WTO Dispute Settlement: Status of U.S. Compliance in Pending Cases

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Summary

Although the United States has complied with adverse rulings in many past World Trade Organization (WTO) disputes, there are currently 10 cases in which rulings have not yet been implemented or the United States has taken action and the dispute has not been fully resolved. Under WTO dispute settlement rules, a WTO Member will generally be given a reasonable period of time to comply with an adverse WTO decision. While the Member is expected to remove the offending measure by the end of this period, compensation and temporary retaliation are available if the Member has not acted or taken sufficient action by this time. Either disputing party may request a compliance panel if there is disagreement over whether a Member has complied.

The United States has not yet settled long-standing disputes with the European Union (EU) regarding a music copyright statute and a statutory trademark provision affecting property confiscated by Cuba. H.R. 1530, H.R. 1531, H.R. 2272, and S. 1189 would repeal the trademark statute, while H.R. 1103 and S. 1234 would amend the provision. Also unresolved is a dispute with Japan, initiated in 1999, over a provision of U.S. antidumping law. The Continued Dumping and Subsidy Offset Act of 2000 (CDSOA), which was held WTO-inconsistent in January 2003 and repealed, effective October 2005, by P.L. 109-171, remains the target of sanctions by complainants EU and Japan due to continued payments to U.S firms under the CDSOA program. In addition, the United States and Antigua have been consulting on the resolution of outstanding issues in Antigua’s challenge of U.S. online gambling restrictions.

P.L. 109-171 also repealed a WTO-inconsistent cotton program at issue in Brazil’s 2002 complaint over U.S. cotton subsidies, but other programs were also successfully challenged and the United States was later found not to have fully complied. The United States has since made statutory and administrative changes affecting the export credit guarantee programs faulted in the case. At the same time, Brazil has continued to pursue sanctions and on November 19, 2009, the WTO authorized Brazil to suspend tariff concessions on U.S. goods in an amount of $294.7 million a year, a figure that may vary annually based on actual U.S. export subsidization. In addition, if a variable threshold based on U.S. trade in goods with Brazil is exceeded, Brazil may suspend WTO obligations involving U.S. intellectual property and services. Brazil has published a list of U.S. goods potentially subject to increased tariffs, but will not announce until February 2010 the final list of products and the total value of sanctions that would be imposed. On December 21, 2009, Brazil announced that, based on 2008 data provided by the United States, it is entitled to annual retaliation of $829.3 million.

Four pending cases involve the U.S. practice of “zeroing,” under which the Department of Commerce (DOC), in calculating dumping margins, disregards non-dumped sales. The practice was successfully challenged by the EU in two cases (EU I and II), Japan, and Mexico. In response to EU I, DOC discontinued the use of zeroing in the price comparison employed most often in original antidumping investigations and recalculated dumping margins in the cases cited by the EU. The United States has yet to fully comply in EU I and in the challenges by Japan and Mexico to the extent that the WTO decisions affect the use of zeroing in other phases of U.S. antidumping proceedings. Compliance proceedings in EU I and Japan’s challenge, completed in 2009, found against the United States, permitting complainants to pursue sanctions requests. Also, Mexico initiated compliance proceedings in August 2009, and a compliance deadline of December 19, 2009, was established in EU II. The United States stated that it will recalculate dumping margins in four original antidumping investigations cited in EU II and that it is discussing outstanding issues with interested parties. With other facets of EU II remaining unaddressed, however, the EU has indicated that it may request a compliance panel in the proceeding.
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This report provides a summary of the status of U.S. compliance efforts in pending World Trade Organization (WTO) disputes that have resulted in adverse rulings against the United States. Although the United States has complied with adverse rulings in many past WTO disputes, there are 10 pending cases in which the United States has not fully implemented adopted WTO panel and Appellate Body reports or the United States has taken action, including the enactment of legislation, but the prevailing parties in the dispute continue to question whether the United States has fully complied and, in one case, continue to impose WTO-authorized trade sanctions. In all of these disputes, original or subsequently extended compliance deadlines have expired. Compliance in these cases may implicate either legislative or administrative action by the United States.

The report begins with an overview of WTO dispute settlement procedures, focusing on the compliance phase of the process, followed by a discussion of U.S. laws relating to WTO dispute proceedings. The report then lists pending WTO disputes in the compliance phase, with a discussion of major issues and the U.S. compliance history in each. Each entry contains a section titled “Recent Developments,” which discusses the latest activity in the case.

WTO Dispute Settlement Procedures

WTO disputes are conducted under the terms of the WTO Understanding on the Rules and Procedures Governing the Settlement of Disputes (Dispute Settlement Understanding or DSU). The DSU, which entered into force with the establishment of the World Trade Organization on January 1, 1995, carries forward and expands upon dispute settlement practices developed under the General Agreement on Tariffs and Trade (GATT). The DSU is administered by the WTO Dispute Settlement Body (DSB), which is composed of all WTO Members. Where individual WTO agreements contain special or additional dispute settlement rules that differ from those in the DSU (e.g., expedited timelines for subsidy disputes in the Agreement on Subsidies and Countervailing Measures), the former will prevail. A list of these agreements and rules is contained in Appendix 2 of the DSU. The Office of the United States Trade Representative (USTR) represents the United States in the WTO and in WTO disputes.

WTO dispute settlement may be characterized as a three-stage process: (1) consultations; (2) panel and, if requested, Appellate Body (AB) proceedings; and (3) implementation. Within this framework, the DSB establishes panels; adopts panel and appellate reports; authorizes countermeasures when requested; and monitors the implementation of dispute settlement results. The establishment of panels, adoption of panel and AB reports, and authorization of

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1 The case histories in this report are primarily based on WTO documents, available at http://www.wto.org, or the WTO dispute settlement website indicated below. This report does not address cases in which the United States has implemented adverse reports to the satisfaction of the complaining party and the dispute has been fully settled, nor does it discuss the compliance history of other WTO Members that have been found to be in violation of their WTO obligations. For further information on WTO disputes, see Office of the U.S. Trade Representative, “WTO Dispute Settlement,” at http://www.ustr.gov/trade-topics/enforcement/dispute-settlement-proceedings/wto-dispute-settlement; the annual Trade Policy Agenda and Annual Report of the President of the United States on the Trade Agreements Program, at http://www.ustr.gov/sites/default/files/uploads/reports/2009/asset_upload_file86_15410.pdf; and WTO, Update of WTO Dispute Settlement Cases (updated regularly), at http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm.

Countermeasures are decisions that are subject to a “reverse consensus” rule under which the DSB agrees to these actions unless all DSB Members object. In effect, these decisions are virtually automatic. Article 23 of the DSU requires a complaining Member to act in accordance with the DSU when it initiates a dispute, including making any internal determination that another Member has violated a WTO obligation consistent with the WTO decision in the case and following DSU procedures to set a deadline by which the defending Member must comply, determining the level of sanctions for non-compliance, and obtaining authorization from the DSB to impose any such sanctions.

After the DSB adopts an adverse panel and any Appellate Body report, the defending Member must inform the DSB of its compliance plans. If it is impracticable for the Member to comply immediately, the Member will be allowed a “reasonable period of time” to do so. If the Member proposes a compliance period and it is not approved by the DSB, the disputing parties may negotiate a deadline themselves. If this fails, the length of the period will be arbitrated. A WTO Member found to have violated WTO obligations is expected to comply by withdrawing the offending measure by the end of the established compliance period, with compensation and temporary retaliation available to the prevailing party as alternative remedies. Full compliance is the preferred outcome, however, so as to ensure that negotiated rights and obligations are preserved and maintained.

Article 22 of the DSU provides that if the prevailing Member in a dispute believes that the defending Member has not implemented the WTO rulings and recommendations by the end of the established compliance period, it may request the other Member to negotiate a compensation agreement or it may ask the DSB for authorization to suspend WTO concessions, usually to impose higher tariffs on selected imports from the defending country. The Member may choose the latter option without first requesting compensation. In some cases, the prevailing party may agree to extend the original compliance deadline instead of immediately seeking a remedy.

If a prevailing Member does choose to suspend concessions, it is expected to do so in the same sector in which the WTO violation was found, but if the Member finds that this is not “practicable or effective,” it may seek to suspend concessions in other sectors in the same agreement. If, however, the Member finds that this alternative would also be impracticable or ineffective and that “the circumstances are serious enough,” it may seek to suspend obligations under another WTO agreement, referred to as “cross-retaliation.” A prevailing Member may seek to cross-rebate if, for example, in a dispute involving trade in goods, the Member does not import a sufficient amount of goods from the defending Member to remedy the trade injury involved or the Member believes that placing tariff surcharges on goods imported from the defending Member would be unreasonably costly for the prevailing Member’s economy.

Under the DSU, the DSB is to authorize the retaliation request under the reverse consensus rule within 30 days after the compliance period expires. If the defending Member objects to the request, however, the proposed retaliation will be arbitrated and the 30-day deadline for approving the retaliation request effectively extended. The objection may relate to the level of nullification or impairment of benefits involved or whether DSU cross-retaliation rules have been followed. The arbitration, which may be carried out by the original panel if members are available, or by an arbitrator appointed by the WTO Director General, is ordinarily to be completed within 60 days after the compliance period expires. The DSB then meets to authorize the retaliation request, subject to any modification by the arbitrator.
In addition, Article 21.5 of the DSU provides for further dispute settlement proceedings in the event the disputing parties disagree as to whether the defending Member has implemented the WTO rulings and recommendations in a particular case. Once a compliance panel is convened, it is expected to issue its report within 90 days; the report may then be appealed. In practice, compliance panels may require a considerably longer period of time to complete their work where a complicated case is involved. For example, in the European Union’s challenge to the U.S. use of “zeroing” in antidumping proceedings (DS294), the EU made its compliance panel request in September 2007, panelists were appointed in November 2007, and the panel report was not publicly circulated until December 2008.

Because the DSU fails to incorporate Article 21.5 proceedings into the 30-day period for approving countermeasures and the timeframe for any subsequent arbitration, a procedural problem, referred to as “sequencing,” has resulted. Disputing Members have often filled the gap by entering into ad hoc bilateral procedural agreements setting out timelines for any requested compliance-related proceedings and reserving Members’ rights in the unfolding of these proceedings. Such agreements have been entered into in many of the cases discussed below.

The DSU provides that any suspension of concessions or other obligations is temporary and may only be applied by the prevailing Member until the WTO-inconsistent measure is removed, the defending Member provides a solution to any trade injury at issue, or a mutually satisfactory resolution of the dispute is reached.4 Moreover, if a prevailing Member is ultimately authorized to impose countermeasures, the Member is not required to implement them. As evident from some of the cases discussed in this report, WTO Members may manage disputes in a variety of ways at the compliance phase, short of imposing sanctions.


