

Committee: Special Conference on Decent Work & Economic Growth (SPECON)

Issue: Ensuring legitimacy in governmental subsidization and promotion of private corporations

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PERSONAL INTRODUCTION

Dear Delegates,

My name is Fragkiskos Emmanouil-Kefalogiannis, and I am currently a grade ten student in HAEF-Athens College Lykeio. It is my honor and pleasure to serve as one of the deputy presidents of the Special Conference (SPECON) in this year's fifth ACGMUN.

Before I begin this study guide, I would first of all like to congratulate you all on deciding to participate in a Model UN conference, whether you are newcomers or not. Ironically when I first started doing MUN almost a year ago, it was supposed to be a useful tool for my CV which would come in handy for my university applications in the next two years. In the process though, I realized that it is so much more than just a simple 'tool'. Being able to participate in conferences whilst discussing global issues that, frankly, I did not know even existed, made me feel like I could make an actual difference and help our planet as best as I could.

Moreover, in my so-called 'MUN career,' I have learned a lot of valuable things that I think will be useful once I step out of school and enter university. Admittedly, my journey itself has had a lot of ups and downs, which had prompted me on more than one occasion to bring a close to it. At the end of the day though, I was able to look past all of my failures, defeats, and instances I would rather forget, and see that it has been a great benefit for myself. Through it, I have met lots of extraordinary people from all over the world who have greatly impacted my life knowingly or unknowingly.

I hope that during the days of the conference, we will get to collaborate and exchange ideas on various topics, as well as have as much fun as possible since that is also one of the core values of MUN. This Study Guide will help you acquaint yourselves with the present topic, but by no means should it replace your research, as it will obtain a neutral standpoint on it.

Given the fact that it is quite a difficult topic, I urge you to contact me should you have any inquiries or need any clarifications on it. I would like to help you to facilitate your research or aid you with any possible issues you may encounter. If you do wish to contact me, please send me your messages in the following email: femmanouilkefalogiannis@gmail.com. I am thrilled to see you at the conference!

Kind regards,

Fragkiskos Emmanouil-Kefalogiannis

TOPIC INTRODUCTION

Governmental subsidization is surely a controversial topic in the present day as it is either supported or opposed. On the one hand, those who support it believe that subsidies can improve economic efficiency and consequently increase economic growth. This happens because they can regulate prices based on the scarcity of resources, marginal costs, or supply and demand. Furthermore, they can pay for a portion of the price of a product or service that a consumer normally would. Moreover, it is believed that if subsidies were to be removed, the results would be harmful to the economy. On the other hand, those who oppose government subsidies, argue that a government spends billions of dollars per year from taxpayer money to subsidize certain sectors, such as the oil industry. Instead, it is believed that if this amount was directed towards health, education, or pensions it would be more beneficial for the State's citizens. Thus, since the main role of subsidies is to work to ensure public welfare, the two arguments create a vicious circle on whether they should exist or not.

Oftentimes government subsidies may cause unfair competition between private corporations in highly contested sectors, such as the energy market. As a result, companies that do not receive government backing are forced to face unfair competition against companies that are backed and supported by a government. This means, that 'friendly' competition between companies is quashed, when in fact, should be encouraged. In turn, many companies may never be able to make it to the market, whilst having innovative and revolutionary products because they do not receive governmental aid. Interestingly, in contrast, competitors who may receive subsidies manage to sell their products at cost-effective prices due to the aforementioned. Simultaneously, it is also crucial for firmer legislation to be put in place to avoid 'favoritism' and promote fair competition between companies. Moreover, consumers are also affected, since, with the absence of competitors, companies can control and regulate prices and create a monopoly, meaning that prices on a product can skyrocket to increase a company's profitability at the expense of consumers.

Additionally, the very existence of subsidies has brought a myriad of concerns by experts and Non-Governmental Organizations (NGOs), who expressed their worries about their environmental and social impact, numerous human rights violations, especially in the energy market, as well as ethical concerns in general. For example, the reluctance of governments to allocate a portion of their subsidies towards the renewable energy market, promotes the use of fossil fuels, proving a massive setback towards the urgent need of the world to transition towards clean renewable energy, which in turn jeopardizes our planet's future. This is something that should aim to be addressed when finding a solution for this topic.

