

# CVDs – ALLOCATION OF SUBSIDY BENEFITS

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# Why does the issue of subsidy allocation arise?

- ▶ CVDs have to be applied on **per unit** or **ad valorem** basis to the investigated imports
- ▶ Some subsidies are precisely targeted to individual sales of the investigated product, or are given on a per-value-of-sales basis
  - No allocation or attribution analysis is needed
  - **How common, in practice, are such precisely targeted subsidies?**
- ▶ Many/most subsidies are “lumpy”
  - Provided to firms (not “to” products)
  - May or may not be related in an identifiable way to particular operations of the recipient firm
  - May be for acquisition of equipment, land, other multipurpose production factors with long life-span
- ▶ **In what percentage of cases is allocation of some subsidies needed?**

# “Allocation” has various aspects – more than one may apply to a given subsidy

- ▶ Do you have **published rules** or **internal guidelines** on subsidy allocation issues?
- ▶ Allocation of benefits to products/to markets
  - What are your **criteria** for determining to **which product(s)** – all, only some...  
or **market(s)** – exports only, certain export markets, all markets .....
  - a particular subsidy should be attributed?
  - What **ambiguities/difficulties** have you encountered in allocating subsidies to products? To markets?
  - How have you dealt with those ambiguities/difficulties?

# Allocation of subsidy benefits over time

- ▶ **Issue:** Is the benefit of a subsidy absorbed and “used up” in the instant in which the firm receives it?
- ▶ Are there some kinds of subsidies that you attribute fully to the period in which received?
  - Types?
  - Criteria?
  - Ambiguities?
- ▶ Are there some kinds of subsidies for which you allocate the benefits across a multi-year period?
  - Types?
  - Criteria?
  - Ambiguities?

# Allocation of benefits over time – Allocation period

- ▶ Examples of possible criteria (some may overlap), and possible allocation periods:
  - Loans – life of loan, average useful life (AUL) of assets
  - “Large” grants – AUL of assets – **which assets?**
  - Instalment grants – AUL for **each instalment?**
  - **Recurring/non-recurring** distinction? Exceptions?
  - **Fixed/variable cost** subsidies distinction?

# Allocation of benefits over time – Time Value of Money

Money loses value over time (inflation, opp'ty cost)

- ▶ Established principle in WTO – in CVDs can compensate via a TVM factor (e.g., discounted present value)
  - IF  $PV \leq$  original face value of subsidy benefit, no excess countervail
    - Sum of face values of annual amounts  $>$  original value
- ▶ In your practice
  - **When** do and don't you apply TVM?
  - **TVM factor** (e.g., interest rate, inflation rate, etc.) used?  
What **formula**/shape of benefit stream?