4 The DSU does not expressly set out a procedure for obtaining the removal of countermeasures, though Members may obtain a ruling on whether continued imposition is warranted either through a compliance panel or a new dispute settlement proceeding. The issue of removing such measures arose in connection with the continued levying of increased tariffs on imports from the European Union (EC) by the United States and Canada in response to the EC’s failure to comply with WTO decisions faulting European Union import restrictions on beef produced with growth hormones. The EC initiated WTO dispute settlement proceedings against the United States and Canada in 2004. The Appellate Body, reversing the panel on various points, recommended that the disputing parties request an Article 21.5 compliance panel proceeding in order to resolve their differences as to whether the EC is in compliance in the underlying beef hormone cases (DS26/DS48) and whether the U.S. and Canadian countermeasures thus have a legal basis. Appellate Body Report, United States—Continued Suspension of Obligations in the EC-Hormones Dispute, WT/DS320/AB/R (Oct. 16, 2008); Appellate Body Report, Canada—Continued Suspension of Obligations in the EC-Hormones Dispute, WT/DS321/AB/R (Oct. 16, 2008). The EC requested consultations under Article 21.5 in December 2008, but the proceeding involving the United States has since been suspended as part of a bilateral agreement intended to resolve the beef hormone dispute. Press Release, Office of the USTR, USTR Announces Agreement with European Union in Beef Hormones Dispute (updated June 22, 2009), at http://www.ustr.gov/about-us/press-office/press-releases/2009/may/ustr-announces-agreement-european-union-beef-hormones-. European Commission, Memorandum on Beef Hormones dispute signed with the United States (May 14, 2009), at http://ec.europa.eu/trade/issues/respectrules/dispute/memo140509_en.htm.
Uruguay Round Agreements Act (URAA): Statutory Requirements for Implementing WTO Decisions

The legal effect of Uruguay Round agreements and WTO dispute settlement results in the United States is comprehensively dealt with in the Uruguay Round Agreements Act (URAA), P.L. 103-465, which addresses the relationship of WTO agreements to federal and state law and prohibits private remedies based on alleged violations of WTO agreements.5 The statute also requires the United States Trade Representative (USTR) to keep Congress informed of disputes challenging U.S. laws once a dispute panel is established, any U.S. appeal is filed, and a panel or Appellate Body report is circulated to WTO Members.6 In addition, the URAA places requirements on regulatory action taken to implement WTO decisions and contains provisions specific to the implementation of panel and appellate reports that fault U.S. actions in trade remedy proceedings.

Section 102: Domestic Legal Effect of WTO Decisions

Section 102 of the URAA and its legislative history establish that domestic law supersedes any inconsistent provisions of the Uruguay Round agreements and that congressional or administrative action, as the case may be, is required to implement adverse decisions in WTO dispute settlement proceedings.

Federal Law

Section 102(a)(1), 19 U.S.C. § 3512(a)(1), provides that “[n]o provision of any of the Uruguay Round Agreements, nor the application of any such provision to any person or circumstance, that is inconsistent with any law of the United States shall have effect.” The URAA further provides, at § 102(a)(2), 19 U.S.C. § 3512(a)(2), that nothing in the statute “shall be construed ... to amend or modify any law of the United States ... or ... to limit any authority conferred under any law of the United States ... unless specifically provided for in this act.”

As explained in Statement of Administrative Action (SAA) accompanying the Uruguay Round agreements when they were submitted to Congress in 1994, “[i]f there is a conflict between U.S. law and any of the Uruguay Round agreements, section 102(a) of the implementing bill makes clear that U.S. law will take precedence.”7 Moreover, section 102 is further intended to clarify that all changes to U.S. law “known to be necessary or appropriate” to implement the WTO agreements are incorporated in the URAA and that any unforeseen conflicts between U.S. law


6 Uruguay Round Agreements Act (URAA), § 123(d)-(f), 19 U.S.C. § 3533(d)-(f).

7 Uruguay Round Agreements, Statement of Administrative Action, H.Doc. 103-316(I) at 659 (1994)[hereinafter cited as Uruguay Round SAA]. The SAA, which was expressly approved in the URAA, is “regarded as an authoritative expression by the United States concerning the interpretation and application of the Uruguay Round Agreements and ... [the URAA] in any judicial proceeding in which a question arises concerning such interpretation or application.” URAA, § 102(d), 19 U.S.C. § 3512(d).
and the WTO agreements “can be enacted in subsequent legislation”8 Congress has traditionally
treated potential conflicts with prior GATT agreements and free trade agreements in this way,
treatment that it also deems to be “consistent with the Congressional view that necessary changes
in Federal statutes should be specifically enacted, not preempted by international agreements.”9

This approach carries over into the implementation of WTO dispute settlement results, a situation
explained as follows in URRA legislative history:

Since the Uruguay Round agreements as approved by the Congress, or any subsequent
amendments to those agreements, are non-self-executing, any dispute settlement findings
that a U.S. statute is inconsistent with an agreement also cannot be implemented except by
legislation approved by the Congress unless consistent implementation is permissible under
the terms of the statute.10

State Law

Where a state law is at issue in a WTO dispute, the URRA provides for federal-state cooperation
in the proceeding and limits any domestic legal challenges to the law to the United States.11 The
act’s general preclusion of private remedies (discussed below) further centralizes the response to
adverse WTO decisions involving state law in the federal government.12

Section 102(b) provides as follows:

No State law, or the application of a such a State law, may be declared invalid as to any
person or circumstance on the ground that the provision or its application is inconsistent with
any of the Uruguay Round Agreements, except in an action brought by the United States for
the purposes of declaring such law or application invalid.13

8 H.Rept. 103-826(I), at 25; see also S.Rept. 103-412, at 13.
9 H.Rept. 103-826(I), at 25; see also S.Rept. 103-412, at 13.
10 H.Rept. 103-826(I), at 25; see also S.Rept. 103-412, at 13, and the Uruguay Round SAA, supra note 7, at 1032-33.

The latter states as follows: “Reports issued by panels or the Appellate Body under the DSU have no binding effect
under the law of the United States and do not represent an expression of U.S. foreign or trade policy. They are no
different in this respect than those issued by GATT panels since 1947. If a report recommends that the United States
change federal law to bring it into conformity with a Uruguay Round agreement, it is for the Congress to decide
whether any such change will be made.”

11 A challenge by Brazil to Florida’s equalizing excise tax on processed orange and grapefruit products (WT/DS250)
was resolved in 2004 without panelists having been appointed after Florida amended its statute. Notification of
Mutually Agreed Solution, United States—Equalizing Excise Tax Imposed by Florida on Processed Orange and
Grapefruit Products, WT/DS250/3 (June 2, 2004); U.S. Brazil Settle Long-standing Dispute Over Florida Tax to
Promote Citrus Products, 21 Int’l Trade Rep. (BNA) 945 (2004). In the challenge by Antigua and Barbuda to both
federal and state laws affecting the cross-border supply of gambling and betting services (DS285), the United States
prevailed on the issue of whether the state measures infringed market access obligations under the General Agreement
on Trade in Services (GATS). The WTO Appellate Body found that the panel had erred in considering whether the
eight laws at issue violated the Agreement because the complainant had not presented sufficient evidence and legal
arguments to establish a prima facie case. United States—Measures Affecting the Cross-Border Supply of Gambling
and Betting Services, WT/DS285. See infra text accompanying notes 195-237 for further discussion of this case.

12 For further discussion, see Uruguay Round SAA, supra note 7, at 676.
13 URRA, § 102(b)(2)(A), 19 U.S.C. § 3512(b)(2)(A). The term “State law” is defined to include “any law of a political
subdivision of a State, as well as any State law that regulates or taxes the business of insurance.” URRA, § 102(b)(3),
19 U.S.C. § 3512(b)(3). The term is intended to encompass “any provision of a state constitution, regulation, practice or
other state measure.” Uruguay Round SAA, supra note 7, at 674.

Congressional Research Service 5
According to legislative history, the provision “makes clear that the Uruguay Round agreements do not automatically preempt State laws that do not conform to their provisions, even if a WTO dispute settlement panel or the Appellate Body were to determine that a particular State measure was inconsistent with one or more of the Uruguay Round agreements.”\(^\text{14}\) The statute also contains certain restrictions in any such legal action brought by the United States, including that the report of the WTO dispute settlement panel or the Appellate Body may not be considered binding or otherwise accorded deference.\(^\text{15}\) Any such suit by the United States is expected to be a rarity.\(^\text{16}\)

**Preclusion of Private Remedies**

Private remedies are prohibited under § 102(c)(1) of the URAA, 19 U.S.C. § 3512(c)(1), which provides that “[n]o person other than the United States ... shall have a cause of action or defense under any of the Uruguay Round Agreements or by virtue of congressional approval of such an agreements” or “may challenge, in any action brought under any provision of law, any action or inaction by any department, agency, or other instrumentality of the United States, any State, or any political subdivision of a State, on the ground that such action or inaction is inconsistent with such agreement.”

Congress has additionally stated in § 102(c)(2) of the URAA, 19 U.S.C. § 3512(c)(2), that it intends, through the prohibition on private remedies:

- to occupy the field with respect to any cause of action or defense under or in connection with any of the Uruguay Round Agreements, including by precluding any person other than the United States from bringing any action against any State or political subdivision thereof or raising any defense to the application of State law under or in connection with any of the Uruguay Round Agreements—

  (A) on the basis of a judgment obtained by the United States in an action brought under any such agreement; or

  (B) on any other basis.

The House Ways and Means Committee report on the URAA discusses the rationale and implications of § 102(c) as follows:

\(^{14}\) S.Rept. 103-412, at 15; see also H.Rept. 103-826(I), at 25, and Uruguay Round SAA, supra note 7, at 670.

\(^{15}\) URAA, § 102(b)(2)(B), 19 U.S.C. § 3512(b)(2)(B). In addition, the United States will have the burden of proving that the State law or its application is inconsistent with the WTO agreement in question; any State whose interests may be impaired or impeded by the suit will have the unconditional right to intervene as a party, and the United States will be entitled to amend its complaint to include a claim or cross-claim concerning the law of a State that does intervene; and any State law that is declared invalid will not be considered to have been invalid in its application during any period before the court’s judgment becomes final and all timely appeals are exhausted. The statute also requires the United States Trade Representative to notify Congress before bringing any such suit. URAA, § 102(b)(2)(C), 19 U.S.C. § 3512(b)(2)(C).

\(^{16}\) Uruguay Round SAA, supra note 7, at 674; H.Rept. 103-826(I), at 26; S.Rept. 103-412, at 15. The SAA states, inter alia, that the Attorney General “will be particularly careful in considering recourse to this authority where the state measure involved is aimed at the protection of human, animal, or plant health or of the environment or the state measure is a state tax of a type that has been held to be consistent with the requirements of the U.S. Constitution. In such a case, the Attorney General would entertain use of this statutory authority only if consultations between the President and the Governor of the State concerned failed to yield an appropriate alternative.” Uruguay Round SAA, supra note 7, at 674.
For example, a private party cannot bring an action to require, preclude, or modify government exercise of discretionary or general “public interest” authorities under other provisions of law. These prohibitions are based on the premise that it is the responsibility of the Federal Government, and not private citizens, to ensure that Federal or State laws are consistent with U.S. obligations under international agreements such as the Uruguay Round agreements.17

The SAA notes, however, that § 102(c) “does not preclude any agency of government from considering, or entertaining argument on, whether its action or proposed action is consistent with the Uruguay Round agreements, although any change in agency action would have to be authorized by domestic law.”18

Domestic Implementation of WTO Decisions Involving Administrative Action

In addition to the URAA provisions that limit the direct effect of WTO rules and decisions in U.S. law, the URAA also places requirements on agencies in their implementation of WTO panel and Appellate Body reports. These provisions apply to regulatory action in general and to new agency determinations in response to WTO decisions involving trade remedy proceedings.