To conclude, the issue of governmental subsidization for the promotion of private corporations is a crucial topic in the present day, due to a plethora of factors. This issue must be addressed, as it would not only benefit new businesses that may have new approaches and technologies, but the consumers, the environment, and our society in general.

DEFINITION OF KEY TERMS

Household (Economic Term)

Often affiliated with family, a household can either be a family, one person, or a group of people. Generally, though, a household in economics is several people who make collective decisions regarding the management of their finances/income. This can include the amount that will be spent over a while as well as where it will be directed, such as medicine, etc. Their ultimate goal of households is to maximize their income to ameliorate their standard of living.

Invoice

“An invoice is a time-stamped commercial document that itemizes and records a transaction between a buyer and a seller. If goods or services were purchased on credit, the invoice usually specifies the terms of the deal and provides information on the available methods of payment.”¹

Jurisdiction

“Jurisdiction, in law, [is] the authority of a court to hear and determine cases. This authority is constitutionally based. Examples of judicial jurisdiction are: appellate jurisdiction, in which a superior court has power to correct legal errors made in a lower court; concurrent jurisdiction, in which a suit might be brought to any of two or more courts; and federal jurisdiction (as opposed, for example, to state jurisdiction). A court may also have authority to operate within a certain territory. Summary jurisdiction, in which a magistrate or judge has power to conduct proceedings resulting in a conviction without jury trial, is limited in the U.S. to petty offenses.”²

Non-Governmental Organization (NGO)

“A non-governmental organization (NGO) is a non-profit group that functions independently of any government. NGOs, sometimes called civil societies, are organized on community, national and international levels to serve a social or political goal such as humanitarian causes or the environment.”³

¹ Hayes, Adam. “Understanding Invoices.” *Investopedia*, 2019, www.investopedia.com/terms/i/invoice.asp. Accessed 18 Feb. 2022.

² The Editors of Encyclopaedia Britannica. “Jurisdiction | Definition, Examples, & Facts.” *Encyclopedia Britannica*, 2020, www.britannica.com/topic/jurisdiction. Accessed 18 Feb. 2022.

³ Folger, Jean. “What Is an NGO (Non-Governmental Organization)?” *Investopedia*, 2018, www.investopedia.com/ask/answers/13/what-is-non-government-organization.asp. Accessed 12 Feb. 2022.

Private Corporations

“A private corporation is one in which all the shares are held by a few shareholders, such as management or family members, and are not publicly traded.”⁴

Subsidy

“A subsidy is a benefit given to an individual, business, or institution, usually by the government. It can be direct (such as cash payments) or indirect (such as tax breaks). The subsidy is typically given to remove some type of burden, and it is often considered to be in the overall interest of the public, given to promote a social good or an economic policy.”⁵

To subsidize

To help cover the cost of expenses of a good or service (usually done by a government) to aid a company become more profitable.

BACKGROUND INFORMATION

The social impact of government subsidies

First of all, it is important to provide an objective understanding of the topic at hand, both existing benefits and shortcomings of subsidies must be examined. But why do subsidies even exist in the first place? Simply put, government subsidies were created as a tool to eliminate poverty by actively providing goods or services at reduced prices. The aforementioned is done usually through tax breaks, meaning that certain households are exempt from paying specific taxes, grants, and even by directly giving cash to individuals.

Moreover, subsidies can offer certain services essential for an individual's survival such as healthcare, at really low prices. Especially in countries such as the United States of America (USA) where medical bills are extremely high and public healthcare is lacking, to say the least, they are helping individuals in need who struggle to make ends meet to survive. Specifically in the USA, that is done by the famous Obama Healthcare subsidies which cover a very large part of the cost of medical invoices.

Presently though, the weaknesses outweigh their strengths. More specifically, they are often used to subsidize low wages paid by industry giants. Seeing as the funds of subsidies most commonly derive from taxation, the aforementioned affects both middle-high and middle-class individuals who are forced to pay increased taxes to cover said costs. To add insult to injury, the recipients of these grants, namely low-income workers need to rely on government

⁴ The Definition. “Private Corporation - Definition and More.” *The-Definition.com*, the-definition.com/term/private-corporation. Accessed 23 Feb. 2022.

⁵ Scott, Gordon. “Subsidy.” *Investopedia*, 2019, www.investopedia.com/terms/s/subsidy.asp. Accessed 12 Feb. 2022.

aid to survive, seeing as subsidies tend to provide the required amounts through government assistance programs and not cash. Finally, an astronomical amount of money is spent on subsidies themselves.

