

Submission to the Review of OECD Guidelines on Corporate Governance of State-Owned Enterprises

From *The Aluminium Association, European Aluminium, Aluminium Association of Canada, and Japan Aluminum Association*, on behalf of their member companies and the 1.75 million workers they directly and indirectly support across the United States, Europe, Canada, and Japan

Context

We welcome this opportunity to contribute to the public consultation on the review of the OECD Guidelines on Corporate Governance of State-Owned Enterprisesⁱ and endorse fully its overall objective, i.e., “...to ensure that SOEs contribute to sustainability, and economic security and resilience, by maintaining a global level playing field and high standards of integrity and business conduct.”

We note the important linkage made between enabling a global level playing field and sustainability, including with respect to climate and the imperative to move more quickly to global net zero GHG emissions (NZE), i.e., “*The growing role of SOEs in global value chains has stirred a policy debate about a level playing field and the extent to which interventionist approaches may compromise the global competitive landscape. The revision therefore aims at strengthening provisions relating to the state in the marketplace in line with the principle of competitive neutrality. With SOEs being responsible for an estimated one-fifth of direct carbon dioxide emissions globally, the draft Sustainability chapter of the Guidelines reflects the unique risks and opportunities related to SOEs’ role in enabling the climate transition.*”

In reviewing and updating these Guidelines, we urge the OECD to reflect as well on the more granular picture that emerges from its own ground-breaking analysis since 2019 with respect to the aluminium industry. Almost exactly one year ago we submitted to G7 Trade Ministers a brief entitled, *International Cooperation on Supply Chains for Critical Materials: Aluminium*.ⁱⁱ In it we noted that the transition to NZE requires immense private sector investments that are contingent on global markets for aluminium being fair, open to competition, and free of excessive state influence.

This was not the situation we outlined in our brief a year ago and it is not the situation across aluminium supply chains today. To recap, in 2019 OECDⁱⁱⁱ analysis highlighted the role of state support in China’s surge in just two decades from a relatively minor global player to the world’s largest producer of alumina, primary aluminium, and semi-fabricated aluminium products, accounting for 58% of global output. Between 2013-17 seventeen of the largest global companies operating along the aluminium value chain received up to USD 70 billion of government support, 85% of which went to just five Chinese owned firms. Chinese enterprises also benefited from an array of border restrictions, VAT rebates, and other forms of preferential treatment. In 2021, OECD^{iv} analysis looked in-depth at below market finance provided by governments to thirty-two major aluminium companies. Their report estimated the value of support to have ranged between 4% and 7% of the annual revenue of Chinese firms. In contrast, the value of support to other global firms was estimated at just 0.2% of their annual revenue.

There are also significant environmental and climate costs. Subsidies along the aluminium value chain primarily support high GHG emitting production systems based largely on fossil fuels. CO₂ emitted per metric tonne of aluminium produced is ten times higher for coal than for hydro based systems. By displacing output from low GHG emitting systems, subsidies contribute to a much higher than otherwise global carbon footprint. The average carbon footprint of Chinese primary aluminum production is at least three times higher than the North American and European average. Over the

past twenty years, as China's share of global production grew from 8% to 58% its share of the aluminium industry's total CO2 emissions grew from 12% to 71%.

High levels of government support that benefit a few firms at the expense of many not only displace production and harm the environment today they also discourage new investments by unsubsidized firms unable to compete with the deep pockets of the state. Increased private investment is essential to strengthen the resilience of our industrial ecosystems, to continue to provide skilled workers with good jobs, and to decarbonize aluminium supply chains. Analysis in 2021 by the International Aluminium Institute (IAI)^v, emphasized that the industry's pathway to NZE required massive new private investments in alternative clean energy systems and in energy-saving and waste-reducing recycling systems.

The IMF, OECD, WBG, and WTO jointly produced a report in 2022^{vi} examining the prevalence of subsidies across multiple sectors, including aluminium, and called for action by the international community to address the negative impacts on trade and the global commons. It is not only the world's preeminent international organisations that are calling for action. Several other governments are joining with G7 members to agree actions that can be taken to reduce disruptions, not least those deriving from the behavior of SOEs, to supply chains for critical materials and to facilitate the transition to NZE^{vii}.

Earlier this year the OECD produced a synthesis of work on industrial sectors^{viii} and described the challenges of providing comprehensive information on government support. The report noted that, *"Incomplete data may also arise in connection with the existence of quasi-fiscal institutions with varying degree of state involvement (i.e. state-owned, government-invested, or state-controlled and -influenced institutions), which may provide or serve as intermediaries for, the provision of support to firms."* In looking at the scope and nature of support provided, it also noted, *"The finding that firms based in China obtained relatively more government support overall relates in part to the predominance of state enterprises, and government investments more generally, in the Chinese economy."*

Comments

In brief, the available data are clear. The absence of a global level playing field in aluminium markets, largely due to the pervasive role of the state across aluminium supply chains in China, discourages needed private sector investment and undermines industry decarbonization efforts. Removing economically and environmentally harmful subsidies must be one element of comprehensive climate policy to accelerate progress towards NZE.

We fully support multilateral efforts at the WTO to update its rulebook to discipline subsidies and the anti-competitive behavior and unfair practices of SOEs across all sectors. While this remains the 'first best option' to improve trade, economic, and environmental outcomes, substantive progress remains elusive.

As such, these Guidelines, while always important, now take on vastly increased importance. The available evidence with respect to aluminium supply chains supports the following revisions:

- Adopting a very wide definition of what constitutes 'state ownership', encompassing not just majority ownership per se but also effective state control and influence by whatever means.
- Reflecting the reality that while the actions of individual SOEs remain of interest, an increased focus is required on the systemic practices of pervasive, even economy-wide 'state ownership' and 'state capitalism'.

- Encompassing consideration not just of ownership structures and the stated aims of SOEs, but also their behavior and the actual impacts of their actions across relevant supply chains on global and domestic markets, and on sustainability (notably climate) outcomes.
- Applying the highest standards of transparency and accountability, even exceeding those of listed companies. SOEs, by definition, have public accountabilities for all their actions and the impacts thereof, whether intended or unintended.

Again, we appreciate the opportunity to contribute to this review and are of course available to discuss further any aspect of the above.

ⁱ OECD (2023) Public Consultation on Review of the OECD Guidelines on Corporate Governance of State-Owned Enterprises, <https://www.oecd.org/corporate/review-oecd-guidelines-corporate-governance-of-state-owned-enterprises.htm>

ⁱⁱ Insert link to association website

ⁱⁱⁱ OECD (2019), "Measuring distortions in international markets: the aluminium value chain", *OECD Trade Policy Papers*, No.218, OECD Publishing, Paris, <https://doi.org/10.1787/c82911ab-en>

^{iv} OECD (2021), "Measuring distortions in international markets: Below-market finance", *OECD Trade Policy Papers*, No.247, OECD Publishing, Paris, <https://doi.org/10.1787/a1a5aa8a-en>

^v International Aluminium Institute (2021), "Aluminium Sector Greenhouse Gas Pathways to 2050", London <https://international-aluminium.org/resource/aluminium-sector-greenhouse-gas-pathways-to-2050-2021>

^{vi} IMF, OECD, WBG, WTO (2022), "Subsidies, Trade, and International Cooperation", <https://www.imf.org/external/error.htm?URL=https://www.imf.org/en/Publications/analytical-notes/Issues/2022/04/22/Subsidies-Trade-and-International->

^{vii} Including the *Joint Statement on Cooperation on Global Supply Chains* (July 2022), *G7 Leaders Communique* (June 2022), *Trilateral Partnership* (US-EU-Japan), *Global Arrangement on Sustainable Steel and Aluminium*, *Trade and Technology Council*, *First Movers Coalition*, and *Mission Possible Partnership*

^{viii} OECD (2023), "Government support in industrial sectors: A synthesis report", *OECD Trade Policy Papers*, No. 270, OECD Publishing, Paris, <https://doi.org/10.1787/1d28d299-en>