



Task Force 06

STRENGTHENING MULTILATERALISM AND GLOBAL GOVERNANCE

Green Industrial Policy: How G20 members can foster Better Practices through Disclosure, Evaluation, and Dialogue

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Abstract

Given the scale of state support for the clean energy transition, fostering relevant policy disclosure by G20 members is consistent with longstanding G20 priorities of macro-stability, better governance and the promotion of harmonious international commercial relations. This policy brief, first, documents the scale of corporate subsidies associated with the transition, charting their rise as a matter of importance for G20 members individually and systemically.

Since the start of 2023, G20 members have justified over a trillion USD of corporate subsidies on climate change mitigation grounds or where “clean technologies” are eligible for state largesse. Public financing of the net-zero transition places pressures on national budgets. It also sets national decarbonisation efforts on a collision course with international subsidy rules and national countervailing duty laws. G20 cooperation can help to defuse such tensions before they further escalate and impede the rollout of effective climate policies. Failure to act risks fueling ruinous subsidy races, triggering economic countermeasures that create new barriers to trade in clean goods, and undermining public support for the transition. This policy brief, secondly, advances proposals that would, if implemented, translate the objectives of disclosure, evaluation, and dialogue into practice. Disclosure, policy analysis, and deliberation could be strengthened, over time, with a view to building confidence in the transition among national populations, G20 governments, and between trading partners. Adoption of our proposals would lay the groundwork for the development of better practices that are based on the guiding principle of maximizing emission reductions efficiently while minimizing negative cross border economic spillovers at the same time. Being cognizant of political constraints, we propose incremental progress from achieving individual policy disclosure by G20 members in the short term to meaningful policy alignment in the medium term.

Driven by the growing threat to our living standards, governments around the world have prioritized accelerating the transition towards cleaner energies in consumption, production, and transportation. A deep socioeconomic transformation is on its way. National circumstances dictate that different steps are taking place on different timetables. To induce the private sector to play its full part, states have awarded or plan to award trillions of dollars of corporate subsidies. G20 members are in the vanguard of such state support.

The IMF's *Fiscal Monitor* recently highlighted the macro-stability implications of state support for the clean energy transition. Specifically, the Fund noted there exists “trilemma facing policymakers of balancing between achieving climate goals, debt sustainability, and political feasibility.” Particular concern arises in economies where governments have limited fiscal space, where existing public debt levels are high, and where interest rates are rising. The need for efficient policies that retain support for the populace of the transition is evident.

Governments have, since early 2023, committed a total of USD 560 billion in support for climate change mitigation. Just USD 7.3 billion has been directed exclusively towards services sectors, which are often non-tradeable. Most climate-motivated state support is in tradeable sectors and therefore potentially sensitive for trading partners. Adding to such concerns is the fact that over 200 corporate subsidy awards were justified by governments on both climate change and competitiveness grounds.

Given the G20's longstanding objectives of promoting macroeconomic stability, the transition to a cleaner global economy, and harmonious trade relations between its members, steps to disclose climate change-related corporate subsidies would, first and



foremost, provide the evidence base needed to demonstrate efficiency and effectiveness of public spending to populations that are being asked to support the decades-long transition.

Given the currently ubiquitous uncertainty about the size of market failures and the effectiveness of policy instruments in maximizing climate benefits and minimizing negative cross-border economic spillovers of national measures simultaneously, intensified disclosure efforts make for the fundamental prerequisite of facts-based future policy deliberation among G20 members and beyond.

Building on policy disclosure, secondly, meaningful policy evaluation and alignment in the medium term would build confidence between G20 members that climate related public spending is designed to foster clean technology innovation and adaptation rather than beggar thy-neighbor policies.

To provide initial evidence of the scale of relevant G20 policies, we extracted corporate subsidy plans, schemes, and awards announced by G20 members since 1 January 2023 that were found in the New Industrial Policy Observatory. Table 1 reports the total amounts of expenditures associated with subsidy awards for certain stated rationales/motives and with subsidy awards associated with either a climate change-related motive or where producers of clean technologies are potential recipients of state largesse. Governments frequently state multiple motives for subsidy awards and schemes. Table 1 reports the totals associated with schemes and awards that mention a given motive at least once.