Section 123: Regulatory Action Generally

Section 123(g) of the URAA, 19 U.S.C. § 3533(g), provides that in any WTO case in which a departmental or agency regulation or practice has been found to be inconsistent with a WTO agreement, the regulation or practice may not be rescinded or modified in implementation of the decision “unless and until” the United States Trade Representative and relevant agencies meet congressional consultation and private sector advice requirements, the proposal has been published in the Federal Register with a request for public comment, and the final rule or other modification has been published in the Federal Register.19 Section 123(g) does not apply to any regulation or practice of the U.S. International Trade Commission.

The statute requires the USTR to consult with “the appropriate congressional committees” regarding the proposed contents of the final rule or other modification. These committees include the House Ways and Means Committee, the Senate Finance Committee, and any other congressional committees that have jurisdiction over matter at hand.20 In addition, the final rule or other modification may not take effect until 60 days after the USTR has begun committee consultations, unless the President determines that an earlier effective date is in the national

17 H.Rept. 103-826(I), at 26.
18 Uruguay Round SAA, supra note 7, at 676.
19 The provision first came into play in 1996 when the United States took regulatory action to comply with the adverse WTO decision in United States—Standards for Reformulated and Conventional Gasoline, WT/DS2, WT/DS4. See World Trade Organization (WTO) Decision on Gasoline Rule (Reformulated and Conventional Gasoline), 61 Fed. Reg. 33703 (1996). The U.S. Court of Appeals for the District of Columbia Circuit upheld the final issued by EPA to resolve the dispute, finding, inter alia, that the agency was not statutorily precluded from considering factors other than air quality in issuing rules under the antidumping provision of the Clean Air Act and could thus consider the effect of the proposed rule on U.S. treaty obligations. George E. Warren Corp. v. U.S. Environmental Protection Agency, 159 F.3d 616 (D.C.Cir. 1998).
interest. The House Ways and Means Committee and the Senate Finance Committee may vote to indicate the disagreement of the committee with the proposed action during the 60-day period. Any such vote is not binding on the agency or department involved.21

Section 129: Agency Determinations in Trade Remedy Proceedings

Section 129 of the URAA, 19 U.S.C. § 3538, sets forth authorities and procedures under which the Department of Commerce (DOC) and the U.S. International Trade Commission (ITC) may issue new subsidy, dumping and injury determinations, referred to as Section 129 Determinations, in implementation of adverse WTO decisions involving U.S. safeguards, antidumping, and countervailing duty proceedings. Section 129 does not authorize the Commerce Department or the ITC to issue new determinations on their own motion, but instead grants the USTR the discretion to direct the agency to do so in a given case.

In antidumping and countervailing duty investigations, which are carried out under authorities in Title VII of the Tariff Act of 1930, 19 U.S.C. §§ 1671-1677n, the Commerce Department determines the existence and level of dumping or subsidization, as the case may be, and the ITC determines whether the dumped or subsidized imports cause material injury, or a threat of material injury, to a domestic industry. Under U.S. safeguards law, set forth in Title II of the Trade Act of 1974, 19 U.S.C. §§ 2251-2254, the ITC conducts investigations to determine if increased imports, whether or not they are fairly traded, are a substantial cause of serious injury to a domestic industry. If the ITC makes an affirmative injury determination, it recommends remedial measures (e.g., a tariff surcharge or import quota) to the President, who ultimately determines whether or not to take action.

Implemented Section 129 Determinations in antidumping and countervailing duty cases are reviewable in the U.S. Court of International Trade and by binational panels established under Chapter 19 of the North American Free Trade Agreement (NAFTA).22 Chapter 19 panels are available to review final agency determinations in antidumping and countervailing duty investigations involving NAFTA countries in lieu of judicial review in the country in which the determination is made.

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21 Two 110th Congress bills would have placed restrictions on the use of section 123 authorities. S. 364 (Rockefeller) would have amended section 123 to provide that any regulatory modification or final rule proposed under the section could only enter into force if approved by joint resolution enacted into public law. The bill would also have rescinded certain § 123 regulatory modifications that had already taken effect. S. 1919 (Baucus) would have established a WTO Dispute Settlement Review Commission to evaluate WTO decisions under statutory criteria and prohibited a domestic regulatory modification under section 123 from taking effect unless and until Congress received the Commission’s report on the WTO decision involved. No action was taken on either of these bills. See also text at infra note 294.


The Uruguay Round SAA states the following regarding the legal implications of possible parallel judicial proceedings regarding the same agency determinations:

Since implemented determinations under section 129 may be appealed, it is possible that Commerce or the ITC may be in the position of simultaneously defending determinations in which the agency reached different conclusions. In such situations, the Administration expects that courts and binational panels will be sensitive to the fact that under the applicable standard of review, as set forth in statute and case law, multiple permissible interpretations of the law and the facts may be legally permissible in any particular case, and the issuance of a different determination under section 129 does not signify that the initial determination was unlawful.

Uruguay Round SAA, supra note 7, at 1027.
U.S. International Trade Commission

If an interim WTO panel report or a WTO Appellate Body report concludes that an action by the ITC in connection with a trade remedy proceeding is inconsistent with U.S. obligations under the WTO Antidumping Agreement, the Agreement on Subsidies and Countervailing Measures, or the Agreement on Safeguards, the USTR may request the ITC to issue an advisory report on whether U.S. antidumping, countervailing duty, or safeguards law, as appropriate, allows the ITC to take steps with respect to the proceeding at issue that would render its action “not inconsistent with” the panel or AB findings.23

The ITC is to report to the USTR within 30 calendar days of the USTR’s request where an interim report is involved, and within 21 calendar days in case of an AB report.24 These deadlines are aimed at ensuring that the USTR will receive the requested advice in time to decide whether to appeal a panel’s interim report or to implement an adverse report, and to estimate the period of time that may be needed to implementing the WTO decision.25

If a majority of the ITC Commissioners have found that action may be taken under existing law, the USTR must consult with the House Ways and Means Committee and the Senate Finance Committee and may request the ITC in writing to issue a new determination in the underlying proceeding that would render the ITC action “not inconsistent with” the WTO findings.26 The new determination must be issued within 120 days of the USTR’s request.27 The 120-day limit is intended to allow the USTR to propose a reasonable period of time for implementation to the WTO Dispute Settlement Body once the DSB adopts a WTO panel and any Appellate Body report in a case.28

In the event the ITC issues a new negative injury or threat of injury determination, the imports subject to antidumping or countervailing duty order at issue, or a least a portion of them, would no longer be considered to have caused a harmful effect, even though they may in fact be dumped or subsidized. The Tariff Act requires that the imposition of antidumping or countervailing duties on dumped or subsidized imports be supported by an affirmative injury determination and thus, absent such a determination, the antidumping or countervailing duty order would need to be revoked in whole or in part. Section 129(a)(6) authorizes the USTR to direct the Commerce Department to take this action.29 The USTR must consult with the House Ways and Means and Senate Finance Committees before the ITC’s new determination is implemented.30

Where a safeguard proceeding is involved, section 129 authorizes the President, after receiving a new ITC determination, to reduce, modify, or terminate the safeguard notwithstanding other

25 Uruguay Round SAA, supra note 7, at 1023.
27 ITC authority to issue a new determination is granted “notwithstanding any provision of Tariff Act of 1930 ... or title II of the Trade Act of 1974.” The Uruguay Round SAA explains that “[m]any of the ITC’s proceedings are time-limited by statute, and the ITC cannot revisit its actions in those proceedings in the absence of the authority provided by subsection (a)(4) or a remand.” Uruguay Round SAA, supra note 7, at 1024.
28 Id.
30 URAA, § 129(a)(5),(6), 19 U.S.C. § 3538(a)(5),(6).
statutory requirements governing changes in existing safeguard measures.\(^{31}\) The President must consult with the House Ways and Means Committee and Senate Finance Committee before acting under this authority. The USTR is required to publish a notice of the implementation of any ITC determination in the *Federal Register.*\(^{32}\)

**Department of Commerce**

Section 129 also sets out a procedure for new Department of Commerce determinations in antidumping and countervailing duty proceedings, though without the requirement for an initial agency advisory report regarding the scope of the agency’s statutory discretion. Instead, promptly after the issuance of a WTO panel or Appellate Body report finding that a DOC determination in an antidumping or countervailing duty proceeding is inconsistent with U.S. obligations under the WTO Antidumping Agreement or the Agreement on Subsidies and Countervailing Measures, the USTR is to consult with the Commerce Department and the House Ways and Means and Senate Finance Committees, and may request the Department, in writing, to issue a determination in connection with the underlying antidumping or countervailing duty proceeding that would render its action “not inconsistent with” the panel or appellate findings.\(^{33}\) The Commerce Department must issue its Section 129 Determination within 180 days of the request.\(^{34}\) A new determination may, for example, reduce the dumping margin or net subsidy and thus result in a reduction of existing duties. After consulting with DOC and the above-named congressional committees, USTR may direct DOC to implement its determination in whole or in part.\(^{35}\)

**Prospective Implementation of Section 129 Determinations**

Section 129(c)(1) of the URAA provides that Section 129 Determinations, whether issued by the ITC or the Commerce Department, apply prospectively, that is, the full or partial revocation of the antidumping or countervailing duty order or the implementation of the DOC determination, as the case may be, applies to unliquidated entries of the subject merchandise that are entered, or withdrawn from warehouse for consumption, on or after the date on which the USTR directs the Commerce Department to revoke the order or implement the determination.\(^ {36}\) Unliquidated entries are those for which the U.S. Customs and Border Protection has not ascertained a final

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\(^{33}\) URAA, § 129(b)(1),(2), 19 U.S.C. § 3538(b)(1),(2). Senate legislative history indicates that USTR is expected to “consult closely with Commerce in order to ensure that it benefits from Commerce’s expertise with respect to both the panel or Appellate Body reports and the appropriate implementing action (if any), including the implications of any such action on the administration of the antidumping or countervailing duty law.” S.Rept. 103-412, at 27. The Senate Finance Committee has further stated that it “expects to be consulted closely by the Administration throughout this process, and to be informed and provided an explanation should USTR decide to implement an adverse panel or Appellate Body decision notwithstanding a contrary recommendation by Commerce.” Id. If USTR directs Commerce to implement the new determination, “Commerce may do so even if litigation is pending with respect to the initial agency determination.” H.Rept. 103-826(I), at 39.

\(^{34}\) URAA, § 129(b)(2), 19 U.S.C. § 3538(b)(2).