Often, subsidies fail to serve their purpose due to their money being reinvested into more profitable sectors such as the energy market, instead of public services. Not only is that harmful to the individuals who count on active subsidization to survive, but also for the market itself. The monopolization of industries through active governmental subsidization is all too common, as corporations private or public that receive government backing have an advantage over those who do not. This severely limits competition and jeopardizes consumers, seeing as producers are now able to fix prices at any rate they desire.

Subsidies and private corporations

The importance of planning

Bringing both the private and public sectors into contact is more difficult in practice rather than in theory. The collaboration between the two sectors has a lot of risks and more often than not can have severe negative effects on local and even the global economy if designed incorrectly. Simultaneously though, their collaborations may offer a plethora of benefits. That is why a lot of attention needs to be diverted towards planning, and all aspects of the impending collaboration should be specified and elaborated upon as much as possible. The aforementioned, is the only possible way such a partnership could prove fruitful and effective, namely through meticulous and extensive planning. Also, small trials should be considered as they will provide valuable information on the implementation. These collaborations could prove extremely beneficial for governments, private corporations, and citizens. If not executed correctly though, one thing is certain the whole collaboration between the two sectors would end in calamity, and the consequences would be dire for everyone involved.

Aside from a firm and elaborate plan, the role of the subsidies in play should be abundantly clear to all parties involved from the beginning. A very important issue when it comes to the effectiveness of subsidization is giving subsidies a clear role to carry out. If the aforementioned is not achieved, subsidies will not contribute at all to solving the task at hand. Moreover, the incorrect targeting of subsidies will not only deteriorate relationships between the private and public sectors but also discourage future investments (especially from the private sector). In addition, governments would be obliged to spend massive amounts of money, to keep the subsidy operational which would ultimately not contribute to anything. If that proves to be the case, said issue would gravely affect citizens as subsidization means funds drawn from taxation and GDP which could be invested elsewhere, such as education, medicine, infrastructure, etc. Once more the only feasible way this could and should be addressed is through detailed and extensive planning. By achieving that, subsidies would have a clear purpose, which would, in turn, ensure their functionality. Furthermore, all funds invested by a government into such a subsidy would be well-spent contributing to the strengthening of public-private relations but would also

ensure support from citizens as it would provide long-term benefits for the state. It is extremely important to re-emphasize the gravity of planning as it has the power to make or break collaboration between subsidies and private corporations.

The importance of collaboration between the two sectors

At this point, it is important to address a very simple yet serious question: Why would private companies ever want to collaborate with the government and receive backing since the risks are so many? The simple answer is that subsidies can greatly strengthen private interests in a sector where private and public collaboration would be proven beneficial. To give an example, an industry whom both private and public companies have been diverting funds towards is the aid industry.

The aid industry is essentially a market where companies make donations to NGOs and other organizations, whose job is to help fellow citizens in need. Although one of the few sectors that are not profitable, yet, where there is a high activity, the aid industry is vital. In specific, it is the ultimate tool of achieving most, if not all of the Sustainable Development Goals (SDGs) set forth by the UN, such as SDG 1, zero poverty, something which cannot be achieved unless enormous amounts of money are diverted towards resolving the issue. According to the United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2014⁶, a further 2.5 trillion U.S. dollars need to be annually directed towards the industry if it is for any SDGs to be achieved in the foreseeable future. It is also important to note that said amount currently surpasses the annual budget diverted towards the aid industry as a whole. In a case such as this one, it greatly benefits both the public and private sectors to collaborate.

Specifically, government backing would be proven extremely effective, if of course planned correctly. The immense amount needed on a global scale, cannot be provided from either the public or private sectors separately. With the help of subsidies and the backing of private corporations though, even an amount this large could be procured. Of course, such an endeavor could only be plausible and effective if all risks are tackled, via extensive planning and government subsidies are given a clear objective.

Moreover, such an investment would prove extremely beneficial for all citizens globally, as by managing to reach the UN SDGs by their target date, that being 2030, the planet would have vital 'breathing space' and simultaneously, would contribute to a more viable and sustainable future. Crucially, the collaboration between subsidies and private corporations would benefit states long-term, by not only helping to eradicate issues currently plaguing our planet but would also play a key role in managing to keep taxation low. Collaboration between the public and private sectors means that both can supplement and support each other to achieve a common goal,

⁶ UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD). "World Investment Report 2014." *World Investment Report, 2014*, unctad.org/system/files/official-document/wir2014_en.pdf. Accessed 18 Feb. 2022.

in this case completing all SDGs. If said funds were to be procured by the government alone, it would inevitably have to be through taxation.

Evidently, the consequences of such a decision would be severe and unpleasant for citizens, as increased taxation may tackle the issue, but it would place severe strain on people and the planet as a whole, that coincidentally, recently went through a global economic recession. As a result, civil unrest would be caused, because of lower incomes due to the aforementioned taxation which would limit jobs and contribute to unemployment. Thus, at the end of the day, the planet may appear more harmed than it initially was, as support from solely the government or private corporations would create more problems and prove ineffective. In conclusion, it is extremely important for subsidies and the private sector to work together, as they would be capable of addressing issues to an extent not previously seen. This type of collaboration needs to be implemented and promoted for all reasons previously stated. But once again, if this collaboration is to be fruitful and effective, it would have to be achieved through extremely meticulous planning, research, and trial and error from both sides.

The environmental impact of subsidies

The heavy subsidization of the energy market, mainly focused on non-renewable energy, such as oil and coal, encourages corporations to take actions proving detrimental to the local ecosystem contributing to the preservation of the planet as a whole. Thus, it is of vital importance for governments to choose what companies they subsidize and why, as improper subsidization, especially in this market, proves a massive drawback when it comes to ensuring a sustainable and prosperous future for all. To do that close international cooperation, which has to begin from the implementation of the correct policies by each government, is imperative.

At the same time, energy subsidies supporting companies in the renewable energy market are catalysts in promoting awareness, striving towards sustainability, and setting a global example of the enormous benefits subsidization can have. Moreover, they promote renewable energy as an alternative and a safer way to replace the current ones by attracting investors, since subsidized companies are always the safer and more reliable choice for investors. In conclusion, governments need to re-examine their policy on this specific matter and benefit the global community.

Today though, renewable energy subsidies pale in comparison to fossil fuel ones. This shows that governmental trust, towards renewable energy subsidies, has yet to be shown. In specific, numbers show that the amount spent on renewable energy subsidies and non-renewable ones was “\$140 billion in 2016 [compared] to \$260 billion in 2016”⁷. Openly backing companies that include sustainable alternatives in their policies over those that do

⁷ Linklaters. “Climate Change and Energy Subsidies: Is There a Role for the WTO? | TradeLinks | Linklaters.” *Www.linklaters.com*, www.linklaters.com/en/insights/blogs/tradelinks/climate-change-and-energy-subsidies-is-there-a-role-for-the-wto#:~:text=Energy%20subsidies%20have%20a%20great. Accessed 11 Feb. 2022.

not on a national and international level by governments and organizations alike is crucial. This may be a strenuous task resource-wise for governments, but it has to be realized if progress in this sector is to be made.

According to Human Rights Watch (HRW), the amount of Carbon Dioxide (CO₂) produced by the fossil fuel industry is as high as 89%⁸ of the total amount of emissions produced annually. This means that subsidies play a key role in the ongoing environmental degradation and need to be stopped immediately. More importantly though, if governments do not turn towards the renewable energy market the world is expected to reach catastrophic global warming in this century, thus maximizing extreme weather events that could lead to food shortages, a large number of deaths due to inadequate housing, and relocation from coastal cities, due to the rising of sea levels.

Subsidies and Human Rights Violations

According to the Human Rights Watch (HRW), the CO₂ emissions generated by the heavy subsidization of the non-renewable energy market are amplifying global disasters and acting at the expense of inhabitants all across the world. More importantly, said amplification has prevented indigenous people in Canada from accessing food sources, thus causing food shortages. Also, the extreme weather events taking place contribute to the growth of poverty, due to a plethora of factors, such as relocation and damage of infrastructure.

Canada was not the only place in the world to be affected by said weather events. Colombia's food sources were drastically reduced due to an overwhelming number of droughts. They did not only damage the local ecosystem and cost the government billions upon billions of dollars in infrastructural damage but were also responsible for the starvation of children within the country. It is also important to note that the previous two examples constitute just a small fraction of these events, which were just noticeable enough by the international community to create measures to tackle them.

Nevertheless, even when these types of events are taking place, and the situation globally is dire and has reached new lows, governments continue to divert colossal amounts of their Gross Domestic Product (GDP) to actively subsidize non-renewable energy companies to earn a profit. This does not only reflect badly of governments themselves but also demonstrates their keenness on overstepping international laws when the monetary gain is involved. All of the aforementioned lead to the following question: Are human lives being sacrificed on the altar of profitability?

Subsidies and Ethical Concerns

More often than not, subsidies are poorly designed due to governments simply not diverting enough attention towards them, resulting in their failure to perform their assigned role correctly or even in their malfunction. This results in subsidies failing to do their assigned role correctly and ends up benefiting wealthier individuals, rather than poor ones whom they were initially designed to aid.

⁸ Human Rights Watch. "Q&a on Fossil Fuel Subsidies." *Human Rights Watch*, 7 June 2021, www.hrw.org/news/2021/06/07/qa-fossil-fuel-subsidies. Accessed 29 Jan. 2022.

According to the World Bank (WB), the failure of subsidies to complete their tasks and aid low-income households often takes place because they are not targeted and do not have a goal. Said failure can be narrowed down to three flaws, which if addressed can solve a massive issue, that being the unnecessary spending of government funds on subsidies, that is wasted annually. These factors are: “Firstly, By-and-large existing subsidies target networked services, which are largely unavailable in poor neighborhoods. Moreover, even when poor households are in areas with access, they are not connected to the network. Most existing subsidies fail to make use of targeting mechanisms that can direct resources to the poor while excluding the more well-off.”⁹

The failure of subsidies to find an appropriate target and succeed in their goal has resulted in a mere 6%¹⁰ of subsidies reaching their intended recipients.



Figure 2: Image depicting a poster of the World Bank ‘Smarter Subsidies Program’.

MAJOR COUNTRIES AND ORGANIZATIONS INVOLVED

United States of America (USA)

The United States had recently disregarded the Paris Climate agreement of 2016 (before Joe Biden’s inauguration) and continued to subsidize the fossil fuel industry. Consequently, the country’s production subsidies in that sector experienced a large increase according to the Organization for Economic Cooperation and Development (OECD). This should have put the country into high alert, as said increase interrupted a five-year downward trend. Still though, the administration did not find any cause of resolving the situation, as the issue was to begin with not viewed as a problem.

⁹ WORLD BANK. “Doing More with Less - Smarter Subsidies for Water Supply and Sanitation.” *World Bank*, 2019, www.worldbank.org/en/topic/water/publication/smarter-subsidies-for-water-supply-and-sanitation#:~:text=This%20research%20shows%20that%2C%20globally. Accessed 31 Jan. 2022.

¹⁰ WORLD BANK. “Doing More with Less - Smarter Subsidies for Water Supply and Sanitation.” *World Bank*, 2019, www.worldbank.org/en/topic/water/publication/smarter-subsidies-for-water-supply-and-sanitation#:~:text=This%20research%20shows%20that%2C%20globally. Accessed 31 Jan. 2022.

Fortunately, though, in late 2020 the US government started adhering again to the Paris Climate Agreement of 2016. As a first step, the government has now issued orders that will cease the activities of subsidies in the fossil fuel industry. This sudden change in policy will not only promote domestic sustainability, but also set an international example. By taking up its old policy, now helping combat climate change the USA can now re-take the helm and greatly contribute to the coordination of global efforts.

Before being able to do that though, the country would need to regain global trust. What that means is that the US would need to demonstrate, namely through adhering to its newly formed policies that it is interested in taking a leading role in the fight against climate change. Ensuring world-wide support in this race to repair our planet is essential and the country in question has the capacity to rally said support. Although the aforementioned may seem quite daunting, the government could conduct certain recommendations concerning the development of subsidies in the fossil industry. A good example would be, relocating the annual funds spent on said industry towards the green energy market, promoting sustainability, and fighting climate change.

Jordan

Although a small country in the Middle East, Jordan has shown the world that subsidization can be used for its intended purpose and also be an effective tool in tackling poverty. In the early to mid-2000s with the collapse of the Saddam Hussein regime in Iraq, Jordan was forced to start importing energy from countries located around the Iranian Gulf, most of them being members of the Organization of the Petroleum Exporting Countries (OPEC). Unfortunately, this means that oil prices would increase since no other nation was as keen as Iraq to offer oil at such cheap prices. The energy bill of Jordan did not just increase, it skyrocketed “from USD \$60 million in 2002 to \$711 million in 2005”¹¹ according to certain sources. This meant that the country needed to address this issue immediately, as energy prices were expected to keep increasing at alarming rates.

To avoid falling into chaos, Jordan decided that it would use its already existing subsidies to help lower-class individuals. To do that, the country began a major restructuring of its subsidies, giving them goals and targeting them to drastically increase their efficiency. The Jordanian government created special benefits for households that happened to be near, or below the poverty line, including lowering the prices on essential products, such as electricity if kept below a certain level (160 Kilowatts per hour (KWh)).

Consequently, the government did not only manage to address the rising financial issues caused because of this energy crisis but more importantly it demonstrated that subsidies did have the potential and capacity to be effective in their assigned goals if they were targeted.

¹¹AbdelNaeem Mahmoud, Rania. “State Capacity and the Social Impact of Energy Subsidies Reforms in Jordan and Iran.” *Project on Middle East Political Science*, 1 Aug. 2018, pomeps.org/state-capacity-and-the-social-impact-of-energy-subsidies-reforms-in-jordan-and-iran. Accessed 29 Jan. 2022.

Brazil

Brazil had a different issue to tackle from Jordan but did so in a similar manner. In the country, energy subsidies especially electricity ones, were generating massive losses for the government annually, a loss too great not to pay attention to. Thus, in late 2016 the government began a reformation program for its subsidies, with the aims of addressing their effectiveness, impact, and target audience, namely the people who were struggling to make ends meet.

To address the aforementioned issues, the Brazilian government took a more 'liberal' approach, and instead of directly financing its subsidies it would do so by indirectly drawing the funds through tax-payer money and proceeds collected from electricity. Although tax-payer money is almost always contributing to the financing of subsidies, the government first accounts the funds in its GDP and later on decides to allocate a portion of them on subsidies, instead of making consumers pay directly for subsidization.

Once again by giving its subsidies a purpose and by regularly checking their effectiveness, the government managed to use its subsidies effectively and address the issue and help the citizens who were desperately trying to achieve a form of financial stability.

European Union (EU)

One of the most recent and innovative reforms on the topic of subsidization was made by the European Parliament (EP) at the end of 2021. The EP authorized the astronomical amount of 387 billion euros (roughly a third of its budget) to be given out to farmers all across member states over the course of several years. This was done to mitigate carbon emissions currently generated by the agricultural industry and promote sustainable farming. The aforementioned is one of the very few cases where subsidies pave the way forward, instead of holding their government behind, as this will tremendously help the environment in the long run since it will ensure a more sustainable future for farming and agriculture.

United Nations Development Program (UNDP)

The UNDP has repeatedly expressed its policies against the heavily ongoing subsidization of non-renewable energy. The UNDP's reasoning behind this policy is that the amount being currently spent on these types of subsidies could pay for vaccination against COVID-19 for all humans and simultaneously constitutes three times the amount currently needed to eradicate global extreme poverty. In addition, due to a lack of targeting especially located in LEDCs benefit only the richest social standing, thus being dysfunctional. Further deteriorating the situation at hand is the fact that more than two thirds of current CO₂ emissions are caused by the energy market and drastically influence the global standard of living.

If correct reforms were to happen, the resulting changes would not only benefit everyone on the planet, but they would also constitute a massive leap forward in fighting climate change. Once again though, poor planning of these reforms could result in even more problems and obstacles for the global community. As a result, it is vital for all parties involved to engage in

thorough and meticulous planning, leaving no question unanswered and no room for doubt. This should happen in an aim to stop the heavy subsidization of the non-renewable energy market and promotion of other alternative sectors such as green energy, to ensure a sustainable prosperous and safe environment for future generations.

Finally, the UNDP is constantly raising awareness of the damage currently being done by fossil fuel subsidies to our planet as a whole. This is also an extremely important part when it comes to addressing the subsidy issue as a whole, as informed citizens can strive to ensure global action against climate change is taken. Likewise, promotion of public awareness can lead to the redirecting of funds during reforms to the sectors citizens of a nation may deem necessary to subsidize, thus elevating the standard of living by aiding in the elimination of extreme poverty.

BLOCS EXPECTED

On the topic concerning subsidization, nations can be primarily divided into two alliances:

Bloc 1

The countries of alliance one, should be countries that do not have any major plans to reform and restructure their subsidies due to the nature of their economy. More specifically, this may be the case in countries where the economic system is heavily controlled by the government, such as the People's Republic of China (PRC). In addition, in these countries, more often than not, subsidies are used as a means of propaganda to create infrastructure projects to appease the public, and not to improve citizen's well-being.

Bloc 2

With the same tactic in mind, countries that will join alliance two are these who are planning on reforming their current subsidies to elevate standards of living and ensuring a sustainable future for all. This concerns countries with a more 'liberal' economic system which is not directly controlled by the government. These countries are primarily members of the European Union, the United Kingdom and more recently the United States.

TIMELINE OF EVENTS

Date	Event
23 July, 1952	The European Coal and Steel Community (ECSC) is founded.
30 September, 1961	The Organization for Economic Co-operation and Development (OECD) is founded.
15 April, 1994	World Trade Organization (WTO): “Agreement on subsidies and countervailing measures” is enacted.
2014	The United Nations Conference on Trade and Development (UNCTAD) World Investment Report of 2014 is published.
23 December 2015	UN Resolution 2259 is passed.
22 April, 2016	The Paris Climate Agreement of 2016 gets signed, in Paris, France.
1 January, 2021	The UK ceases to be a member of the EU as ‘Brexit’ comes into effect and sets a plan to promote domestic innovation through the use of subsidies.
20 January, 2021	The US decides to remain in the Paris Climate Agreement.
October 2021	The UNDP expresses its policies against the heavy subsidization of the fossil-fuel industry.
December 2021	The EU sets forth an ambitious plan concerning the subsidization of the agriculture industry to ensure sustainability in said market.

RELEVANT UN RESOLUTIONS TREATIES AND EVENTS

UNSC Resolution 2259¹²

This resolution was adopted unanimously by the Security Council (SC) in 2015. It concerned recent developments within the country which had led to instability within the country. The specific resolution urges the government in power to increase its transparency regarding its subsidies, as more often than not they are used as a tool for money laundering or the illicit spending of government funds. Thus, the SC saw fit, and rightfully so, to encourage and enforce this decision, to deter the government from causing any international incidents that were bound to happen if no appropriate measures were taken.

World Trade Organization (WTO): “Agreement on subsidies and countervailing measures”¹³

Created in 1995, this agreement sets general guidelines for the use of subsidies globally simultaneously defining the proper stance when subsidies are used on an international scale. More specifically, it sets general guidelines that subsidies are required to follow to perform their duties correctly and simultaneously be a legitimate part of the government. Moreover, it defines what is considered a subsidy and what is not. Finally, it sets certain boundaries for subsidies, also pointing out what they should not do. All things considered, it is a fundamental agreement when it comes to subsidies themselves and should act as a steppingstone when proposing solutions.

The United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2014¹⁴

A globally recognized source of information concerning Foreign Direct Investment (FDI) and subsidies is the World Investment Report. Published annually, the report that entered in circulation in the year 2014 outlined some major steps governments and companies would need to take, to ensure collaboration between them. More specifically this version of the report wanted to achieve, said collaboration to increase the global budget directed towards the aid industry by quite a big portion. Said increase, would only be feasible only if subsidies were to assist private corporations regarding donations towards the aid industry, as previously mentioned in the guide

¹² UN Security Council. “Resolution 2259 (2015) /.” *Digitallibrary.un.org*, no. 2259, 23 Dec. 2015, digitallibrary.un.org/record/815441?ln=zh_CN. Accessed 18 Feb. 2022.

¹³ World Trade Organization. *Agreement on Subsidies and Countervailing Measures*. 1995, www.wto.org/english/docs_e/legal_e/24-scm.pdf. Accessed 18 Feb. 2022.

¹⁴ UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD). “World Investment Report 2014.” *World Investment Report*, 2014, unctad.org/system/files/official-document/wir2014_en.pdf. Accessed 18 Feb. 2022.

PREVIOUS ATTEMPT TO SOLVE THE ISSUE

Organization for Economic Co-operation and Development (OECD)

The OECD was created on September 30th, 1961, to ensure that countries adhered to global agricultural regulations and was an organization in the task of supervising government subsidies and ensuring their effectiveness. The OECD created a committee responsible for subsidizing fisheries, with aims of providing financial support to fishermen in need, as well as by further targeting subsidies and ensuring consistency with the framework brought forth by the then Organization for European Economic Co-operation (OEEC) a predecessor of the EU. The measures taken by the OECD were quite effective and proved vital in ensuring the effectiveness and legitimacy of subsidies. This was an early example of the correct way to manage subsidies while ensuring the best possible results.

Attempts by the European Coal and Steel Community (ECSC)

The European Coal and Steel Community was established on July 23rd, 1952, to restrict the amount of money spent by governments in the subsidization of the coal industry. This was done through the fixation of coal prices across European international markets, which encouraged governments to buy cheaper imported coal instead of diverting massive amounts of money towards subsidies financing coal production within their borders. This organization also constitutes a predecessor of the EU and played a key role in its creation since it was one of the causes those European countries sought to unite to increase economic and social benefits.

Attempts by the United Kingdom (UK)

Following Brexit, that is the withdrawal of The United Kingdom of Great Britain and Northern Ireland's withdrawal from the EU, in 2021, the UK is planning to implement certain plans to support local businesses through the use of subsidies. Although this plan has not been set into motion yet, it is expected to begin in 2027. By implementing the aforementioned strategy, the government of the UK is attempting to fund the Research and Development (R&D) of new corporations which the government deems crucial for domestic innovation. This policy has the potential of being successful as subsidies will have a clear purpose and scope, namely aiding private corporations to reach and innovate certain markets.

Moreover, in a report published the government claims that it will not support businesses that may fail and thus never reach the market. By said statement, the government implies that it will use objective criteria to assess corporations interested in receiving government backing. In addition, the government should keep track of subsidized companies in the market to not cause unfair competition in the same sector. Hopefully, the implementation and execution of the UK's policy on this matter will run smoothly and promote both private corporations and the nation as a whole.

POSSIBLE SOLUTIONS

Research and legislation

The issue of governmental subsidization needs to be addressed as quickly as possible. For that to happen, firmer legislation to be put in place which defines the role of a subsidy as well as its intended purpose, something that is currently lacking. This can be done by amending the “Agreement on Subsidies and Countervailing Measures”. Secondly, governments need to adopt a transparent policy when it comes to showing where the portion of their GDP directed towards subsidies ends up, to avoid any international tensions and illicit activities. Finally, governments need to specifically target their subsidies to achieve their intended purpose.

Moreover, they need to frequently conduct checks to ensure that a subsidy is having its predicted income as well as, being able to effectively reach its targeted audience. Solutions must be found as the benefits would be profound globally, as the global economy would be strengthened, thus ensuring a plethora of public benefits and/or services and a viable future for the next generations.

Ensuring public-private collaboration

In addition, a collaboration between the public and private sectors through the use of subsidies is crucial. This should be done to promote innovation or benefit the global community on a much larger scale. If though, they choose to follow through with such an idea they will need to ensure its meticulous planning. This should aim to address the purpose of the subsidies involved as well as their objective, to avoid ineffectively spending government resources. Furthermore, the sectors the funds will be directed towards should be clearly stated to avoid any possible mishaps and miscommunications between governments and corporations. Possible risks should be assessed and addressed with the implementation of the correct measures. The collaboration between public and private is essential, as it will not only be a catalyst in the amelioration of global standards of living but will also reinforce relationships between the two sectors if collaboration proves fruitful.

Finally, governments themselves should promote local corporations by actively subsidizing them. It is important to note that they should use objective criteria when choosing businesses within a sector as then government corruption would be detrimental. Thus, it would be best for countries with a low government corruption index to implement such a policy. Equally important is that through said subsidization governments would not help monopolize a market, as such an action would only negatively affect citizens through both the elimination of jobs and implementation of fixed prices. Innovation through subsidization should be prioritized to improve our planet in any feasible way, as it is also crucial for the promotion of private corporations, national and international progress.

All in all, in this era it is essential to ensure governmental subsidization that simultaneously promotes private corporations. This task may appear daunting, not to speak about the topic itself, but attention should be directed towards its resolution. Subsidies have the capacity to create major reforms in the global and local markets, the issue is using these useful yet

dangerous tools correctly. It is time for major and effective changes to be implemented, to swiftly and efficiently tackle this issue once and for all.

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