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Trade Policy Monitoring

Foreign Sales Corporations (FSC) - EU to suspend U.S. export sanctions

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Report Highlights:

On October 25, EU Trade Commissioner Pascal Lamy announced that the EU is to suspend sanctions on a wide range of U.S. exports after President Bush signed a bill repealing the FSC export subsidies.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
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Foreign Sales Corporations (FSC) – EU to suspend U.S. export sanctions

On October 25, 2004, EU Trade Commissioner Pascal Lamy announced that the EU is to suspend sanctions on a wide range of U.S. exports after President Bush signed a bill repealing the FSC export subsidies. With the signature of the U.S. president, the bill becomes U.S. law. After the WTO ruled that the FSC provides illegal subsidies to U.S. exporters in May 2003, the EU started retaliating against the U.S. in March 2004 with punitive import duties on a range of products, starting at a level of 5% with monthly increases of 1% to reach a ceiling of 17% in March 2005. The EU regulation establishing the list of affected products can be downloaded from the Internet at http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l_328/l_32820031217en00030012.pdf.

The new U.S. law will apply as of January 1, 2005, and provides for a 2-year transitional period to phase out financial assistance. Commissioner Lamy expressed the EU's concerns with the so-called grandfathering clause in the bill under which U.S. exporters who entered binding contracts before September 17, 2003, could still benefit from tax breaks beyond the December 2006 deadline. The EU is prepared to accept the 2-year transitional period but believes the grandfathering clause to be incompatible with WTO rules. The EU will now ask the WTO dispute settlement system to review the WTO compliance of the new U.S. law.

The European Commission will propose to the Council to suspend the sanctions currently in place, as of January 1, 2005, when the U.S. repeal bill will enter into force. EU trade ministers must now approve the Commission's decision but this is expected to be a formality. However, pending the WTO's review of the new U.S. law, the EU does not rule out re-imposing sanctions.

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