\(^{36}\) URAA, § 129(c)(1), 19 U.S.C. § 3538(c)(1). This provision has been held to be unambiguous in its prospective effect. E.g., Corus Staal BV, v. United States, 593 F.Supp.2d 1373, 1382-83 (Ct. Int’l Trade 2008).
rate and amount of duty.\(^{37}\) Notices of the implementation of Section 129 Determinations must be published in the *Federal Register*.

The Uruguay Round SAA explains the operation of § 129(c)(1) as follows:

Consistent with the principle that GATT panel recommendations apply only prospectively, subsection 129(c)(1) provides that where determinations by the ITC or Commerce are implemented under subsections (a) or (b), such determinations have prospective effect only. That is, they apply to unliquidated entries of merchandise entered, or withdrawn from warehouse, for consumption on or after the date on which the Trade Representative directs implementation. Thus, relief available under subsection 129(c)(1) is distinguishable from relief available in an action brought before a court or a NAFTA binational panel, where, depending on the circumstances of the case, retroactive relief may be available. Under 129(c)(1), if implementation of a WTO report should result in the revocation of an antidumping or countervailing duty order, entries made prior to the date of Trade Representative’s direction would remain subject to potential duty liability.\(^{38}\)

Canada unsuccessfully challenged § 129(c)(1) in a WTO dispute settlement proceeding in 2001 on the ground that the provision violated the WTO Dispute Settlement Understanding and various WTO antidumping and countervailing duty obligations. Under the retrospective U.S. antidumping and countervailing duty system, DOC ordinarily makes a final assessment of the duties owed on dumped or subsidized goods in an administrative review conducted after the goods are imported. The review covers goods that enter the United States during a specified prior 12-month period. Until this final duty assessment is made for particular goods, importers must deposit estimated duties with U.S. Customs and Border Protection (CBP) on entry.\(^{39}\) Canada argued that, where a DOC or ITC determination in an antidumping or countervailing duty proceeding is found to violate a WTO obligation, § 129(c)(1) effectively prohibits the United States from fully complying with the WTO decision by preventing it from refunding estimated duties deposited with CBP before the date that the Section 129 Determination is implemented. In other words, because the duty deposits supported by the challenged determination would no longer have a WTO-consistent basis, Canada argued that they must be returned.\(^{40}\)

In response to Canada’s claim, the United States maintained that § 129(c)(1) addresses only the treatment of imports entered after the implementation date and does not govern the treatment of prior entries for which final duties have not yet been calculated. The United States further argued that the statute does not mandate any particular treatment of these prior unliquidated entries and that the United States has other legal options for dealing with them, including establishing a new dumping or subsidy margin by using a WTO-consistent methodology in an administrative review of the entries or, in the event the duty order or orders were revoked as a result of the WTO

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38 Uruguay Round SAA, *supra* note 7, at 1026. See also H.Rept. 103-826(I), at 39; S.Rept. 103-412, at 27.

39 Trade Act of 1974, § 751(a), 19 U.S.C. §1675(a), 19 C.F.R, § 351.212(a), 351.213. The rate determined in the administrative review is also the rate at which estimated duties on imports entered during the succeeding year are assessed and will apply until any subsequent administrative review produces a new rate.

proceeding, revising the duty rate in response to a domestic court decision involving the earlier entries.\(^41\)

In a report issued in July 2002, the WTO panel concluded that Canada failed to establish that the statute either required WTO-inconsistent action on the part of the United States or precluded the United States from taking action in accordance with its WTO obligations.\(^42\) Canada did not appeal, and the panel report was adopted by the DSB in August 2002.

**Judicial Responses**

Although private rights of action based on Uruguay Round agreements are precluded under §102(c) of the Uruguay Round Agreements Act, WTO panel findings have at times been brought to the attention of federal courts, most often in challenges to agency determinations in antidumping and countervailing duty proceedings initiated under judicial review provisions contained in §516A of the Tariff Act of 1930, 19 U.S.C. § 1516a. Section 129 determinations issued by the ITC and the Commerce Department to comply with WTO decisions are also reviewable under this statute. These cases are heard in the U.S. Court of International Trade (USCIT), which has exclusive jurisdiction over civil actions brought under §516A.\(^43\) The USCIT’s decisions may be appealed to the U.S. Court of Appeals for the Federal Circuit, whose decisions are reviewable by the U.S. Supreme Court.

Federal courts must hold a final agency determination in an antidumping or countervailing duty proceeding or a Section 129 Determination unlawful if it is found to be “unsupported by substantial evidence on the record, or otherwise not in accordance with law.”\(^44\) To determine whether an agency legal interpretation applied in an agency determination is in accordance with law, the court employs the two-step analysis set out by the U.S. Supreme Court in *Chevron, U.S.A., Inc. v. Natural Resources Defense Council*, 467 U.S. 837 (1984).\(^45\) First, the court, using tools of statutory construction, determines whether Congress has clearly spoken to the issue at hand. Second, if the underlying statute is silent or ambiguous, the court decides whether the agency’s construction of the statute is permissible and will defer to an agency’s interpretation of a statute provided it is reasonable. It has also been argued that, in considering whether an agency construction is reasonable for purposes of the second prong of the *Chevron* test, the court should apply the canon of construction articulated by the Supreme Court in 1804 in *Murray v. Schooner Charming Betsy*, 6 U.S. (2 Cranch) 64, 118 (1804). This canon holds that where a statute does not require a specific interpretation, i.e., it permits more than one interpretation, it should be interpreted consistently with U.S international obligations.\(^46\) In the current context, the


\(^{42}\) Panel Report, *United States—Section 129(c)(1) of the Uruguay Round Agreements Act*, WT/DS221/R (July 15, 2002).


\(^{46}\) See, e.g., Corus Staal BV v. U.S. Dep’t of Commerce, 259 F.Supp.2d 1253, 1262 (Ct. Int’l Trade 2003) and generally (continued...)
international obligation would be that contained in a WTO agreement, either by itself or as interpreted in one or more WTO decisions.47 Plaintiffs thus argue, on the basis of the Charming Betsy canon, that an agency interpretation that violates a WTO obligation is unreasonable under Chevron step two.

Because the underlying cause of action in domestic legal challenges to the agency actions described above is based in the Tariff Act and not on a provision of a WTO agreement, courts have not viewed § 102(c) of the URRA as preventing them from hearing a WTO-based argument in these challenges.48 When faced with such arguments, courts may deem WTO decisions to be “persuasive”49 or a source of useful reasoning, “if sound” to inform a court’s decision,50 but state that WTO decisions are not binding on the United States, U.S. agencies, or the judiciary.51 Most recently, courts have made clear that, given the statutory scheme established in the URRA for implementing adverse WTO decisions, questions as to whether the United States should comply with an adverse WTO decision, and what the extent of U.S. compliance should be, are matters falling within the province of the executive branch.52 As a result, in ruling on whether an agency’s interpretation of a statute is reasonable, courts have rejected Charming Betsy arguments and

(...continued)

Jane A. Restani & Ira Bloom, Interpreting International Trade Statutes: Is The Charming Betsy Sinking? 24 FORDHAM INT’L L. J. 1533 (2001). The Charming Betsy canon stems from the following Supreme Court language: “It has also been observed, that an act of congress ought never to be construed to violate the law of nations, if any other possible construction remains, and consequently, can never be construed to violate neutral rights, or to affect neutral commerce, further than is warranted by the law of nations as understood in this country.” Murray v. Schooner Charming Betsy, 6 U.S. (2 Cranch) 64, 118 (1804).


49 Koyo Seiko Co. v. United States, 442 F.Supp.2d 1360, 1363 (Ct. Intl Trade 2006), citing, inter alia, NSK Ltd. v. United States, 358 F.Supp.2d 1276, 1288 (Ct. Int’l Trade 2005). Note also that in Cummings Inc. v. United States, the Court of Appeals for the Federal Circuit held that a classification opinion of the World Customs Organization “is not binding and is entitled, at most, to ‘respectful consideration’” by a U.S. court. 454 F.3d 1361, 1366 (Fed. Cir. 2006).

50 Hyundai Electronics Co. v. United States, 53 F.Supp.2d 1334, 1343 (Ct. Int’l Trade 1999); see also, e.g., Allegheny Ludlum Corp. v. United States, 367 F.3d 1339, 1348 (Fed. Cir. 2004).


52 Koyo Seiko Co. v. United States, 551 F.3d 1286, 1291 (Fed. Cir. 2008) (“The determination whether, when, and how to comply with the WTO’s decision on ‘zeroing’, involves delicate and subtle political judgments that are within the authority of the Executive and not the Judicial Branch.”); Corus Staal BV v. Dept. of Commerce, 395 F.3d 1343, 1347 (Fed. Cir. 2005), cert denied, 126 S.Ct. 1023 (2006); SKF USA v. United States, 611 F.Supp.2d 1351, 1359-60 (Ct. Intl trade 2009); Corus Staal BV v. United States, 593 F.Supp.2d 1373, 1383-85 (Ct. Int’l Trade 2008). See also Koyo Seiko Co. v. United States, 442 F.Supp. 1360, 1363 (Ct. Int’l Trade 2006). In this case, the court refused to permit the plaintiff to amend its complaint to challenge the Commerce Department’s “zeroing” methodology on the ground that the WTO had since adopted an Appellate Body decision faulting the U.S. practice, stating that such an amendment would be futile “given that it is not controlling precedent and is immaterial to the court’s examination of the administrative decisions issued by the Department.”
declined to base their decision making on a WTO decision adverse to the United States where the executive branch has not taken the necessary domestic action to comply.\textsuperscript{53}

**Pending Cases Involving Legislative Action**

Six WTO dispute proceedings that involve federal statutes remain pending—that is, panel and Appellate Body reports adverse to the United States have been adopted by the WTO Dispute Settlement Body (DSB) and compliance issues have not yet been fully resolved. Among these are two long-standing disputes with the European Union (EU),\textsuperscript{54} one involving § 110(5)(B) of the Copyright Act, a statute affecting music licensing, and the other, § 211 of the Omnibus Appropriations Act of 1998, a statute addressing trademarks that involve property confiscated by Cuba. Another is a long-standing dispute with Japan involving a provision of the U.S. antidumping statute governing the calculation of dumping rates for producers and exporters who are not individually investigated by the Commerce Department.

While Congress repealed the Continued Dumping and Subsidy Offset Act of 2000, a statute which required the distribution of collected antidumping and countervailing duties to petitioners and interested parties in the underlying trade remedy proceedings, the repeal legislation mandates the distribution to U.S. firms of duties collected on goods entered through September 30, 2007, two years after the statutory repeal date of October 1, 2005. The European Union and Japan, two complainants who have objected to these continued distributions, are continuing to retaliate with tariff surcharges on U.S. goods.

As the result of a completed compliance panel proceeding, the United States has been found not to have fully complied in Brazil’s challenge to U.S. cotton subsidies and faces the possibility of retaliation by Brazil against U.S. goods and possibly U.S. services or intellectual property interests. While Congress repealed or made statutory changes to U.S. export credit guarantee programs that were found by the WTO to be prohibited subsidies and the Executive Branch made administrative changes to one of these programs under revised statutory authority, Congress also reauthorized payments under two domestic support programs that Brazil successfully challenged as actionable subsidies. Payments under these programs were found to cause serious prejudice to Brazil in the form of significant price suppression in the world upland cotton market. Brazil is currently authorized to impose sanctions to remedy both prohibited and actionable subsidy measures at issue in the case.

