location-code, a numerical code, a version number, the year of first notification, and of a “Notified” and “un-notified” indicator.20

62. **Column N (Notes):** A column for notes. Additional information can also be included in the "notification annex".

**The notification annex**

63. The proposed notification annex is intended to contain additional detail of a nature that does not lend itself easily to confiscation or reduction to a few words in the summary table. The format is similar to that used currently by many countries in their WTO ASCM notifications, although the proposed steel subsidy template recommends a streamlined approach to minimize the amount of space needed.

64. In addition to calling for some of the key information from the subsidy table (such as the program title), which is necessary to identify the subsidy, the annex provides space for concise narrative descriptions of the purpose of the subsidy, the authority, and to whom and how the subsidy is provided.

65. **Purpose of the subsidy:** For this item, Committee Members would be asked to explain the purpose of the subsidy program(s). The purpose should be commensurate with the level of specificity of the subsidy or subsidies. An inappropriate purpose for a subsidy that reduces the price of electricity used by a steel producer, for example, would be “to promote economic growth”, which is a purpose more suitable for a macro-economic policy. Examples of program purposes are: “to accelerate the installation of pollution-control equipment at steel mills”, or “to retrain workers in the steel industry displaced by contraction of the domestic industry.”

66. **Authority:** The government level granting the subsidy, the administrative authority responsible for administrating the subsidy, and the legislation or other authority (e.g., decree, resolution and ordinance)

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20  For further details see Thöne and Dobroschke (2008).
under which it the subsidy is granted. Members have suggested in the past that this information could include references to websites were more detail on the program or law can be viewed.

67. To whom and how the subsidy is provided: Here the target economic stage should be described, (whether it is to producers, to exporters, or others); the affected product or activity; and the mechanics of the subsidy: its form, how it is calculated, if there are any limits on how long and how much an individual recipient may receive.

Issues for decision by the Steel Committee

68. The Steel Subsidy Template could be applied by Committee members immediately. The documents could be sent to a national contact point in each country, most likely an industry department, who would be aware of the majority of government programs relevant to the steel industry and could coordinate with other relevant departments or jurisdictions as necessary. However, further direction by the Steel Committee in several areas could significantly improve the likelihood of success.

Scope

69. The first question is: which subsidies should be notified to the Steel Committee, and which should not be? Ambiguity about what subsidies must be reported can be a major cause for under-reporting, whether through genuine confusion or by providing scope for evasion. This can be compounded by the different definitions of subsidies used in different organizations and contexts.

70. The WTO requires all "specific" subsidies to be notified (see Figure 1). The legal definition of subsidies and, more importantly, of specific subsidies leaves some room for interpretation because not all critical questions have been addressed in a formally binding procedure. WTO jurisdiction, so far, has not answered all open questions on the scope of subsidies to be notified. For this reason a brief overview of which subsidies are taken into account in our exemplary application of the Steel Subsidy Template is included.

71. We recommend an “in dubio pro renuntio” policy: When in doubt, notify! Notification is the first step to creating a monitoring system for subsidies, but its main purpose is transparency. This objective can only be attained when all cases (including cases of doubt) are notified.

72. In terms of reaping the benefits of transparency, the best outcomes would be derived from full reporting of all subsidies by all parties. If this is too ambitious in the near-term, the next-best option would be reporting of selected subsidy categories by all parties. Various criteria to select which subsidies are looked at first could be chosen (for decision by the Steel Committee, depending on priorities and sensitivities of Members, noting that often subsidies have impacts on each other). The worst option would be reporting of only some subsidies by only some of the parties; this is in effect where the Steel Committee finds itself is now.

73. The value of transparency would be increased if countries would give prior notice of what subsidies they are planning to implement. This approach is already followed for notifications under the WTO agreements on Sanitary and Phytosanitary (SPS) Measures and on Technical Barriers to Trade (TBT).

74. Proposal: All subsidies conferring a benefit to the steel sector should be notified (subject to the qualifications, below), ideally before the implementation of a program.
Regional or quasi-horizontal subsidies

75. Subsidies available only to a particular region or regions, or across several sectors (such as R&D) can account for a large fraction of total subsidisation in many countries. Understanding these subsidies is important where regional or other apparently non-specific programs may serve as a cloak for subsidies that are also sector-specific.

