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## COMMENTARY:

### The Tough Politics of Energy Subsidy

By David G. Victor

Governments spend staggering sums of money subsidizing energy—in particular fossil fuels, but increasingly also other forms of energy such as renewables. The latest global assessment, published last year by the International Energy Agency, puts the total energy subsidy at far more than US\$300 billion annually. And that figure is surely much smaller than the real total, for it excludes many subsidies that are hard to measure and also omits a large number of countries, notably the highly industrialized nations that provide a wide variety of energy subsidies. (The United States, alone, adds US\$50 billion to the world total energy subsidy according to a careful recent estimate by Doug Koplow.)

Among analysts, there is nearly universal scorn for such a high level of subsidisation. To be sure, subsidies have a proper role in public policy, such as in nurturing promising technologies that cannot initially survive on their own in the marketplace. But the real world of subsidies bears little relationship to the theoretical proper role for subsidy in public policy. Worldwide, most subsidies are showered on mature fuels and technologies and subvert useful market competition. These subsidies are troubling, in part, because they are a drain on public resources. Indeed, as the World Bank has shown, in many of the poorest countries, governments spend many times more on fuel subsidies than

on health and other important public-welfare expenditures. Most of these subsidies also cause environmental harm by rewarding consumption and insulating production decisions from the full social cost of today's prevailing methods for delivering energy.

However, it is much easier for analysts to agree that the problem must be fixed than to devise workable solutions. Most subsidies are not some aberration that can be removed from public policy with

*Worldwide, most subsidies are showered on mature fuels and technologies and subvert useful market competition.*

a well-honed scalpel. Rather, nearly all subsidies are ingrained in a political logic that is difficult to change; understanding the political economy of energy subsidies is therefore an essential first step.

The dominant form of subsidy varies enormously across different fuels. Most energy subsidies apply to oil products. And contrary to public opinion, most oil subsidies do not seem to take the form of handouts to big oil companies; instead, they are designed to provide highly visible benefits to consumers—especially

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## The Tough Politics of Energy Subsidy

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those who vote or could mount political opposition that would be inconvenient for ruling elites. It is no accident that some of the biggest subsidizers are populist democracies—such as Iran (the world's largest energy subsidizer according to the IEA), India (#5) and Venezuela (#6). Large domestic oil production—which is often not priced in state budgets to reflect the full opportunity cost of using it at home instead of export—also helps governments muster the political support and economic wherewithal to pay for these subsidy programs. Even non-democracies, such as Saudi Arabia and China, mostly lavish oil subsidies in the form of politically visible final products to help blunt public dissent. None of these governments will soon abandon this practice unless their leaders are more confident in other mechanisms for securing power.

Other fossil fuels are much less visible politically, which may help explain why they are generally less subsidized. Coal appears to be the least subsidized of all the fossil fuels, although coal subsidies

are hard to measure because they are often buried inside the accounts of state-owned coal companies. Most take the form of support for well-organized labor. Still other subsidies are finely tuned to benefit other well-organized groups. Agricultural lobbies have kept massive subsidies for biofuels in place despite mounting evidence they do little to promote energy security nor preserve the environment.

Effective solutions are urgently needed for the subsidy problem. It will be hard for governments to get serious about energy security and global warming without getting prices of the major fuels in line with their real costs. One solution is for governments to make the full cost of subsidy much more visible and to regulate it with hard budget constraints. Many subsidies thrive because, by design, their full cost is hidden and shifted to less well-organized groups (e.g., taxpayers). Another approach is to put clearer triggers into subsidies so their cost does not explode when market conditions change quickly—as happened in many countries

during the run up to the peak oil prices of 2008. Still another solution is to anchor subsidy policy into a firmer statutory base with sunset clauses that are hard to change. The near-term politics of subsidy are nasty and difficult; debates over more distant policies can be easier to manage.

The best political recipe will vary with the circumstances, but we in the community of analysts probably need to refocus our attention on the underlying political logic of subsidy programs as much as their harm. For too long we have focused on the latter, and thanks to that the harms of subsidies (if not their magnitude, which is still difficult to pin down) are well-documented. The next task is to help chart viable solutions.

*David G. Victor is Professor of International Relations at UC San Diego and Director of the Laboratory on International Law and Regulation, which is funded by the nonpartisan Electric Power Research Institute.*

## COMMENTARY:

### Transparency as a tool for subsidy reform

By Terry Collins-Williams and Robert Wolfe

Transparency, one of the fundamental norms of the trading system, is increasingly seen as an essential tool in the governance of international trade. Recent initiatives to cope with the trade dimensions of the current global economic crisis have focused on transparency mechanisms to increase understanding of and confidence in governments' responses to threats of economic meltdown.

This brief examines the nature and use of transparency provisions in the area of subsidies disciplines.

Subsidies are not going to go away, but their use might be effectively limited with more transparency. However, experience with existing transparency provisions for subsidies in the World Trade Organization (WTO) suggests that this route has promise, but that current notification and surveillance tools require significant reform.

Subsidies are a problem for the trading system. On the one hand, they distort the terms of competition both domestically and in markets to which subsidized products are exported. On the other hand,

they can be used to accomplish legitimate policy objectives.

The original approach to subsidies discipline as set out in 1947 in Article XVI of the General Agreement on Tariffs and Trade (GATT) was purely and simply a transparency provision. Countries maintaining any subsidy were required to notify the extent and nature of the subsidization, the estimated effect of the subsidization on the quantity of the affected product or products imported or exported from its territory and the circumstances making the subsidization

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## Transparency as a tool for subsidy reform

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necessary. Article VI did authorize the imposition of countervailing duties in specific cases, but only to subsidies affecting imports into a country's own market. There was, therefore, no disciplining effect on export competition in third markets or domestic competition in the subsidizing country. Only later did GATT signatories agree to impose substantive constraints on their ability to grant subsidies.

It took close to 50 years to agree on a more comprehensive approach to subsidies. The 1995 Agreement on Subsidies and Countervailing Measures (ASCM) expanded the notification obligations of WTO Members with detailed requirements for annual notification of any defined subsidy and a mandate for the WTO Subsidies and Countervailing Measures Committee (SCM) to examine these notifications on a regular basis.

After the entry into force of the ASCM, the SCM committee designed a questionnaire for subsidy notifications and established procedures for annual Committee review of notifications. They don't work. Some Members face resource constraints, while others face complications of internal government co-ordination and jurisdictional authority—some federations, for example, have never notified subsidies granted by sub-national government entities. Other problems arise from a lack of understanding of some of the key elements of the substantive subsidy disciplines within the ASCM, including the definition of a subsidy and the concept of specificity. The complexity of the questionnaire format in itself is reported to represent an obstacle.

The purpose to be served by the transparency provisions is also a problem. Transparency seems to work best in the trading system where it furthers goals of sharing information and

increasing understanding of the intent of trade measures. The agreements on Technical Barriers to Trade and Sanitary and Phytosanitary Measures provide examples of collaborative approaches where information is shared and Committee examination promotes understanding of questions before they transform into trade disputes. In the case of subsidies, the nature and detail of the information required appears to give rise to apprehension of self-incrimination.

As a consequence, the Members' record of subsidies notification is abysmal both in respect of timeliness and completeness.

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The Committee's capacity to conduct real surveillance of the Agreement's transparency provisions, much less to assess the impact of subsidy practices, is hamstrung. Attempts by the Committee to address these problems have resulted only in cosmetic changes without addressing the underlying issues.

Our gloomy conclusions notwithstanding, we believe that transparency should play a significant and increased role in subsidies' discipline.

Many Members need help, however, to meet their reporting obligations and

to digest subsidy notifications by others. There may be scope for enhancing the WTO Secretariat's role in this respect, especially with regard to highly detailed and complex notifications. More work is needed on the old chestnuts of defining and measuring subsidies, because transparency works best if providers and users of information can agree on what and how much is to be notified.

The WTO could also expand third-party notification of subsidies. Many international organizations and NGOs have detailed information on subsidies' practices that would be useful to the SCM Committee.

Finally, the Committee should pay closer attention to the intended audience. Members should consider how to aggregate information both for internal WTO purposes in the Committee, and for use by other economic actors and the public. Closer co-ordination of notification and surveillance provisions with the Trade Policy Review function might reinforce Members and the Secretariat's efforts. Providers of information must see how doing so helps them meet their own objectives, but if transparency is to be a force for reform, the information must be analyzed and made widely available for those who can influence governments.

The subsidies domain should represent a model of how transparency contributes to understanding of trade actions, but to do so effectively will require a significant reform of existing commitments and practices.

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## NEWS:

### Cash for clunkers poor for the environment and economy

Since the outset of the global economic crisis, governments have rescued companies and industries deemed too large or important to fail.

As public opinion has mounted against these handouts, politicians have looked for ways to help struggling industries without attracting public scorn. Perhaps the most prominent of these efforts are the so-called “cash for clunkers” subsidies which have been implemented in almost a dozen European countries, the United States, China and Mexico.

The basic scheme has governments providing consumer vouchers for trading in older, high-pollution vehicles that can be put towards the purchase of newer, theoretically lower-polluting vehicles. The idea seems like a win-win for car companies, dealers, consumers and the environment.

However, analysts have charged that the cash-for-clunkers schemes, which are often designed by auto industry lobbyists, are being used to dress up as environmentally friendly policy what amount to auto industry bailouts.

The United States’ program, which began in January 2009, was billed as being both good for the environment and the ailing auto sector.

Yet as Senator Feinstein, who co-sponsored the original bill, admitted in a June 22 column entitled “Handouts for Hummers”, the bill that came out of the House of Representatives was “tailored perfectly to the auto industry’s specifications.”

The final Car Allowance Rebate System (CARS), which went into effect in late July, gave customers US\$3,500 towards the purchase of cars that provided a mere 4 miles per gallon (MPG) improvement

in fuel efficiency over the clunkers they traded in, and US\$4,500 for a 10 mpg improvement. With trucks the results were even worse, allowing combinations that offer a single mpg improvement to qualify for US\$3,500.

The program was so successful in attracting buyers that the US\$1 billion originally allotted to it ran out in a week, leading Congress to approve another

*Analysts have charged that the cash-for-clunkers schemes, which are often designed by auto industry lobbyists, are being used to dress up as environmentally friendly policy what amount to auto industry bailouts.*

US\$2 billion on 6 August 2009.

Bill Chameides, Dean of the Nicholas School of the Environment at Duke University, says that in principle taking cars with higher emissions off the road and replacing them with cars with lower emissions will eventually lead to lower overall emissions.

But first a new vehicle must “payback” its manufacturing emissions. On average the manufacture of a new car creates between 3 to 12 tonnes of CO<sub>2</sub> per vehicle.

According to Dr. Chameides’ calculations, the average new car bought under the cash for clunkers bill would take 5.5 years to pay back, assuming a 4 mpg gain in fuel efficiency. With trucks the payback time would be

longer because the requirements are less stringent.

Dr. Chameides argues that if the U.S. Congress was serious about the environment it would not have enacted a bill that allows for new cars to qualify with a minimum of 22 mpg (11 litres per 100 km\*) when the current Corporate Average Fuel Economy (CAFE) Standards is already at 27 mpg (9 litres per 100 km).

He also points to other environmental impacts associated with the program, such as the mining of ore for new cars and the disposal of toxic components in the old cars. “In general encouraging people to buy new stuff and throw away old stuff is not good from an environmental point of view,” he concludes.

At the same time, the benefits to the auto sector and the economy as a whole have been questioned. Richard Feinberg, professor of retail management at Purdue University, says that consumers who take advantage of the programs will now be spending less elsewhere in the economy at an estimated amount of US\$300 million a month, leaving a dent in the important retail sector. “Moving money from monthly paychecks to pay down payments and interest on car loans is a terrible idea for stimulating the economy,” he says.

In terms of economic benefits, it would have been better to pick 750,000 families at random and given them each US\$4,500 to spend, concludes Professor Feinberg.

The United States is not alone, however, in offering consumer vouchers to encourage the purchase of new cars: 11 European countries, China and Mexico have similar programs.

## NEWS:

### WTO Subsidy Dispute Roundup

*WTO gives Brazil the green light to retaliate against U.S. cotton subsidies, as other subsidy disputes loom*

A World Trade Organization (WTO) compliance panel has issued its decision authorizing Brazil to retaliate against the United States for failing to abide by previous WTO rulings which determined U.S. subsidies to cotton illegal.

In its ruling, handed down on 31 August 2009, the WTO panel determined that Brazil could retaliate against the U.S. in the amount of US\$147.4 million for the fiscal year 2006, and an annual amount for subsequent years, estimated at US\$294.7 million based on 2006 data.

The ruling falls short of the US\$2.68 billion in countermeasures Brazil had been seeking.

Notably, the panel granted Brazil a very limited right to suspend certain obligations under the TRIPS Agreement (intellectual property) and the GATS (trade in services). Cross-sector retaliation is only permitted in the event that the total amount of countermeasures Brazil is authorized to impose in a given year exceeds a certain threshold, pegged initially at US\$409.7 million.

Brazil has threatened to suspend U.S. pharmaceutical patents as one form of retaliation.

Under WTO rules, cross-sector retaliation is only allowed when it is not “practicable or effective” for a country to retaliate in the same sector, in this case consumer goods. Brazil had argued that “the costs and welfare-reducing effects resulting from the adoption of countermeasures exclusively in that sector would render such an alternative not practicable,” and thus asked for authority to retaliate in other sectors.

The panel, however, determined that Brazil could retaliate within the consumer goods sector to the amount of US\$409.7 million without “incurring significant costs to its economy.” This amount, which is subject to change, is much higher than the estimated annual amount of retaliation Brazil will be entitled to (US\$294.7 million).

However, Brazil points out that the US\$294.7 million is based on 2006 data. Using the latest data, Brazil estimates that its first annual countermeasures will amount to some US\$800 million, which would allow for cross-sector retaliation.

Brazil must now submit a specific request outlining its planned countermeasures in accordance to the ruling to the Dispute Settlement Body (DSB).

In recent months several prominent critics of U.S. cotton subsidies have emerged, including U.S. Chamber of Commerce Executive Vice President of Government Affairs Bruce Josten who wrote an open letter to the U.S. Congress on 30 July 2009 in which he urged the U.S. to comply with previous WTO rulings in the cotton dispute.

“The United States has no credibility calling on other countries to meet their trade obligations if we refuse to meet our own,” argued Josten.

Also in July, members of the Cotton 4 (C4), which include Benin, Burkina Faso, Chad and Mali, descended on Washington to publicize the negative impacts that the cotton

subsidies are having on farmers in their countries.

Group coordinator and Burkina Faso Minister of Trade, Mamadou Sanou, complained that there had been no response from the U.S. on the issue and warned that there would not be a conclusion to the Doha Round of WTO negotiations without reform of U.S. cotton subsidies.

*Boeing, Airbus “launch aid” disputes: decision in first dispute released to parties, remains confidential*

On 4 September 2009 a WTO panel handed down an interim ruling in the long running dispute between the United States and the European Commission over “launch aid” in the form of soft loans to the European aircraft manufacturer Airbus.

*The Office of the United States Trade Representative warned that “the commitment of launch aid or any other form of preferential financing, by any of the EU member states would be a major step in the wrong direction.”*

While the ruling remains confidential, U.S. Senators from states where Boeing has a large presence have been briefed on the decision by the Office of the United States Trade Representative (USTR) and have commented publicly on the outcome.

The Associated Press news agency quoted Washington Senator Patty Murray, who initially urged the Bush administration to initiate the dispute, as saying that the ruling “confirms that Boeing has been

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## Green auto subsidies...

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In Mexico consumers are eligible for 15,000 pesos (approximately US\$1,150) in vouchers for scrapping cars that are at least 10 years old. There are no fuel-economy requirements placed on the new vehicles, meaning that theoretically the program could fund the acquisition of more polluting cars.

Héctor Vázquez Tercero, a Mexican political analyst and founding partner at Mexico City-based Vázquez Tercero and Associates, says the Mexican plan is an auto industry stimulus bill in which the environmental component is not

important.

The program will fail to remove the biggest polluters from the road because these cars often lack the required ownership documentation. Moreover, poor people that own these cars would not be able to afford new vehicles with the mere 15,000 pesos subsidy, explained Mr. Vázquez.

In Europe, Germany's plan has garnered the most attention as it is being credited with a 40% increase in auto sales in that country in March. Under the plan consumers receive €2,500 for replacing cars that are at least 9 years old with cars that meet the Euro IV emission standards established in 2005.

*\*Editor's note: Translating a change in miles per gallon (MPG) to the standard international metric, litres per 100 kilometres, is not straightforward, and depends on one's starting point. But assuming an average of 22 mpg (11 litres per 100 kilometres) of the vehicle being traded in, a 4 mpg improvement would correspond to a 1.6 L/100km reduction in the rate of fuel consumption.*

## WTO Subsidy Dispute Roundup...

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competing on an uneven playing field for decades."

However, the *Financial Times* newspaper quoted a European source as saying: "The draft report has dismissed 70 per cent of US claims about alleged EU subsidies to Airbus. It has also confirmed that repayable launch aid is a permissible way to partner with governments."

The ruling is expected to remain confidential for months while both sides analyze the 1,000 page document.

A related EU counterclaim alleging illegal subsidies to Airbus-competitor Boeing in the form of research and development assistance is expected in 6 months to a year from now.

The dispute heated up in August when UK business secretary Lord Mandelson announced that the British government was to provide Airbus £340 million (US\$556 million) in repayable launch aid to help the company develop its new A350 long-distance jet.

In response, the Office of the United

States Trade Representative warned that "the commitment of launch aid or any other form of preferential financing, by any of the EU member states would be a major step in the wrong direction."

### *The U.S. follows Europe's lead and re-starts milk export subsidies*

Another dispute brewing this summer concerns U.S. export subsidies to milk which were reintroduced in May 2009, following a similar move by the European Union in January. The United States and the EU have argued that they will not exceed their WTO commitments on export subsidies; nonetheless, the subsidies have drawn criticism from the Cairns group of agriculture exporting countries.

The Cairns Group, a coalition of 19 agricultural exporting countries, issued a statement in June arguing that while the U.S. and EU milk subsidies might be legal under the WTO rules, if other economies follow suit and raise their "domestic support and export subsidies towards their maximum WTO commitment levels, it would undermine the effectiveness and credibility of the WTO system."

"Subsidy wars only drive prices even lower, thereby delaying economic recovery further," warned the Group.

The Mexican Frente Nacional de Productores y Consumidores de Leche (National Front of Producers and Consumers of Milk), a group representing Mexican milk producers, has also lashed out at the U.S. support for its dairy producers. According to the group a combination of U.S. subsidies and removal of tariffs under the North American Free Trade Agreement provisions has resulted in U.S. milk being sold in Mexico at below cost, in violation of WTO rules on dumping.

According to Mexican news agency Notimex, the National Front is currently discussing with members of the Mexican Senate launching a WTO complaint against the United States.

## NEWS:

### Indonesia poised to increase energy subsidies

On 3 September 2009, the *Jakarta Post* newspaper announced the latest development in Indonesia's long struggle with energy subsidization: spending will increase, again.

Two decisions seem to have been made in close succession.

First, the ICP—the Indonesian Crude Price, an index based on five internationally traded crude oils—changed its estimates for 2010 prices from US\$60 to US\$65 per barrel. Because the government has established a fixed price for the domestic sale of crude oil, this effectively means an increase in projected spending of Rp 9.75 trillion (US\$984 million). The *Jakarta Post* reports that this will take total spending on fuel subsidies in 2010 to Rp 68.73 trillion (US\$6.94 billion), equal to 7.2% of the state budget.

*Energy prices are now considered an entitlement by Indonesians, many of whom live on under \$2 a day.*

Second, Indonesia's state electricity company PT Perusahaan Listrik Negara (PLN) has won an appeal to the House of Representatives to increase by 5% the rate at which electricity is subsidized. This Rp 4.38 trillion (US\$442 million) subsidy will compensate PLN for losses they have incurred this fiscal year. Total subsidies to PLN this year are reported to be Rp 37.8 trillion (US\$3.8 billion).

Indonesia has long struggled with high energy subsidies that drain a significant portion of the country's public budget.

Between 2001 and 2008, World Bank figures show that subsidies expenditure made up between 10% and 28% of the national budget. The two biggest items on this ticket are fuel and electricity subsidies, making up 90% of the transfers.<sup>1</sup>

Needless to say, this spending is at the opportunity cost of investments in health, education, infrastructure and other social goods. Its supposed purpose, being to help the poor, does not stand up to examination. Research conducted by the Coordinating Ministry of Economic Affairs of Indonesia shows that the top 40% of high-income families—those more likely own cars and be connected to the electricity grid—receives 70% of the subsidies.<sup>2</sup>

According to a review of energy subsidies by the United Nations Environment Program (UNEP), the distortions are many and far-reaching. Large amounts of Indonesia's wealth are foregone through over-consumption of domestic crude-oil supplies and this in turn has implications for investment in the industry and even public health.

The biggest opposition to reform is the general population. Energy prices are now considered an entitlement by Indonesians, many of whom live on under US\$2 a day. Price increases in the past have been met with public riots, despite policy mechanisms which have been designed to channel alternative forms of welfare payments to the poor. The IEA notes, however, that there were relatively low levels of opposition to reforms in October 2005 and May 2008—a sign that public awareness may be growing.

Earlier this year, energy-subsidy reform appeared to be on the horizon, following the landslide re-election of incumbent president Susilo Bambang Yudhoyono and a return to low world oil prices. In July 2009, the Reuters news agency reported Agus Purnamo, head of Indonesia's National Council on Climate Change, stating publically that he expected fossil fuel subsidies to drop within the year "below the distortion level that discourages renewable energy." The Council warned that the country is currently in danger of failing to achieve its target of a 10% renewable energy shares by 2025.

The Council also suggested that President Yudhoyono might introduce a new feed-in tariff policy, where PLN would be required to buy a percentage of its electricity from renewable energy sources at a guaranteed price.

<sup>1</sup> *Spending for Development: Making the Most of the Indonesia's New Opportunities*, The World Bank.

<sup>2</sup> *Energy Policy Review of Indonesia*, The International Energy Agency. p 24.

## RECENTLY PUBLISHED:

### *Slipping through the net: How EU countries evade new budget-transparency rules*

Not all European Union countries are complying with regulations that mandate disclosure of fish subsidies, according to a report by Fishsubsidy.org. Under the European Transparency Initiative, EU member states are obligated to publish data on the recipients on fisheries subsidies on dedicated websites, including the names of beneficiaries and the amounts of public funding allocated. In a number of cases, these data is presented in a non-user friendly format. In other cases, data is simply missing. "The publication of names of beneficiaries represents real progress in budget transparency but this has been accompanied by a reduction in the quality and detail of data and its fragmentation into dozens of often inaccessible sources. With the responsibility for publication of data - including the choice of data format - left to member states, European citizens are cast into a maze of different languages, formats, places and modes of publication," said the author of the report, Brigitte Alfter. Fishsubsidy.org is a project coordinated by EU Transparency, a non-profit organisation in the UK and the Pew Charitable Trusts, a charitable foundation based in the United States, which seeks to obtain detailed data relating to payments and recipients of fisheries subsidies in Europe make this data available in a way that are useful to European citizens.

For more information, see [www.fishsubsidy.org](http://www.fishsubsidy.org)

### *Responding to the Economic Crisis - Fostering Industrial Restructuring and Renewal*

A recent report by the OECD examines the impact of the global economic downturn on the long-term competitiveness of the automotive and

construction sectors and explores how governments can support restructuring. Both the automotive and construction sectors have experienced a particularly steep decline in demand in the wake of the economic crisis. The responding measures by governments, however, may not benefit these industries in the long term. "Introducing or increasing government support measures to producers in difficulty will do little to encourage the industry restructuring and renewal that is needed to move towards more viable and sustainable business models. It will also not help address existing overcapacity in the industry," warns the OECD. But the OECD offers that the crisis provides opportunities for restructuring which will lead to more sustainable construction and automotive industries, through policies that foster entrepreneurship, training, and investments in research and development.

The report, "Responding to the Economic Crisis - Fostering Industrial Restructuring and Renewal", is available from the website of the OECD: [http://www.oecd.org/document/26/0,3343,en\\_2649\\_34173\\_43387482\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/26/0,3343,en_2649_34173_43387482_1_1_1_1,00.html)

### *The Questionable Case for Subsidies Regulation: A Comparative Perspective*

A paper by Alan O. Sykes, a professor at Stanford University, argues that the regimes governing subsidies under United States, European and WTO law rely on arbitrary guidelines that fail to identify market-distorting subsidies accurately. Moreover, Professor Sykes suggests that the problem is largely intractable. "Due to the complexity of the modern economy and the wide panoply of government activity that both encourages and discourages the activities of business enterprise, it is arguably impossible to fashion general principles for the

identification, let alone measurement, of undesirable subsidies," he writes. In light of the challenges in effectively disciplining subsidies, Professor Sykes suggests that the more laissez-faire approach in the U.S. may be preferable to the more restrictive approach taken to state aid in Europe. He also proposes that an approach focused on preventing changes in government policy that undermine negotiated market access agreements would be preferable to the current WTO system. Such an approach "avoids many of the conceptual problems associated with efforts to define subsidies in the abstract by offering a natural baseline against which to measure the existence and magnitude of policies that become problematic."

The paper, "The Questionable Case for Subsidies Regulation: A Comparative Perspective", is available from the SSRN: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1444605](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1444605)

### *Swamped by Subsidies: Averting a US-EU Trade War after the Great Crisis*

A Policy Note circulated this summer, titled "Swamped by Subsidies: Averting a US-EU Trade War after the Great Crisis", warns that industrial subsidies, and possibly some financial bailouts, could lead to wide-spread litigation at the WTO. The authors, Gary Hufbauer, Luca Rubini and Yee Wong argue that a "cease fire" arrangement is necessary, "to forestall trans-Atlantic trade wars that could otherwise chill relations over the next decade." Specifically, the authors advocate for the United States and Europe to pledge not to launch WTO cases related to subsidies committed between January 2008 and December 2009. While difficult to negotiate, the authors maintain that such an agreement would be preferable years of acrimonious trade relations, marked by disputes such as the Boeing-Airbus cases.