Less than half of all G20 corporate subsidy awards since 1 January 2023 relate to climate change mitigation. A total of \$668 billion of funds have been allocated by G20 members to climate change mitigation-related corporate subsidies. When corporate subsidy schemes where clean tech producers are potential beneficiaries are added, the

total funds that have been potentially allocated rises to over one trillion USD (\$1,059 billion).

Table 1: Since 2023 began, G20 members have announced allocating over a trillion USD of climate related corporate subsidies.

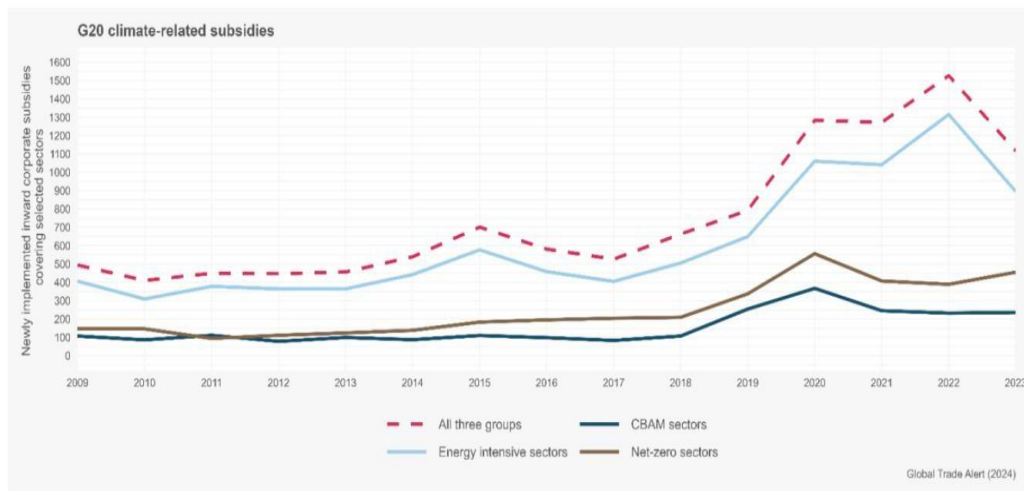
<i>Rationale or products receiving subsidy</i>	<i>Number of recorded G20 corporate subsidy schemes or awards</i>	<i>Publicly-stated awards or planned expenditures, USD bn</i>
Climate change mitigation	755	668
Climate change mitigation or clean technology	1156	1059
<i>Memo:</i>		
All recorded G20 subsidies in the NIPO database	2235	1409
Promoting competitiveness (any sector)	738	781

Note: The amounts announced need not have been spent by the time of writing.

In addition to concerns about emergent subsidy races, ongoing countervailing duty investigations have the potential to worsen trade relations among G20 members. Of the 97 countervailing duty investigations undertaken by G20 members this decade twelve relate to products associated with the clean energy transition.

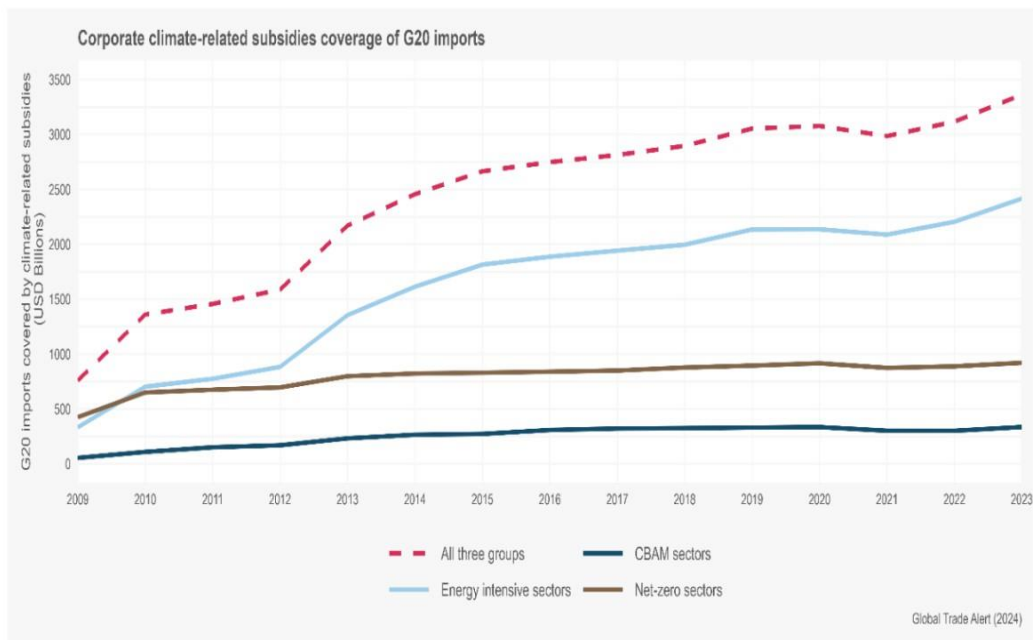
The number of corporate subsidy awards and schemes of G20 members has climbed sharply this decade no matter what group of climate-related technologies or carbon-intensive or energy intensive sectors are considered (see Figure 1). Moreover, the total value of imports into G20 members that now compete with local firms in receipt of corporate subsidies on climate change or clean tech grounds now exceeds USD 3 trillion (see Figure 2). Profound shifts in global market shares of clean technologies are garnering lots of commentary during the past 12 months. This is a recipe for trade tensions between G20 members.

Figure 1: The number of corporate subsidy awards by G20 members in climate-related sectors and technologies has sharply increased.



Note: Definition of sectors available upon request (based on official sources).

Figure 2: By 2023 more than \$3 trillion of imports into G20 members compete against subsidies local firms.



Note: Definition of sectors available upon request (based on official sources).



Recommendations

The core assumption underlying this set of recommendations is that, in several respects, the international rulebook applicable to climate change-related corporate subsidies is counterproductive and may generate discord among G20 members.

Indeed, the nearly three decades old WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement) does not adequately take account of sustainability and climate change considerations. If subsidies paid to domestic industries affect cross-border trade in ways that adversely affect the industry of another WTO member, these subsidies can be successfully challenged in WTO dispute settlement proceedings or ‘countervailed’ (with proportionate duties) via national countervailing duty laws and regulations, which the SCM Agreement explicitly regulates and permits.

Unlike the WTO’s General Agreement on Tariffs and Trade (GATT), the SCM Agreement allows for no ‘general exceptions’ that would protect or consider environmental objectives and climate benefits of subsidies, even if environmental benefits outweigh adverse effects on the industry of another WTO member. Article 8.2 of the SCM Agreement used to provide a carve out for green transition subsidies for up to 20% of investment costs but this limited exemption expired in the year 2000. In effect, extant WTO rules focus on limiting cross- border economic spillovers of corporate subsidies even if they are outweighed by the climate benefits of respective corporate subsidy schemes.

As governments have begun to impose countervailing duties on ‘clean’ goods and technology subsidized in third country jurisdictions, some commentators advocate for WTO negotiations to reform the SCM Agreement that sees the inclusion of an *a priori* ‘green box’ of permissible climate related subsidies. Alternatively, a ‘climate peace clause’ in the form of an agreement among a subset of WTO member governments could



exempt subsidized production of traded environmental goods and clean technology from countervailing duties and WTO litigation.

G20 members could, in principle, support the commencement of respective negotiations. In our view, however, such proposals are currently not politically viable and lack the prerequisite empirical and analytical foundation. Crucially, at this point in time, inadequate information about the size of climate change related market failures as well as about the effectiveness of specific green industrial policy instruments to mend market inadequacies generate a prohibitive obstacle to international subsidy rule reform and the negotiation of fit-for-purpose peace clauses.

Against the backdrop, G20 members should – separately and in their own right - **prioritize the release of empirical evidence necessary for effective national policy evaluation** in the short term. To this end, G20 member governments should agree to individually enact domestic laws and regulations prescribing subsidy disclosure and establish domestic guidelines and procedures for policy evaluation mechanisms that apply objective sustainability criteria, with the obligation to make the outcomes of policy assessments public. Such steps would also have public finance-related payoffs and may well be demanded by populations that are asked to finance considerable climate-related public outlays.

In a second step, G20 members should progressively **engage in concerted efforts towards providing integrated policy transparency** on the basis of G20 guiding principles and best practices for joint corporate subsidy disclosure. A minimum of common disclosure requirements should inform a to-be-established G20 Green Industrial Policy Dialogue that enables fact-based mutual learning by G20 member governments and generate trust through exchange of information on subsidy schemes and their effects on domestic economic performance, dissemination of clean technologies and products,



emission reductions, and cross-border spillovers.

The level of integration of G20 members disclosure efforts should, in the near term, advance incrementally to encompass common transparency requirements with regard to all subsidy schemes, plans and awards that exceed a minimum threshold. Respective datasets and the results of national policy assessments should be published on a dedicated G20 single portal in accordance with a standardized disclosure format. Concurrently, the G20 Green Industrial Policy Dialogue should be institutionalized and equipped with a secretariat staffed by policy evaluation experts who develop and propose agenda items and thematic sessions for consideration and adoption by the membership.

The level of short to medium term ambition proposed here would help to inform and cross fertilize deliberations in other fora, including the WTO's committees on subsidies and countervailing measures (CSCM) and trade and environment (CTE), as well as the plurilateral Trade and Environmental Sustainability Structured Discussions (TESSD).

The integration of G20 members' national industrial policy disclosure efforts need not be confined to confidence-building but should serve to inform tangible policy alignment and improvements in national industrial policy design with a view to minimizing negative (trade) and maximizing positive (climate) cross-border policy spillovers. Going beyond potential benefits derived from accountability and mutual learning, G20 members may opt for more ambitious policy alignment over the longer term.

Building on the foundation of shared and standardized empirical evidence generated by the forum's members, governments could then decide to **provide the secretariat of the G20 Green Industrial Policy Dialogue with a mandate to conduct sustainability assessments of policy instruments, subsidy schemes, and awards on the basis of commonly agreed objective criteria**. G20 Members may choose to reward climate related corporate subsidy schemes that are found eligible for 'green box' treatment – as



per integrated policy evaluation – by exempting respective policies from countervailing duties and trade litigation. Doing so would **provide an effective incentive for policy disclosure via the submission of applications for ‘green box’ treatment**, and incline policy orientation towards agreed sustainability criteria. With evaluation criteria being continuously updated on the basis of progressively disclosed subsidy data, this living agreement mechanism would create a dynamic yet voluntary ‘climate peace clause’ that overcomes the imperfect information caveat we consider to be one of the primary obstacles to the negotiation of an *a priori* climate subsidy rule carve-out, as noted further above.

Table 2: The G20 can enhance disclosure along multiple dimensions.

<i>Aspect of corporate subsidies relating to climate change or clean technologies</i>	<i>Useful, near term G20 step</i>	<i>Higher level of ambition</i>
1. Government entities in scope.	National government, all public subsidy granting agencies	All public bodies including subnational bodies
2. Schemes or individual awards in-scope.	Subsidy schemes and plans disclosed	All subsidy schemes, plans, and awards disclosed
3. Action by whom?	G20 members separately disclose	Disclosure to a specially constructed single portal for G20 members
4. Common disclosure?	Minimum disclosure requirements agreed	Standardised disclosure format agreed
5. Quantitative targets set and disclosed, including time frames for results (e.g. tons of CO2 reduction by 2030)	Confined to new subsidy schemes and plans	All applicable to existing and new subsidy schemes, plans, and awards
6. Regular evaluation of subsidies.	Of subsidy schemes only, conducted by G20 members	Of subsidy schemes and large (to be defined) individual subsidy awards. Evaluations can be conducted by third parties.
7. Evaluations published?	Of subsidy schemes only	Of subsidy schemes and large (to be defined) individual subsidy awards
8. Development of better practices for subsidy design, award, disclosure, and evaluation	On disclosure	Augment disclosure practices with those on subsidy design, award, and evaluation.
9. Living agreement mechanism for sustainability assessment of subsidies	Commonly agreed objective sustainability criteria, to be continuously updated based on disclosed data	Regular sustainability assessment of subsidies by a dedicated unit
10. Voluntary climate peace clause	Submissions of applications for 'green box' treatment (i.e. non-countervailability and non-actionability) of subsidies considered eligible post-sustainability assessment	Augment alignment towards agreed sustainability criteria

Outcome Scenarios

Evidently, the reform of multilateral disciplines on corporate subsidies is not the only option available to the G20 should it decide to put a stronger focus on energy transition related corporate subsidies. Scenarios could unfold over time were senior officials to embrace permutations of the options outlined in the prior section and in Table 2. The following three scenarios involve progressively higher levels of ambition.

Scenario 1: Individual disclosure and deliberative approaches

In the first scenario, decision-makers prioritize individual release of empirical evidence necessary by implementing domestic processes for disclosure in collecting corporate subsidy-related information, setting where possible measurable targets for each subsidy, and evaluating national policy interventions. Concurrently, G20 members would establish a G20 Green Industrial Policy Dialogue. Deliberation among G20 members concerning these matters would also extend to the public finance and macro stability implications of corporate subsidies associated with the energy transition.

Synergies would emerge as individual policy disclosure enhances accountability and trust among nations, fostering a better understanding of each other's subsidy regimes. Meanwhile, a purposely designed G20 initiative facilitates fact-based dialogue among members, allowing for the exchange of best practices and the development of guiding principles. Success stories would be highlighted.

Limitations may arise as measures to enhance disclosure by individual G20 members may not prevent some trade tensions and such soft law approaches rely on voluntary compliance. Under this scenario no new corpus of binding international rules on in-scope subsidies would be developed. Still, overall, this scenario encourages information sharing



and learning, leading potentially to improved alignment in subsidy policies and enhanced effectiveness in achieving climate goals.

Scenario 2: Concerted disclosure and living agreement mechanism

In this scenario, decision-makers commit to concerted disclosure efforts based on the definition of minimum common requirements. Building on shared and standardized empirical evidence, they establish a living agreement mechanism for subsidy assessment administered by a dedicated, specially created unit. This unit would be fed with pertinent real-time information and analysis on a quarterly basis. Central to that mechanism is the identification of desirable attributes of corporate subsidies associated with the clean energy transition to be considered eligible for non-countervailability and non-actionability.

Synergies arise as concerted policy disclosure efforts and the living agreement mechanism work together to promote accountability and deeper trust between nations. Information sharing and dialogue reduce trade tensions and promote cooperation, while the living agreement mechanism provides a framework for regular assessment of subsidies via the submission of applications for ‘green box’ treatment, incentivizing policy orientation towards agreed sustainability criteria. It is understood that the effectiveness of any living agreement mechanism depends on the willingness of member states to participate fully and align with its findings. Yet, overall, this scenario enhances fact-based dialogue and incentivizes acceptance and implementation of agreed-upon attributes of energy transition-related corporate subsidies.

Scenario 3: Best practices and climate peace clause

In this third scenario, decision-makers focus on developing best practices for



disclosure for individual climate subsidy awards as well as for subsidy regimes in general. A specially created unit would combine information provided by G20 governments with pertinent facts and analysis deemed in-scope. These steps could be buttressed by agreement by the G20 of a “climate peace clause” to temporarily exempt energy transition-related corporate subsidies with identified desirable attributes from countervailing duties and trade litigation.

Synergies materialize as best practices development fosters further evidence-based dialogue and cooperation among G20 members, thus contributing to promote greater alignment on in-scope corporate subsidy policies and practices. The climate peace clause recognizes that companies are likely to innovate further and scale up production and distribution of clean energy technologies when they are not confined to doing business in their national markets. Consequently, this clause shifts the cost-benefit calculus for corporate subsidies in the direction of greater innovation and investment.

If potential asymmetries across the G20 in the development of relevant industries make it difficult in the near term to agree a climate peace clause, this scenario can commence by agreeing and executing best practices for corporate subsidies related to the clean energy transition.

Overall, the adoption of our proposals would lay the groundwork for the development of better practices that are based on the guiding principle of maximizing emission reductions efficiently while minimizing negative cross-border economic spillovers at the same time.

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