76. These programs can often be referred to as “quasi-horizontal”. Notifications of regional programs need not give any hint as to which products or industries profit from the subsidies. As a consequence, very little meaningful information is provided by reporting the subsidy program, unless further information is volunteered.

77. As most subsidies are only notified after they have been allocated, it would be possible for the notifying agency to review the program administration and determine how much of the funds were allocated to the steel sector. This would add to the work required in the notifications, but would also add greatly to the usefulness of the information.

78. Proposal: Non-sector specific programs should be notified with additional information on their actual take-up by the steel sector.

De minimis

79. The lack of a threshold value below which no reporting is necessary (a de minimis rule) can cause under-reporting, by making the task of submitting a full notification too burdensome. Some programs or subsidies may be too small as to have a measurable impact on production, consumption or trade. Very small support programs would be unusual in the steel sector. However, the Steel Committee could still decide to ignore subsidies of less than, for example, USD 100 000 per year. This would minimize the number of programs to be reported and prevent "notification-fatigue" associated with excessive reporting requirements.

80. In assessing subsidies across all sectors in Germany, Thöne and Dobroschke (2008) found that the majority of programs disbursed between EUR 100 000 and EUR 10 million per year, accounting for 64 per cent of the number of subsidy programs but only two per cent of the total volume of specific subsidies. Around one quarter of the programs assessed dispersed more than EUR 10 million per year, accounting for 98 per cent of the volume of measures to be notified. Twenty-four programs disbursed less than EUR 100 000 per year, but accounted for a total of only 0.007 per cent of the total volume of specific subsidies. Therefore the largest programs can be captured with relatively little notification effort.

81. Proposal: Determine a minimum (de minimis) value, below which subsidies do not need to be reported.

Motivating forces to encourage reporting

82. Without incentives to report and penalties for not reporting (or under-reporting), there is little to motivate members to provide information. There are several options to increase likelihood of obtaining full notifications from all members.

83. Publicising the benefits of notifying: A range of materials could be developed to demonstrate both the benefits of notifying and the drawbacks of not notifying. The form of the materials could include a standard document, a standard presentation and a set of frequently-asked questions (FAQs).
84. **A green-light category:** The Steel Committee could determine that certain types of subsidies do not need to be reported. This would not provide a blank check to subsidize, but would reduce the reporting burden for subsidies that members agreed were not distorting or otherwise a cause for concern.

85. **Penalties for not notifying:** Where subsidy information is not notified but discovered by other Steel Committee Members, such subsidies could automatically be presumed to be of interest to the Committee and trigger requests for more information and investigation. The Secretariat could be empowered to source such information if the granting government refuses to co-operate in an investigation. This would be an invasive and resource-intensive approach.

86. **A strong Secretariat role:** Notification is not a passive process. Success will rely on Members being given guidance and being actively pursued to complete notifications. This requires resources, but would be highly worthwhile if the outcome is a vastly improved understanding of government policies that shape the steel sectors, domestically and internationally.

87. **Identifying failure to notify:** A complementary action would be the identification during regular meetings of the Committee of members that have failed to notify. This can be a simple but effective way to elicit information from members, if the majority of members notify and apply pressure to the non-notifying party. (Such a process is used by Eurostat in respect of certain statistics, for example.) Parties must move forward at the same time, or a ‘prisoner’s dilemma’ situation will develop where those disclosing information expose themselves to risk of challenge without the compensation of gaining new information about other countries.

88. **Proposal:** If the template and notification approach described above is adopted, it should be supported by dedicated resources for publicizing, guiding, monitoring and managing its implementation.

**Confidentiality**

89. Whilst consistent with WTO notification requirements, the information reported by Steel Committee members using the steel subsidy template does not necessarily need to be reported outside the Committee. The decision depends on who would use the information and how they might use it. If the greatest sensitivity arises from Members sharing subsidy information with peers (i.e. other Committee members), then by comparison sharing the information more broadly is likely to be uncontroversial. There is an advantage of the information being disseminated (to promote research, for example) but this issue could be considered after reviewing initial notifications.

90. The OECD committee on export credits, for example, ensures that its members' notifications are kept confidential within the Committee, though summaries of selected, collected data are made available, synthesised for public consumption.21 Box 2 details the evolution of the Arrangement.

91. **Proposal:** Initially, the subsidy notifications could be kept confidential within the Steel Committee, in order to assess the degree of sensitivity of the information. Wider dissemination is recommended as the ideal goal.

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21 See [http://www.oecd.org/dataoecd/13/20/39863611.pdf](http://www.oecd.org/dataoecd/13/20/39863611.pdf) for an example from the Renewable Energy and Water projects, with data presented by type of project and containing number of projects, value of projects and a comparison of Notifications to Commitments, Outstanding and Cancelled.
Evolution of the Arrangement on Officially Supported Export Credits over the past 30 years

The evolution over three decades of the Arrangement on Officially Supported Export Credits, from a relatively simple to a more sophisticated market-reflective instrument, is worth commemorating, especially in the light of its continuing relevance and dynamism – due, of course, to its Participants and their energy and commitment to adapt the rules to an evolving international environment of new, powerful players, private market innovation and globalisation.

The genesis of the Arrangement was the desire on the part of some OECD governments in the early 1970s to have a ‘gentlemen’s agreement’ to bring order to official export financing, with the focus on interest rate subsidies. In 1976 the G7 summit at Rambouillet provided the backdrop for a ‘Consensus’ on official export credits among a limited number of OECD countries. Two years later, in April 1978, the Arrangement was established at the OECD in Paris with twenty participating countries. Today, we have 28 OECD member countries involved in the Arrangement plus Brazil which is a Participant to the new Aircraft Sector Understanding for Civil Aircraft.

Since its beginning in 1978, there have been a number of notable successes in the life of the Arrangement, in particular, the phasing-out of interest-rate subsidies, the implementation of tied aid disciplines, the establishment of risk-based premium fees, the more reader-friendly streamlined Arrangement text, the Project Finance Understanding, the Renewable Energies/Water Sector Understanding, the new Aircraft Sector Understanding and most recently provisions to increase local costs support. These successes derive from the Participants’ aims to eliminate trade distortion and level the playing field, driven by economic, competitive and developmental motivations and the need to reach practical and pragmatic consensus – and consensus inevitably means compromise to some degree or other so that the benefits and the burdens are shared as equally as possible among all parties. Determining the best reporter

Only governments have the necessary information at their disposal to ensure that a subsidy notification is accurate and complete. Thus, the question is whether governments should be solely responsible for their notifications or whether an independent agent should be used to monitor and, if necessary, supplement the subsidy reports submitted by governments. The most important argument in favour of the “government alone” option is the chance to keep steel subsidies reporting confidential. If it is only governments who exchange subsidy information among themselves on the level of the Steel Committee, the risks of “leakage” are minimized. Confidentiality, in turn, may serve as a tool to improve the willingness for full and honest reporting. Nevertheless, the option to keep reported information only within the Steel Committee Membership does not seem practical or particularly desirable.

Any government notifying its steel subsidies to an outside body will be aware of the risk of information leakage. Consequently, there is a clear incentive for under-reporting. The situation could be improved by assigning an independent peer reviewer (such as a national organisation or institution) to the ongoing task of cross-checking the information to be provided. Whenever the government prepares a new notification, peer reviewers would be asked by the Steel Committee to comment on it.

Proposal: Governments are best placed to report on their national subsidy programs or to coordinate with sub-national jurisdiction. Notifications could be strengthened by adding an independent peer review phase, which need not compromise confidentiality if peer reviewers are selected carefully and appropriately instructed.

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23 Even if the risk of information leakage is relatively small, it still exists.
Conclusions

95. Reform of steel subsidies has stalled. This paper proposes an alternative way forward based on improved transparency and reporting. The steel industry is now entering a cycle when subsidy reform might be seen as part of the solution to reduce any over-capacity. An improved understanding of the level and type of steel subsidies being applied would provide a foundation for such reform. In addition, improved reporting can deliver benefits in itself. By providing a comprehensive picture of subsidy expenditure and policies, national governments are better able to assess the costs and benefits of such support. This is particularly the case where assistance might be provided by different departments or jurisdictions.

96. The recommended approach is practical. Committee members are asked to notify their subsidies to the Committee Secretariat in the form of a summary table and a more detailed annex. Detailed guidance is provided regarding which subsidies should be notified. The proposed notification template is WTO consistent, reducing the need for duplicate reporting procedures, and yet more logical and information-rich than required under the WTO. Transparency, however, is neither easy nor uncontroversial. Both Committee Members and the Secretariat will need to be active to ensure success.

97. Within the WTO, the most important reporting procedure relating to non-agricultural subsidies is within the Agreement on Subsidies and Countervailing Measures (ASCM). Transparency is a foundation stone of the ASCM – the first multilateral agreement to establish disciplines on its members’ use of subsidies. Under Article 25.2 of the ASCM, countries are obliged to submit notifications describing those subsidies that have an impact on global trade.

98. In addition to the WTO, there are several processes that provide insights into reporting of steel subsidies within the OECD Steel Committee. However, none are as practically applicable as the WTO notification procedure, either because they are likely to be considered too ambitious at this time or because they could not easily be adapted to an international context. In recognition of the benefits generated by transparency, several independent organisations compile and publish comprehensive data on government policies and expenditure in specific sectors.

99. In theory, the WTO subsidy notification obligation is the most far-reaching transparency tool ever conceived beyond the national scale. If it were fully implemented, there would be little need to discuss separately the benefits of subsidy transparency in the steel sector: transparency would be fine. However, compliance with the ASCM’s obligations to notify subsidies is low, both in terms of the number of Members submitting notifications and the timeliness of those notifications.

100. Reacting to this problem, in 2006 the Global Subsidies Initiative developed a new template for notifying subsidies to the WTO. The “GSI notification template” is intended to standardize the format in which WTO Members can report subsidies and thereby increase the quantity and quality of the information that they provide.

101. Against this background, we recommend that the Steel Committee adopts a reporting mechanism based on the GSI’s WTO notification template. A proposed steel-specific template is provided – this Steel Subsidy Template divides information into two parts: a summary table (see Annex A) and a separate section containing details on the individual programs (a "notification annex", included as Annex B). The summary table would provide readers with a quick scan of a country's subsidies and allow the information to be provided in a systematic way, amenable to digital storage, sorting, retrieval and quantification.

102. The Steel Subsidy Template is organized around the subsidy categories used in the OECD Steel Subsidy Inventory (first outlined in OECD 2002, then finalised in OECD 2008), given that the Committee
is already familiar with this way of distinguishing subsidies (Table 1). The summary table requires that members explicitly state when a category of subsidies are not provided. This removes the ambiguity regarding whether the absence of subsidies is because they do not exist, or because the WTO member has neglected to notify them.

103. The Steel Subsidy Template could be applied by Committee members immediately. The documents could be sent to a national contact point in each country, most likely in industry department, who would be aware of the majority of government programs relevant to the steel industry and could coordinate with other relevant departments or jurisdictions as necessary. However, further direction by the Steel Committee in several areas could significantly improve the likelihood of success:

- All subsidies conferring a benefit to the steel sector should be notified (subject to the qualifications, below), ideally before the implementation of the program.

- Non-sector specific programs should be notified with additional information on their actual application to the steel sector.

- Determine a minimum value, below which subsidies do not need to be reported.

- If the template and reporting approach is adopted, it should be supported by dedicated resources for to publicise, guide, monitor and manage its implementation.

- Initially, subsidy reporting could be kept confidential within the Steel Committee, in order to assess the degree of sensitivity of the information. Wider dissemination is recommended as the ideal goal.

- Governments are best placed to report on their national subsidy programs or to co-ordinate with sub-national jurisdiction. Notifications could be strengthened by adding an independent peer review phase, which need not compromise confidentiality if peer reviewers are selected carefully and appropriately instructed.

104. Improved transparency has some merits in itself, but would primarily assist members of the Steel Committee to take the next step towards subsidy reform. Benefits will only ensue when sufficient Members have notified their subsidies; further steps will then be needed to reform subsidies.
### Blueprint for a Steel Subsidy Template

#### Steel Subsidy Template - Necessary Information

<table>
<thead>
<tr>
<th>Category</th>
<th>Sub-category</th>
<th>Subsidy type</th>
<th>Title of programme</th>
<th>Beneficiary</th>
<th>Gov unit</th>
<th>Start date</th>
<th>End date</th>
<th>Amount</th>
<th>L or LGGov unit</th>
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<td>Modernisation of existing facilities</td>
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<td><strong>Assistance to ailing enterprises</strong></td>
<td>Assume or forgive debt</td>
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<td>Provide conversion of debt to equity and equity capital injections</td>
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<td>Provide tax holidays or other tax exemptions</td>
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<td>Relieve firms of financial obligations for environmental issues</td>
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<td>Relieve firms of contributions to the healthcare, pension, and other labour-related social systems</td>
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<td>Create export or foreign trade zones that exempt firms located there from the normal taxes/surcharges applicable to firms outside that zone</td>
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<td>Provide subsidies to address environmental concerns</td>
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<td>Provide closure aid to help workers and assistance for environmental clean-up and for the dismantling of permanently deactivated facilities</td>
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<td>Provide aid for R&amp;D</td>
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<td>Export credit facilities</td>
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<td>Export insurance offered at below-market rates</td>
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<td>Subsidies to assist exports</td>
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#### Additional information for ASEM-notifications

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<th>End date</th>
<th>Amount</th>
<th>L or LGGov unit</th>
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**Steel Subsidy Template: Necessary Information**

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*HK* Category Beneficiary Notes Start End date Amount L or LGGov unit Sub-category Notes
## ANNEX B: STEEL SUBSIDY TEMPLATE – NOTIFICATION ANNEX

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<th>[Government Department or authorising legislation]</th>
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<tr>
<td>Sub-category:</td>
<td>[Select from the list of 22 Steel-specific subsidy measures]</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Purpose:</th>
<th></th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Title of Program:</th>
<th></th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>To whom and how the subsidy is provided:</th>
<th></th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Duration of the subsidy:</th>
<th></th>
</tr>
</thead>
</table>

| Amount of subsidy: |  |
## ANNEX C: GSI CLASSIFICATION SCHEME FOR SUPPORT

### GSI CLASSIFICATION SCHEME FOR SUPPORT

<table>
<thead>
<tr>
<th>Subsidy types</th>
<th>(Column D of summary table)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>SUBSIDIES CONTINGENT UPON EXPORT PERFORMANCE OR UPON THE USE OF DOMESTIC OVER</td>
</tr>
<tr>
<td>0.1</td>
<td>Subsidies contingent upon export performance</td>
</tr>
<tr>
<td>0.1.1</td>
<td>Currency retention scheme or similar practice that involves a bonus on exports</td>
</tr>
<tr>
<td>0.1.2</td>
<td>Remission or drawback of import charges in excess of those levied on imported inputs that are consumed in the production of the exported product</td>
</tr>
<tr>
<td>0.1.3</td>
<td>Internal transport or freight charges on export shipments on terms more favourable than for domestic shipments</td>
</tr>
<tr>
<td>0.1.4</td>
<td>Tax concessions favouring exports</td>
</tr>
<tr>
<td>0.1.4.1</td>
<td>The provision of imported or domestic products or services for use in the production of exported goods, on terms or conditions more favourable than for the provision of like or directly competitive products or services for use in the production of goods for domestic consumption, if (in the case of products) such terms or conditions are more</td>
</tr>
<tr>
<td>0.1.4.2</td>
<td>The full or partial exemption remission, or deferral specifically related to exports, of direct taxes or social welfare charges paid or payable by industrial or commercial enterprises</td>
</tr>
<tr>
<td>0.1.4.3</td>
<td>The allowance of special deductions directly related to exports or export performance, over and above those granted in respect to production for domestic consumption, in the calculation of the base on which direct taxes are</td>
</tr>
<tr>
<td>0.1.4.4</td>
<td>The exemption or remission, in respect of the production and distribution of exported products, of indirect taxes in excess of those levied in respect of the production and distribution of like products when sold for domestic</td>
</tr>
<tr>
<td>0.1.5</td>
<td>Export credit or guarantee systems at premium rates which are inadequate to cover the long-term operating costs and losses of the programmes</td>
</tr>
<tr>
<td>0.2</td>
<td>Subsidies contingent upon the use of domestic over imported goods</td>
</tr>
<tr>
<td>1</td>
<td>OUTPUT-LINKED SUPPORT</td>
</tr>
<tr>
<td>1.1</td>
<td>Market Price Support</td>
</tr>
<tr>
<td>1.1.1</td>
<td>Based on unlimited output</td>
</tr>
<tr>
<td>1.1.2</td>
<td>Based on limited output</td>
</tr>
<tr>
<td>1.1.2.1</td>
<td>Payments based on current output [ALT: Subsidies to products or services]</td>
</tr>
<tr>
<td>1.1.2.1.1</td>
<td>Based on unlimited output</td>
</tr>
<tr>
<td>1.1.2.1.2</td>
<td>Based on limited output</td>
</tr>
<tr>
<td>1.1.2.2</td>
<td>Deficiency payment (payment based on difference between market and target price)</td>
</tr>
<tr>
<td>1.1.2.2.1</td>
<td>Based on unlimited output</td>
</tr>
<tr>
<td>1.1.2.2.2</td>
<td>Based on limited output</td>
</tr>
<tr>
<td>1.1.2.3</td>
<td>Transfer through government procurement (preferable pricing for domestic products)</td>
</tr>
<tr>
<td>1.2</td>
<td>Based on unlimited output</td>
</tr>
<tr>
<td>1.2.1</td>
<td>Based on unlimited output</td>
</tr>
<tr>
<td>1.2.2</td>
<td>Exemption or remission of an (indirect) tax on the specific product or service</td>
</tr>
<tr>
<td>1.2.2.1</td>
<td>Based on unlimited output</td>
</tr>
<tr>
<td>1.2.2.2</td>
<td>Based on limited output</td>
</tr>
<tr>
<td>1.2.3</td>
<td>Value of a government guarantee or warranty on the product or service</td>
</tr>
<tr>
<td>1.2.5.1</td>
<td>Based on unlimited output</td>
</tr>
<tr>
<td>1.2.5.2</td>
<td>Based on limited output</td>
</tr>
<tr>
<td>1.3</td>
<td>Production required</td>
</tr>
<tr>
<td>1.3.1</td>
<td>No production required</td>
</tr>
<tr>
<td>2</td>
<td>SUPPORT TO INPUTS AND PRODUCTION FACTORS</td>
</tr>
<tr>
<td>2.1</td>
<td>Targeted subsidy for an intermediate input (good or service — e.g., energy, water, insurance)</td>
</tr>
<tr>
<td>2.1.1</td>
<td>Direct reimbursement for part or all of cost of using an intermediate input</td>
</tr>
<tr>
<td>2.1.2</td>
<td>Tax expenditure linked to the use of an intermediate good</td>
</tr>
<tr>
<td>2.1.3</td>
<td>Provision of an intermediate good or service provided at a price that is below market value</td>
</tr>
<tr>
<td>2.1.3.1</td>
<td>Unlimited provision</td>
</tr>
<tr>
<td>2.1.3.2</td>
<td>Limited provision</td>
</tr>
<tr>
<td>2.2</td>
<td>Subsidies to labour</td>
</tr>
<tr>
<td>2.2.1</td>
<td>Subsidies on payroll or to the workforce (per employee)</td>
</tr>
<tr>
<td>2.2.2</td>
<td>Partial or total exemption from social charges</td>
</tr>
<tr>
<td>2.3</td>
<td>Government-provided equity infusion</td>
</tr>
<tr>
<td>2.3.1</td>
<td>Capital grant</td>
</tr>
<tr>
<td>2.3.3</td>
<td>Tax expenditure linked to an investment</td>
</tr>
<tr>
<td>2.3.3.1</td>
<td>Tax credit linked to a capital investment</td>
</tr>
<tr>
<td>2.3.3.2</td>
<td>Accelerated depreciation</td>
</tr>
<tr>
<td>2.3.3.3</td>
<td>Tax-free bond</td>
</tr>
<tr>
<td>2.3.3.4</td>
<td>Property-tax abatement</td>
</tr>
<tr>
<td>2.3.3.5</td>
<td>Tax-increment financing</td>
</tr>
<tr>
<td>2.3.4</td>
<td>Subsidized credit</td>
</tr>
<tr>
<td>2.3.4.1</td>
<td>Contingent liability loan (i.e. repayment is dependent on the performance of the grantee)</td>
</tr>
<tr>
<td>2.3.4.2</td>
<td>Forgiveness of government-held debt</td>
</tr>
<tr>
<td>2.3.4.3</td>
<td>Government loan at more favourable conditions than could be obtained through a comparable commercial loan</td>
</tr>
<tr>
<td>2.3.4.4</td>
<td>Government subsidy to a commercial financial institution to facilitate a loan at more favourable conditions than could be obtained through a comparable commercial loan</td>
</tr>
<tr>
<td>2.3.4.5</td>
<td>Government loan guarantee or insurance</td>
</tr>
</tbody>
</table>
2.4 Subsidies to land or other natural resources

2.4.1 Payment based on land area

2.4.1.1 Unlimited land area

2.4.1.2 Limited land area

2.4.2 Payment based on number of livestock

2.4.2.1 Unlimited number of livestock

2.4.2.2 Limited number of livestock

2.4.3 Payment based on historical land use or numbers of animals

2.4.4 Provision of access to publicly controlled resources — such as land (including subsurface minerals), or the vegetation (grass or trees) thereon; aquatic resources; or water — for free or at a price less than the prevailing

3 SUBSIDIES TO PRODUCER INCOME (NO RESTRICTIONS ON HOW THE SUBSIDY IS USED)

3.1 Direct payment based on current income from designated commercial activity

3.2 Direct payment based on established minimum (personal or household) income

3.3 Direct payment based on historical benefits under support programmes

3.4 Special tax provision (exclusion, exemption, deduction, credit, income averaging, deferral, etc.) related to income

3.5 Government assumption of contingent liability (indemnities)

4 SUBSIDIES FOR RESEARCH, DEVELOPMENT, INNOVATION AND MARKETING

4.1 Support for basic research

4.1.1 Support for facilities and equipment

4.1.2 Support for basic research services

4.2 Support for applied research

4.2.1 Support for facilities and equipment

4.2.2 Support for applied-research services

4.3 Support for experimental development

4.3.1 Support for facilities and equipment

4.3.2 Support for experimental-development services

4.4 Support for innovation

4.4.1 Support for basic research

4.4.2 Support for innovation services

4.5 Support for marketing (information campaigns)

5 SUBSIDIES LINKED TO CONSUMPTION

5.1 Consumption subsidies

5.1.1 Subsidies to purchase the good or service

5.1.2 Goods or services provided in-kind

5.2 Subsidies for capital tied to consumption of a particular product

5.2.1 Subsidies to reduce purchase price of the capital good

5.2.2 Subsidies to reduce the operating costs of using the capital good

Note: The distinction between subsidies with limits and those without limits typically arise with agricultural policies. An example of a subsidy to which limits are applied would be a per-tonne payment for on-farm storage of grain, up to a

Definitions (adapted from UN Statistical Office):

1) Basic research: experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundations of phenomena and observable facts, without particular application or use in view.

2) Applied research: original investigation undertaken in order to acquire new knowledge, directed primarily towards a specific practical aim or objective.

3) Experimental development: systematic work, drawing on existing knowledge gained from research and/or practical experience, directed to producing new materials, products or devices; installing new processes, systems or

4) Innovation: improving substantially processes, systems or services already produced or installed.
ABBREVIATIONS AND ACRONYMS

ASCM (WTO) Agreement on Subsidies and Countervailing Measures
CPC Central product classification
CSE Consumer Subsidy Equivalent
EC European Commission
EU European Union
GATS (WTO) General Agreement on Trade in Services
GATT General Agreement on Tariffs and Trade
GSI Global Subsidies Initiative
IISD International Institute for Sustainable Development
ISIC International Standard Industrial Classification
OECD Organisation for Economic Cooperation and Development
PSE Producer Subsidy Equivalent
TRIPS Trade Related Intellectual Property Rights (WTO Agreement on)
USI Unique Subsidy Identifier
WTO World Trade Organization