Antigua’s challenge to federal laws governing the remote supply of gambling services, while only partially successful, left certain issues unresolved and resulted in the United States withdrawing its market access commitments for gambling services under the General Agreement on Trade in Services (GATS). Antigua sought both retaliation in the WTO dispute and compensation under


\textsuperscript{54} As of December 1, 2009, “European Union” replaced “European Communities” as the official name of this WTO Member. The terms European Communities and EC still appear in older WTO materials, including panel and Appellate Body reports, bilateral procedural agreements in particular disputes, and communications to the WTO Dispute Settlement Body. Except for references to any such older WTO documents, this report uses the name “European Union” or the acronym “EU” in the text of the report regardless of the time period being discussed. For further information, see European Union or Communities?, at http://www.wto.org/english/thewto_e/countries_e/european_union_or_communities_popup.htm.
the GATS for the negative effects of the change in the U.S. GATS commitments. Outstanding issues still remain subject to discussion by the two parties.

Section 110(5)(B) of the Copyright Act (Music Copyrights)(DS160)

This case, sometimes referred to as the “Irish music” dispute, involves legislation enacted in 1998 (17 U.S.C. § 110(5)(b), as added by P.L. 105-298, § 202(a)), which provides that it is not a copyright infringement for bars and restaurants and other retail outlets to play radio and television music without authorization from the copyright holder or the payment of fees so long as the establishments meet certain size limitations or equipment requirements. Challenged by the European Union (EU) in 1999, this so-called “small business” exemption was found to be an improper rights limitation in violation of Article 13 of the Agreement on Trade-Related Intellectual Property Rights (TRIPS).

In the absence of U.S. legislative action by the end of the initial compliance period (July 27, 2001), complainant EU agreed to extend the period to the end of 2001, and to consider U.S. compensation for the EU music industry based on an amount of trade injury determined by arbitration under Article 25 of the DSU, a free-standing arbitration provision. A November 9, 2001, arbitral award determined that some $1.1 million in EU trade benefits are affected annually.

Notwithstanding the arbitration, the EU on January 7, 2002, requested authorization to impose countermeasures on the ground that the United States had not fully complied by the extended deadline, proposing to suspend concessions under the TRIPS Agreement by “levying a special fee from US nationals in connection with border measures concerning copyright goods.” While the United States asked for arbitration of the proposal, the United States and the EU on February 26, 2002, asked that the arbitration be suspended, with the understanding that it could be reactivated by either party after March 1, 2002.

In April 2003, Congress appropriated $3.3 million for a “one-time only, lump-sum payment” to the EU to cover a three-year period of nullification and impairment of benefits in the dispute (P.L. 108-11). The parties notified the WTO in late June 2003 that the payment, which will be made into a fund for EU performers, constitutes a temporary settlement of the dispute. They also agreed that the EU may request that the suspended arbitration be resumed any time after December 20, 2004, or if the United States fails to pay within 45 days after being notified that the fund has been established.

55 For further discussion of this provision, see CRS Report RS21107, Copyright Law’s “Small Business Exception”: Public Performance Exemptions for Certain Establishments, by Todd B. Tatelman.

56 See H.Rept. 108-76 at 33, 92. As does the House report on the enacted appropriation, the House report on the House-passed FY2004 appropriation for the USTR (H.R. 2799) points out that approval of the payment was intended as a “one-time only” funding measure and further states that “[t]here is a long-established practice of using suspension of tariff concessions to resolve trade disputes and the Committee does not intend to appropriate funds to settle these matters.” H.Rept. 108-221 at 65. In addition, the Committee “cautions U.S. negotiators that there should be no commitments made within trade agreements to use funds from the U.S. Treasury that have neither been requested nor appropriated to resolve trade disputes.” Id.

57 Notification of a Mutually Satisfactory Temporary Arrangement, United States—Section 110(5) of the US Copyright Act, WT/DS160/23 (June 26, 2003).
Recent Developments

In late November 2004, shortly before the three-year U.S.-EU agreement expired, the EU complained to the DSB that the United States had taken only minimal steps to secure the passage of legislation that would bring the United States into full compliance in the case. The EU has regularly raised the issue of U.S. noncompliance at DSB meetings, with the United States continuing to report to the DSB that it will work with Congress on the matter. While the EU has stated that it has reserved the right to reactivate the arbitration on its retaliation request at any time, the disputing parties have also indicated interest in possible discussions on a mutually satisfactory resolution of the matter. During a July 2009 meeting on bilateral trade relations held in Washington, D.C., USTR Kirk and European Union Trade Commissioner Ashton “exchanged ideas on potential steps to address” this dispute, and “directed … [their] staffs to explore new options on this dispute in the coming weeks.”

Section 211 of the Omnibus Appropriations Act of 1998 (Trademark Exclusion Involving Property Confiscated by Cuba)(DS176)

This dispute, at time referred to as the “Havana Club” case, involves a statute (P.L. 105-277, 112 Stat. 2681-88), which prohibits the registration or enforcement in the United States, without the consent of the original owner or successors, of a trademark that is the same or substantially the same as one used in connection with a business or assets confiscated by the Cuban government. Challenged by the European Union (EU) in 1999, the law was ultimately found to violate national treatment and most-favored-nation obligations in the TRIPS Agreement in that it limited the prohibition on registration and enforcement of rights to rights asserted by Cuba and Cuban nationals or their successors-in-interest. Panel and Appellate Body reports in the case were adopted January 2, 2002.

The original compliance period, as agreed upon by the United States and the EU, expired December 31, 2002; it was extended four times, also by agreement, most recently to June 30, 2009. The continued existence of the provision is also routinely cited in annual European Union (EU) reports on U.S. foreign trade barriers and periodic EU updates of EU WTO disputes. See European Commission, United States Barriers to Trade and Investment Report for 2008, at 20, 77 (July 2009) [hereinafter EC 2009 U.S. Trade Barriers Report], at http://trade.ec.europa.eu/doclib/docs/2009/july/tradoc_144160.pdf, and European Commission, General Overview of Active WTO Dispute Settlement Cases Involving the EC as Complainant or Defendant and of Active Cases under the Trade Barriers Regulation, 22 January 2010, at 19-20 [hereinafter EC Dispute Settlement Overview (Jan. 2010)], at http://trade.ec.europa.eu/doclib/docs/2007/may/tradoc_134652.pdf.

E.g., Dispute Settlement Body, Minutes of Meeting, Mar. 20, 2009, at 5, 6, WT/DSB/M/266 (May 19, 2009) [hereinafter DSB Minutes (Mar. 20, 2009)]; see also Status Report by the United States, Addendum, United States—Section 110(5) of the US Copyright Act, WT/DS160/24/Add.56 (Aug. 21, 2009).

E.g., Dispute Settlement Body, Minutes of Meeting, Sept. 28, 2006, at 5-6, WT/DSB/M/220 (Nov. 2, 2006) [hereinafter DSB Minutes (Sept. 28, 2006)].


For more detailed information on the legal issues involved in this case, see CRS Report RS21764, Restricting Trademark Rights of Cubans: WTO Decision and Congressional Response, by Margaret Mikyung Lee.
The United States did not comply by this date. Instead of agreeing to an extension of the deadline or, alternatively, requesting authorization to retaliate, the EU entered into an agreement with the United States regarding rights and procedures involving any future EU retaliation request. The EU agreed not to request authorization from the DSB to suspend concessions for the time being, but pledged to notify and consult with the United States before making any such request in the future. For its part, the United States agreed not to block any retaliation request by the EU on the ground that the request is outside the 30-day window provided for in Article 22.6 of the DSU. The United States also retained the right to object to a proposed retaliation request and to refer the matter to arbitration.

Recent Developments

As the EU, Cuba, and other WTO Members continue to raise the issue of U.S. noncompliance at DSB meetings, the United States has been reporting to the DSB that legislative proposals that would implement the WTO ruling have been introduced in the House and Senate and that it will work with the Congress on legislative vehicles to resolve this matter.

Various 111th Congress bills would either repeal or amend § 211. H.R. 1103 (Wexler) and S. 1234 (Lieberman) would amend § 211 to apply to all persons claiming rights in trademarks confiscated by Cuba, whatever their nationality. H.R. 1530 (Rangel) and H.R. 2272 (Rush) would repeal § 211, remove the current trade embargo on Cuba, and make other statutory changes involving U.S.-Cuba commercial relations. H.R. 1531 (Rangel) and S. 1089 (Baucus) would repeal § 211, require related regulatory changes, and remove statutory restrictions on U.S.-Cuba trade in agricultural and medical goods.

64 Modification of the Agreement under Article 21.3(b) of the DSU, United States—Section 211 Omnibus Appropriations Act of 1998, WT/DS176/15 (Dec. 21, 2004).

65 Understanding between the European Communities and the United States, United States—Section 211 Omnibus Appropriations Act of 1998, WT/DS176/16 (July 1, 2005).

66 E.g., DSB Minutes (Mar. 20, 2009), supra note 59, at 2-5. As with the “Irish music” case discussed earlier, the continued existence of § 211 is routinely cited in annual European Union (EU) reports on U.S. foreign trade barriers and periodic EU updates of EU WTO disputes. See EC 2009 U.S. Trade Barriers Report, supra note 58, at 21, 79-80, and EC Dispute Settlement Overview (Jan. 2010), supra note 58, at 20.


Bills to repeal or amend the provision were also introduced in the 110th and earlier Congresses. 110th Congress bills included: H.R. 217 (Serrano) and H.R. 624 (Rangel), which would have repealed § 211, as well as removed the current trade embargo on Cuba; H.R. 2819 (Rangel) and S. 1673 (Baucus), which would have repealed the statute along with removing certain other restrictions on trade with Cuba; S. 1806 (Leahy), which would have repealed the statute and required the Secretary of the Treasury to issue regulations as were necessary to carry out the repeal within 30 days after enactment; and H.R. 1306 (Wexler) and S. 749 (Nelson), which would have amended § 211 to apply to all persons claiming rights in trademarks confiscated by Cuba, whatever their nationality. In addition, the Senate Judiciary Committee held a hearing on Section 211 issues on July 13, 2004. See An Examination of Section 211 of the Omnibus Appropriations Act of 1998, at http://judiciary.senate.gov/hearings/hearing.cfm?id=1261 for witness lists, testimony and Members statements.
Antidumping Measures on Hot-Rolled Steel Products from Japan (DS184)

This case involves a challenge to preliminary and final agency determinations issued in 1998 and 1999 in an antidumping investigation of hot-rolled steel products from Japan. The panel, as upheld by the Appellate Body, found that the United States was in violation of the WTO Antidumping Agreement because (1) U.S. law, specifically § 735(c)(5)(A) of the Tariff Act of 1930, requires the Commerce Department to include dumping margins based in part on “facts available,” including those contained in petitions, in calculating the antidumping duty rate for companies not investigated individually in a case (“all others” rate); (2) the Commerce Department improperly applied facts available in calculating dumping margins for specific producers; and (3) the Department had improperly excluded from the calculation of the normal value of the products under investigation certain home market sales to parties affiliated with the exporter involved.68

The Appellate Body also ruled against the United States with respect to the ITC’s injury determination, reversing panel findings that the ITC had properly applied a captive production provision and that the agency had found a causal link between the dumped imports and material injury to the industry involved. With regard to Japan’s causation claim, however, the AB found that there was an insufficient factual record to allow completion of the required analysis.69

The arbitrated compliance period in the case expired November 23, 2002. While Japan had threatened trade retaliation earlier in the month because it found it unlikely that the United States would comply with each element of the ruling by this date, the deadline was extended until December 31, 2003, or the end of the 108th Congress, 1st Session (whichever was earlier), to permit the United States to comply fully with the panel and appellate reports in the case.70

Administrative Compliance

In partial implementation of the WTO rulings, the Commerce Department modified the test that it uses to determine which transactions are made by an exporter or producer to an affiliate at arm’s length and are therefore “in the ordinary course of trade.”71 The panel, as upheld by the Appellate

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69 Hot-Rolled Steel AB Report, supra note 68, paras. 235-236.

70 After consultations with Japan, the United States requested that deadline be extended to the dates noted; the DSB approved the extension on December 5, 2002. See Status Report by the United States, Addendum, United States—Anti-dumping Measures on Certain Hot-Rolled Steel Products from Japan, WT/DS184/15/Add.3 (Dec. 9, 2002). The United States and Japan had reportedly been in disagreement regarding implementation of the ruling as it relates to the ITC’s application of the statutory captive production provision. See Japan Threatens Retaliation Against U.S. For Hot-Rolled Steel Antidumping Duties, 19 Int’l Trade Rep. (BNA) 1965 (2002); U.S. Response Leaves WTO Ruling on Hot-Rolled Injury Claims Untouched, INSIDE U.S. TRADE, Nov. 15, 2002, at 3; U.S. Gets Extra Year to Comply with WTO Hot-rolled Steel Decision, INSIDE U.S. TRADE, Dec. 6, 2002, at 13. No action has been taken by the ITC in response to the WTO decision.

Body, found that the test that the United States had applied in the dumping investigation at issue violated Article 2.1 of the Antidumping Agreement, which provides that a product “is to be considered dumped, i.e. introduced into the commerce of another country at less than its normal value, if the export price of the product exported from one country to another is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country.” Sales that are outside the “ordinary course of trade” are thus to be excluded by national authorities when calculating normal value.

Under past practice, the Department considered sales of a product to an affiliate to be at arm’s length if the prices charged were on average at least 99.5% of the prices charged to unaffiliated comparison market customers. The Department’s new test provides that for affiliate sales to be considered, the sales prices “must fall, on average, within a defined range, or band, around sales prices of the same or comparable merchandise sold by that exporter or producer to all unaffiliated customer’s. The band applied for this purpose will provide that the overall ratio calculated for an affiliate be between 98 percent and 102 percent, inclusive, of prices to unaffiliated customers.”

According to the Department, the regulatory revision “is consistent with the view, expressed by the WTO Appellate Body, that rules aimed at preventing the distortion of normal value through sales between affiliates should reflect, ‘even-handedly,’ that ‘both high and low-price sales between affiliates might not be ‘in the ordinary course of trade.’” The Department stated that the new methodology would be used to implement the WTO findings regarding the Japan hot-rolled steel AD proceeding, and applied in all investigations and reviews initiated on or after November 23, 2002.

On December 3, 2002, the Department announced a new dumping determination in the AD proceeding at issue, stating that in implementation of the WTO rulings and recommendations, it had recalculated dumping margins for three affected Japanese producers using the new methodology; addressed issues related to the use of adverse facts available; and recalculated the all-others rate based on the new rates for the respondent companies. The recalculations resulted in reduced dumping margins for the three companies as well for all other exporters.

**Legislative Compliance**

As noted earlier, the dispute panel, as upheld by the Appellate Body, concluded that the United States was in violation of its WTO obligations because it used dumping margins based in part on facts available in determining the “all others” rate in antidumping proceedings. Article 9.4 of the WTO Antidumping Agreement provides, in pertinent part, that the “all others” rate may not exceed the weighted average margin established with respect to individually investigated

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72 Hot-Rolled Steel Panel Report, supra note 68, paras. 7.91-7.120, Hot-Rolled Steel AB Report, supra note 68, paras. 131-173.

73 Modification of Antidumping Methodology, supra note 71, 67 Fed. Reg. at 69186. The Department noted that its modification was the same as that proposed in August 2002, “with the exception of comparing prices of ‘similar’ products where an identical comparison product was not sold to unaffiliated parties...” Id. at 69187.

74 Id.

75 Id.

producers or exporters, excluding any zero and de minimis margin and margins established on the basis of facts available.\(^77\) Section 735(c)(5)(A) of the Tariff Act of 1930 states that, for purposes of preliminary and final dumping determinations, the estimated dumping margin for producers that are not investigated individually “shall be an amount equal to the weighted average of the estimated weighted average dumping margins established for exporters and producers individually investigated, excluding any zero and de minimis margins, and any margins determined entirely under section 776.”\(^78\) Section 776 of the Tariff Act governs the use of facts available by the DOC and ITC in making dumping, subsidy, and injury determinations.\(^79\) The WTO panel, as affirmed on appeal, concluded that § 735(c)(5)(A) is inconsistent with Article 9.4 because it requires DOC to consider dumping margins based in part on facts available in determining the all-others rate, while the cited WTO article was found to require the exclusion of dumping margins based either in whole or in part on such facts.\(^80\)

Absent legislative compliance by the United States, the December 2003 deadline referred to earlier was extended twice, most recently to July 31, 2005.\(^81\) The deadline lapsed without U.S. action. In an understanding between the disputing parties reached earlier in July 2005, Japan stated that it would not request authorization to retaliate at the time but might choose to do so in the future.\(^82\)

**Recent Developments**

No legislation has been introduced to amend § 735(c)(5) of the Tariff Act of 1930 since the 109th Congress. H.R. 2473 (Shaw), 109th Cong., 1st Sess., would have amended § 735(c)(5) to remove

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\(^77\) Article 6.8 provides, in full text, as follows:

In cases in which any interested party refuses access to, or otherwise does not provide, necessary information within a reasonable period or significantly impedes the investigation, preliminary and final determinations, affirmative or negative, may be made on the basis of facts available. The provisions of Annex II shall be observed in the application of this paragraph.

Annex II, titled “Best Information Available in Terms of Paragraph 8 or Article 6,” provides guidelines for the collection and use of information by investigating authorities in antidumping proceedings.


\(^79\) The Tariff Act generally directs the Commerce Department and the International Trade Commission to use “the facts otherwise available” in reaching their subsidy, dumping, and injury determinations if: (1) necessary information is not available on the record or (2) an interested party or any other person withholds requested information, fails to provide such information by the deadline or in the form and manner requested, significantly impedes an antidumping or countervailing duty proceeding, or provides information that cannot be verified. Tariff Act of 1930, § 776(a), 19 U.S.C. § 1677e(a). Before using “facts available,” however, the agencies must enable a person submitting information in response to an agency request to remedy or explain any deficiencies in the original response. Tariff Act of 1930, § 782(d), 19 U.S.C. § 1677m(d). The agencies are allowed to use adverse inferences in selecting from fact available where an interested party “has failed to cooperate by not acting to the best of its ability” to comply with an agency information request.” Tariff Act of 1930, § 776(b), 19 U.S.C. § 1677e(b). As noted by the U.S. Court of International Trade, the ability of an agency to use “facts available” in an investigation acts as “an inducement for respondents to provide complete and accurate information in a timely manner.” Maui Pineapple Company v. United States, 264 F.Supp. 2d 1244, 1257 (Ct. Int’l Trade 2003).


\(^81\) See Dispute Settlement Body, Minutes of Meeting, Aug. 31, 2004, at 6-7, WT/DSB/M/175 (Sept 24, 2004).

\(^82\) Understanding between Japan and the United States, *United States—Anti-dumping Measures on Certain Hot-Rolled Steel Products from Japan*, WT/DS184/19 (July 28, 2005). The United States has agreed not to block any retaliation request on the ground that the 30-day period for requesting authorization to suspend concessions in Article 22.6 has expired, but has reserved the right to have any retaliation request referred to arbitration.
the word “entirely” each time it appears in the provision, thus enabling the Department of Commerce to exclude dumping margins based in whole or in part on facts available in determining the “all others” rate, as called for by the WTO decision. Although the text of H.R. 2473 was listed for possible inclusion in 109th Congress miscellaneous tariff legislation,83 the bill was not made part of the tariff legislation nor was it acted upon as stand-alone legislation.

Japan continues to seek legislative action,84 as the United States continues to state its support for legislative amendments that would achieve full compliance in the case.85 The United States has also submitted a proposal to the Doha Round Negotiating Group on Rules that Article 9.4 of the Antidumping Agreement be clarified to allow the invalidated practice.86 No revisions or clarifications of Article 9.4, however, were included in the draft texts of proposed revisions to the Antidumping Agreement circulated by the Chair of the Negotiating Group in November 2007 and December 2008.87

**Continued Dumping and Subsidy Offset Act (DS217/DS234)**

The Continued Dumping and Subsidy Offset Act (CDSOA) of 2000, also known as the Byrd Amendment, required that duties collected under an existing antidumping or countervailing duty order be distributed annually to petitioners and interested parties in the underlying antidumping or countervailing duty proceeding.88 Payments were available for “qualifying expenditures” in

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In presenting its proposal to WTO negotiating partners, the United States has explained that it interpreted Article 9.4 of the Antidumping Agreement as providing that only margins based entirely on facts available are to be excluded from calculating the all-others rate ceiling because “the United States believed that this was a reasonable interpretation of the statute and because, in the United States’ experience, some level of facts available is often necessary to determine a company’s dumping margin.” U.S. Communication, *supra*, at 1. In the U.S. view, whether the “facts available” data used with respect to a firm are small or substantial, “the resulting margin represents the best estimate of the level of dumping by that particular company” and it is thus “appropriate to use such a margin when establishing a duty rate for unexamined firms based on the dumping found to exist for firms actually examined.” *Id.* It continued: “We therefore interpreted the Agreement as distinguishing those situations from situations in which a firm’s data are so flawed or unreliable that it is necessary to base its antidumping duty entirely on facts available.” *Id.*


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specified categories (e.g., manufacturing facilities or equipment) incurred by the petitioners and interested parties after the applicable antidumping or countervailing duty order was issued. To be eligible, petitioners and interested parties, referred to in the statute as “affected domestic producers,” must also have remained in operation. Although the statute was held WTO-inconsistent in January 2003 and repealed, effective October 2005, by P.L. 109-171, it remains the target of authorized sanctions by complainants European Union and Japan due to continued payments to U.S firms under the CDSOA program.

Original WTO Complaints

Eleven WTO members challenged CDSOA shortly after its enactment in October 2000 as violative of the WTO Antidumping Agreement, the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement), and other WTO obligations. The complainants based their argument in part on the prohibitions in Article 18.1 of the Antidumping Agreement and Article 32.1 of the SCM Agreement against Members’ taking any “specific action against” dumping and subsidization, respectively, except for action taken in accordance with the GATT 1994 as interpreted by, as appropriate, the Antidumping or SCM Agreement. Two complaints were filed: DS217, filed jointly by Australia, Brazil, Chile, the European Union (EU), India, Indonesia, Japan, Korea and Thailand, and DS234, filed jointly by Canada and Mexico.

The WTO panel, which considered both complaints at the same time, found that the CDSOA did create an impermissible “specific action against” dumping and subsidization and that it provided a financial incentive for domestic producers to file or support antidumping and countervailing duty petitions, thereby undermining the industry support requirements in the Antidumping and SCM Agreements. At the same time, the panel rejected complainants’ argument that the act would make it more difficult for the United States to enter into subsidy and price undertakings with foreign governments allowing the suspension of investigations (“suspension agreements”), along with Mexico’s claim that the act constituted a subsidy in and of itself. The Appellate Body upheld the panel’s finding that the statute created a “specific action against” dumping and subsidization not allowed under WTO agreements, but reversed the panel on its conclusion regarding industry support requirements. The reports were adopted January 27, 2003, and the compliance period was subsequently determined by arbitration to expire December 27, 2003.

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92 Award of the Arbitrator, United States—Continued Dumping and Subsidy Offset Act of 2000; WT/DS217/14, WTDS234/22 (June 13, 2003). The Arbitrator emphasized in his award that it was for the United States to decide on the manner of implementation, which might be through repeal or modification of the law. Id. para. 50.
Requests to Impose Sanctions

Because the United States did not comply by the December 2003 deadline, eight complaining Members—Brazil, Chile, EU, India, Japan, Korea, Canada, and Mexico—asked the WTO in January 2004 for authorization to impose retaliatory measures. The United States objected to the requests, sending them to arbitration. The remaining three complainants—Australia, Indonesia, and Thailand—agreed to give the United States until December 27, 2004, to comply.

In awards issued August 31, 2004, the WTO Arbitrator (a panel of three) determined that each of the eight Members could impose countermeasures on an annual basis in an amount equal to 72% of the CDSOA disbursements for the most recent year for which official U.S. data are available relating to antidumping and countervailing duties paid on imports from the Member at that time. The Arbitrator stated that the disbursements “operate, in economic terms, as subsidies that may generate import substitution production” and used an economic model to determine the level of nullification or impairment of benefits, or what the Arbitrator characterized as “a value of trade” affected by application of the CDSOA. The Arbitrator also made clear that each Member would need to ensure that the total value of U.S. trade subject to the proposed duty increase does not exceed the total value of trade determined to constitute the level of nullification or impairment or else propose other forms of suspending concessions to the DSB that are less likely to have trade effects exceeding this level in terms of value of U.S. exports to the country involved.

The eight complainants received formal authorization from the DSB to impose retaliatory measures in late 2004. The EU and Canada began to impose countermeasures in the form of higher tariffs and surcharges on selected U.S. products, respectively, as of May 1, 2005. Mexico began to impose $20.9 million in retaliatory tariffs effective August 18, 2005. In addition, Japan imposed additional tariffs of 15% on 15 categories of U.S. goods as of September 1, 2005.


**U.S. Judicial and Legislative Action**

In April 2006, the U.S. Court of International Trade ruled that the CDSOA did not apply to imports from Canada or Mexico, and on September 28, 2006, U.S. Customs and Border Protection announced that it was withholding FY2006 and subsequent years’ distributions on imports from the two countries pending the outcome of any appeal. Canada allowed its retaliatory tariffs to terminate as of April 30, 2006. Mexico, after a month’s lapse, imposed increased tariffs on U.S. dairy products from September 18 through October 31, 2006. These tariffs surcharges have not been reimposed.

A provision repealing the CDSOA as of October 1, 2005, but providing for the distribution of “duties on entries of goods made and filed before October 1, 2007,” was enacted in the Deficit Reduction Act of 2005, signed by the President on February 8, 2006. While collection of antidumping and countervailing duties for purposes of CDSOA disbursal has thus ceased, duties will continue to be available for disbursement until all relevant customs entries before September 1, 2007, are liquidated, i.e., the final assessment of duties on these entries is made. On May 29, 2009, U.S. Customs and Border Protection issued its most recent annual notice of intent to distribute these funds. In addition, Congress has routinely included provisions in annual appropriations legislation directing the Commerce Department and the Office of the USTR to conduct negotiations in the WTO “to recognize the right of members to distribute monies collected from antidumping and countervailing duties.”

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Canadian Lumber Trade Alliance v. United States, 425 F.Supp.2d 1321 (Ct. Int’l Trade 2006), 441 F.Supp.2d 1259 (Ct. Int’l Trade 2006), aff’d in part, vacated in part, and remanded, 517 F.3d 1319 (Fed. Cir. 2008), cert. denied 129 S.Ct. 344 (2008). Canada and Canadian industry groups had challenged CDSOA distributions based on goods from Canada, arguing that, because of a provision in the NAFTA Implementation Act stating after the NAFTA enters into force for the United States, an amendment that is made to Title VII of the Tariff Act of 1930 may apply to goods from a NAFTA country only to the extent specified in the amendment, the CDSOA, in not expressly referring to Canada, did not apply to imports of Canadian products. The provision is set out at P.L. 103-182, § 408, 19 U.S.C. § 3438. While ruling that Canada did not have standing to sue in the case, the USCIT agreed with industry plaintiffs that the statutory provision applied to the CDSOA, which is contained in Title VII of the 1930 act along with authorities for U.S. antidumping and countervailing duty investigations. Since the CDSOA did not refer either to Canada or Mexico, the court ruled that imports from both countries were exempt.

Canadians had been concerned that antidumping and countervailing duties collected on softwood lumber imports, which had at the time of the suit totaled over $4 billion and whose underlying duty orders had been heavily litigated by Canada, might eventually be distributed to U.S. lumber producers. For further information on the U.S.-Canada softwood lumber dispute, which was settled in 2006, see CRS Report RL33752, *Softwood Lumber Imports from Canada: Issues and Events*, by Ross W. Gorte and Jeanne J. Grimmett.


Deficit Reduction Act of 2005, P.L. 109-171, § 7601. Section 7701 of the act provides that Title VII, which contains the CDSOA-related provisions, “shall take effect as if enacted on October 1, 2005.”


The mandate for FY2009 currently appears in the Omnibus Appropriations Act, 2009, P.L. 111-8, Division B, Title I, Title IV. See also the pending appropriations bill for the Departments of Commerce and Justice, and Science, and...
Following the 2006 enactment, the United States informed the WTO Dispute Settlement Body (DSB) that it had taken the actions necessary to implement the WTO rulings. Although complaining Members expressed support for the repeal, Members also stated their concerns that the requirement that duties be distributed through 2007 and possibly after this date would prevent the United States from complying fully with its WTO obligations in the case.

**Recent Developments**

Although WTO Members have regularly called on the United States to cease payments under the CDSOA program, no Member has formally challenged the compatibility of the 2006 statute with U.S. WTO obligations. The EU and Japan are continuing to impose retaliatory tariffs on U.S. products, although at lower levels than in the past due to reduced payments to affected U.S. producers under the CDSOA program. As noted earlier, authorized retaliation may not exceed 72 percent of the antidumping and countervailing duties collected on EU and Japanese products disbursed in the most recent year for which data is available. On May 1, 2009, the EU reduced its annual level of retaliation from $33.38 million to $16.31 million in trade and removed goods classified in 14 tariff categories from its retaliation list. U.S. products currently subject to the EU’s 15% tariff surcharge are diaries, various clothing items, sweet corn, metal frames and mountings for glasses and goggles, and crane lorries. In September 2008, Japan reduced its level of retaliation from $48.14 million to $16.49 million, imposing its 10.6% additional duty on two U.S. products: ball bearings and tapered roller bearings. Japan notified the WTO on August 14, 2009, that as of September 1, 2009, it was reducing its duty on these products to 9.6% ad valorem for the upcoming year, covering a total value of trade that does not exceed $16.54 million.

**Subsidies on Upland Cotton (DS267)**

In September 2002, Brazil requested consultations with the United States regarding U.S. statutes and programs that Brazil claimed provided prohibited and actionable subsidies to U.S. producers, users, and exporters of upland cotton. Brazil alleged violations of the WTO Agreement on

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Related Agencies for FY2010, H.R. 2847, 111th Cong., 1st Sess. (2009), Title I, Title IV, as passed the House and as reported in the Senate (S.Rept. 111-34).

Although the USTR submitted a proposal of this type to the pertinent Doha Round negotiating group in 2004, a provision addressing this issue has not been included in the draft negotiating texts. See Communication from the United States, *Three Issues Identified for Discussion by the Negotiating Group on Rules*, at 2, TN/RL/W/153 (Apr. 26, 2004); 2007 Draft Rules Text and 2008 Draft Rules Text, supra note 87.

110 Dispute Settlement Body, Minutes of Meeting, Feb. 17, 2006, at 5-10, WT/DSB/M/205 (Mar. 31, 2006).
111 Id.
116 Request for Consultations by Brazil, *United States—Subsidies on Upland Cotton*, WT/DS267/1 (Oct. 3, 2002). For (continued...)
Agriculture, the Agreement on Subsidies and Countervailing Measures (SCM Agreement), and national treatment obligations in the GATT. It requested a panel in February 2003, adding a claim based on subsidy obligations in GATT Article XVI. The panel was established in March 2003; panelists were appointed in May of that year.

WTO Members have made commitments in the WTO Agreement on Agriculture to reduce, and in some cases eliminate, domestic support in favor of agricultural producers and export subsidies on agricultural products. The commitments made by each Member to limit domestic support and export subsidization are contained in the Member’s Schedule, which is attached to and considered an integral part of the Agreement. “Scheduled products” are those products for which a WTO Member has made domestic support and export subsidy reduction commitments. The United States did not schedule any export subsidy reduction commitments regarding upland cotton.

The types of export subsidies for which reduction commitments are made are listed in Article 9.1 of the Agreement. Members may not provide any export subsidy listed in Article 9.1 to an “unscheduled product” or to a “scheduled” product in excess of the Member’s scheduled reduction commitments. If the Member does so it is in violation of Articles 3.3 and 8 of the Agreement. In addition, Article 10.1 prohibits Members from applying any subsidy that is not listed in Article 9.1 “in a manner which results in, or which threatens to lead to, circumvention of export subsidy commitments.”

Alleged violations of the Agriculture Agreement may be challenged under WTO dispute settlement procedures. Agricultural subsidies may also be challenged under the SCM Agreement, which defines the term “subsidy,” prohibits export subsidies and subsidies contingent on the use of domestic over imported products “except as provided in the Agreement on Agriculture,” and makes any subsidy fitting the Agreement definition “actionable” if the subsidy is specific to an industry and causes “adverse effects” to the interests of another WTO Member. Among these adverse effects is what the Agreement refers to as “serious prejudice,” an effect that will be found where there is, inter alia, “a significant price undercutting by the subsidized product as compared with the price of a like product of another Member in the same market or significant price suppression, price depression or lost sales in the same market.” The SCM Agreement contains timelines for dispute settlement proceedings that are shorter than those in the WTO Dispute Settlement Understanding and in general contemplates expedited compliance with adverse WTO decisions in disputes arising under the Agreement.

Resort to WTO dispute settlement had been temporarily limited by Article 13 of the Agriculture Agreement—the now-expired “Peace Clause”—which provided that certain domestic support

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further information on this dispute, see CRS Report RL32571, Brazil’s WTO Case Against the U.S. Cotton Program, by Randy Schnepf, available upon request [hereinafter CRS Report RL32571], and CRS Report RS22187, Brazil’s WTO Case Against the U.S. Cotton Program: A Brief Overview, by Randy Schnepf, available upon request [hereinafter CRS Report RS22187].

117 Request for the Establishment of a Panel by Brazil, United States—Subsidies on Upland Cotton, WT/DS267/7 (Feb. 7, 2003).
119 Id. art. 3.1.
121 Id. art. 6.3(c).
measures and export subsidies that conformed fully with enumerated requirements in the Agriculture Agreement were “exempt from actions” under specified subsidy-related provisions in the GATT 1994 and the SCM Agreement through the end of the “implementation period,” i.e., the end of the nine-year period following the date the Agriculture Agreement entered into force (January 1, 1995), or December 31, 2003. The United States unsuccessfully argued in the case that certain of its agricultural programs were covered by this provision.

Panel and Appellate Body Reports

In a report issued September 8, 2004, the WTO panel found that the United States was maintaining export subsidy programs and providing payments under domestic support programs in violation of the Agriculture Agreement and the SCM Agreement. 122

First, the panel found that three U.S. export credit guarantee programs in effect at the time constituted export subsidies for purposes of WTO obligations because the programs were provided at premium rates that were “inadequate to cover the long-term operating costs and losses” of the programs. 123 The panel looked to the Illustrative List of Export Subsidies set out in Annex I of the SCM Agreement, which includes export credit guarantee programs fitting this description in item (j) of the List. 124 The cited programs were: (1) the Commodity Credit Corporation (CCC) Export Credit Guarantee Program (GSM-102), providing export credit guarantees for up to three years; (2) the CCC Intermediate Export Credit Guarantee Program (GSM-103), providing export credit guarantees for up to 10 years; and (3) the Supplier Credit Guarantee Program (SCGP), allowing export guarantees for 180 days and in some cases up to 360 days.

The panel found that the premiums charged for the U.S. programs would not insure adequate financial coverage for several reasons: (1) the existence of a statutory 1% fee cap in connection with GSM-102 and SCGP transactions; (2) the fact that premiums were not risk-based either as to country risk or the creditworthiness of the borrower in individual transactions; and (3) even though the premiums charged offset the programs’ long-term costs and losses “to some degree,” coverage was “effectively ensure[d]” by the U.S. Government’s subsidy estimates and re-estimates “and ultimately the availability of United States government funds to cover any costs to government.” 125 The panel further found that, to the extent that these programs applied to exports of upland cotton and other unscheduled agricultural commodities supported under the programs, and to exports of rice (a scheduled commodity), the export subsidies were being applied in a manner that circumvented U.S. export subsidy commitments in the Agriculture Agreement in violation of Article 10 of the Agreement. As these programs did not conform fully to export subsidy obligations in the Agreement, they were found not to be covered by the Peace Clause and thus subject to challenge. The panel went on to find that these programs were prohibited export subsidies under Article 3.1(a) of the SCM Agreement.

124 Id. paras. 7.796-7.803.
125 Id. paras. 7.860-7.866.
Second, the panel faulted the “Step 2” program, authorized in § 1207(a) of the Farm Security and Rural Investment Act of 2002, P.L. 101-171 (“2002 farm bill”), 7 U.S.C. § 7937(a), as it applied both to exporters and domestic users of upland cotton. To the extent that the program provided for payments to exporters for their purchase of higher priced upland cotton, it was found to constitute an export subsidy that was not scheduled by the United States in the Agreement on Agriculture and was therefore inconsistent with U.S. obligations under the Agreement. As such, this part of the Step 2 program was found not to be covered by the Peace Clause and thus also subject to challenge. The panel then found that the program constituted a prohibited export subsidy under the Article 3.1(a) of the SCM Agreement. In addition, the panel found that the Step 2 program, insofar as it provided for payments to domestic users of upland cotton, qualified as a subsidy contingent on the use of domestic over imported products and was thus prohibited under Article 3.1(b) of the SCM Agreement.

Third, the panel found that payments under various U.S. domestic support programs, including counter-cyclical payments (CCP), market loss assistance payments (MLA), marketing loan program payments, and Step 2 payments for U.S. cotton producers, were measures that granted sufficient amounts of support to upland cotton to exempt them from the Peace Clause. The panel then found that the payments under the four cited programs—which it characterized as “mandatory price-contingent subsidies”—caused serious prejudice to Brazil’s interests in the form of significant price suppression in the world upland cotton market for purposes of Articles 5(c) and Article 6.3(c) of the SCM Agreement.

At the time, CCP payments, market loan program payments, and Step 2 payments were authorized in the 2002 farm bill, while the authority for the MLA payments had expired. Among other findings, however, the panel determined that an agricultural program could be challenged in the WTO even though it had expired so long as the program was in force during the Agriculture Agreement implementation period (i.e., between 1995 and the end of 2003) and continued to have an adverse effect on the complaining Member. This finding allowed Brazil to challenge MLA payments and flexibility contract payments (FCP), the legislative basis of which had lapsed in 2002. Brazil was unable, however, to show serious prejudice from the FCP program.

The panel recommended that the prohibited subsidies be removed “without delay” and specified that this be done at the latest within six months of the date of adoption of the panel report or July 1, 2005, whichever was earlier. The panel cited Article 4.7 of the SCM Agreement, which requires that where an export subsidy is found, the panel recommend expeditious removal and specify a time period for such action. The panel also recommended that the adverse effects of the actionable subsidies, or alternatively, the subsidies themselves, be removed, as provided in Article 7.8 of the SCM Agreement, i.e., upon adoption of the panel report.

The panel’s finding of serious prejudice for the actionable subsidies also implicated a deadline in Article 7.9 of the SCM Agreement affecting requests for authorization to impose retaliatory measures. Provided there is no agreement between the disputing parties on compensation, Article

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126 Id. paras. 7.415-7.608. See Agreement on Agriculture art. 13(b)(ii).

127 U.S. Cotton Panel Report, supra note 122, para. 8.3(b)-(c). Article 4.7 of the SCM Agreement provides that, in the event a panel finds that a prohibited subsidy exists, the panel “shall recommend that the subsidizing Member withdraw its measure without delay” and “shall specify in its recommendation the time-period within which the measure must be withdrawn.”

128 Id. para. 8.3(d).
7.9 accords a prevailing Member the right to make such a request in the event the defending Member “has not taken appropriate steps to remove the adverse effects of the subsidy or withdraw the subsidy within six months” after the date the panel or Appellate Body report is adopted.129

The United States and Brazil appealed the panel report, and the Appellate Body, in a March 5, 2005, report largely upheld the panel.130 The reports were adopted on March 21, 2005.131 This action effectively established a July 1, 2005, deadline for removal of the prohibited subsidies and an Article 7.9 deadline of September 21, 2005, with respect to the actionable subsidies.

The United States told the WTO Dispute Settlement Body, on April 20, 2005, that it would implement the WTO rulings, but that it would need a reasonable period to comply and that it had begun to consider its options for doing so.132 Brazil complained that the U.S. statement was not sufficiently detailed and made reference to the panel’s recommended time periods for compliance.133 The European Union noted that because the subsidies at issue were found to infringe both the SCM Agreement and the Agreement on Agriculture, the United States was entitled to a “reasonable period of time” to comply with Agriculture Agreement, i.e., a compliance period determined on an ad hoc basis, as ordinarily available under the WTO Dispute Settlement Understanding.

Responses of the United States and Brazil

In response to the WTO finding that fees charged by the Commodity Credit Corporation (CCC) guarantee programs must be risk-based, the United States Department of Agriculture (USDA) announced on June 30, 2005, that, as of July 1, 2005, CCC would use a risk-based fee structure for both the GSM-102 and SCGP program.134 USDA also announced that CCC would no longer accept applications for payment guarantees under the GSM-103 program.

Because prohibited export subsidies had not been removed by July 1, 2005, Brazil requested that the DSB meet on July 15, 2005, to consider its request for authorization to impose countermeasures against the United States. Brazil sought to suspend tariff concessions as well as obligations under the WTO Agreement on Trade-Related Intellectual Property Rights (TRIPS) and the General Agreement on Trade in Services (GATS) until the United States withdrew the exports subsidies identified by the WTO.135 Brazil proposed sanctions in an amount corresponding to: (1) the Step 2 payments made in the most recent concluded marketing year and (2) the total of exporter applications received under the GSM-102, GSM-103 and SGCP.

129 Article 7.9 further provides that the DSB “shall grant authorization to the complaining Member to take countermeasures, commensurate with the degree and nature of the adverse affects determined to exist,” subject to the reverse consensus rule.


131 Dispute Settlement Body, Minutes of Meeting, Mar. 21, 2005, at 7-13, WT/DSB/M/186 (Apr. 14, 2005).

132 Dispute Settlement Body, Minutes of Meeting, Apr. 20, 2005, at 7, WT/DSB/M/188 (May 18, 2005) [hereinafter DSB Minutes (Apr. 20, 2005)].

133 Id. at 8.

134 News Release, USDA, USDA Announces Changes to Export Credit Guarantee Programs to Comply with WTO Findings (June 30, 2005).

135 Recourse to Article 4.10 of the SCM Agreement and Article 22.2 of the DSU by Brazil, United States—Subsidies on Upland Cotton, WT/DS267/21 (July 5, 2005).
programs, for all unscheduled commodities and for rice, for the most recent concluded fiscal year, estimating the annual total for both to be $3 billion.\textsuperscript{136}

On July 5, 2005, USDA announced that, to further comply with the WTO decision, it was sending proposed statutory changes to Congress to eliminate the Step 2 cotton program, remove the 1% cap on origination fees under the GSM-102 program, and terminate the GSM-103 program.\textsuperscript{137} According to USDA:

Repealing the Step 2 program would remove both the export subsidies and import substitution subsidies that the WTO cited and address issues related to suppression of cotton prices in world markets. Eliminating the one-percent fee cap would make the Export Credit Guarantee Program more risk-based. Terminating the GSM-103 program would reinforce the recent U.S. decision to stop using longer-term export credit guarantees.\textsuperscript{138}

On the same day, