



**Session 6<sup>th</sup> March 9.30 – 11.00:**

**Benchmarks (loans, provision  
of goods)**

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## **Article 14 ASCDM**

### ***Calculation of the Amount of a Subsidy in Terms of the Benefit to the Recipient***

(...) Furthermore, any such method shall be consistent with the following guidelines:

(b) a loan by a government shall not be considered as conferring a benefit, unless there is a difference between the amount that the firm receiving the loan pays on the government loan and the amount the firm would pay on a comparable commercial loan which the firm could actually obtain on the market. In this case the benefit shall be the difference between these two amounts;

(d) the provision of goods or services (...) by a government shall not be considered as conferring a benefit unless the provision is made for less than adequate remuneration, or the purchase is made for more than adequate remuneration. The adequacy of remuneration shall be determined in relation to prevailing market conditions for the good or service in question in the country of provision or purchase (including price, quality, availability, marketability, transportation and other conditions of purchase or sale).



## Loans – Case I

- Benefit: Difference between (a) amount company pays on gvt loan / loan received from entrusted/directed banks and (b) amount company would pay for comparable commercial loan obtainable on market
- No in country benchmark available (private banks were entrusted/directed)
- 2 problems: interest rates set by the state; creditworthiness of recipient could not be taken at face value - COM focussed on latter problem
- COM considered all companies as BB (Bloomberg) / highest non-investment grade. Appropriate premium expected to be paid by firms with BB as set out by Bloomberg was added to standard lending rate in subject country. Benefit was calculated by taking difference between interest rate paid and benchmark interest rate, in both cases expressed as a percentage, multiplied by the outstanding amount of loan.
- **Comment:** While no in-country benchmark was available, the standard lending rate in the subject country was used as a starting point and hence an in-country element was kept.

## Loans – Case II

- Sampled companies differed in terms of their financial situation. Each of them benefitted from different types of loans with variances in respect of e.g. maturity collateral, guarantees etc.
- Companies producing subject product were part of larger groups (parent company, companies producing subject products, companies producing non-subject products). Analysis covered all companies of group.



## Loans case II (cont.) : Group I

- Credit rating of corporate group was not considered reliable
  - IMF study pointed to significant differences between ratings for companies in subject country between local & int'l rating agencies;
  - Moody's credit rating for 1 exporter of group was top notch but not meaningful because credit in question was guaranteed by local bank
- Benefit: (1) Calculate relative spread for US corporate bonds for industrial segments (Bloomberg). between US AA-rated and US BB-rated corporate bonds. (2) Apply this relative spread to the standard lending rate of exporting country.
- Specific configuration:
  - Some companies of group had **revolving loans**
  - Benchmark used: interest rate that 1 company of the group paid for 1 credit obtained from a bank specialized in loans to companies in financial distress (N.B. this is in-country benchmark!)

## **Provision of hot-rolled (HR) and cold-rolled (CR) steel for less than adequate remuneration by SOEs – use of out of country benchmark**

- Note that findings are based on facts available
- SOE were predominant suppliers of HR and CR (at least 63% and 70% of the market respectively)
- Private suppliers of HR and CR were entrusted and directed
- HR and CR prices paid by producers of subject product to SOEs and private suppliers were aligned
- As there were no prevailing market terms and conditions on the HR and CR market in exporting country, alternative benchmark was needed. Import prices of HR/CR or an adjustment of domestic HR/CR prices was not considered viable.
- Benchmark selected: world market prices (basket of prices in five countries / regions, i.e. Europe (EU), North America (US), Latin America (Brazil), Asia (Japan), Middle East/North Africa (Turkey). Monthly average prices from specialised journals (SBB & MEPS)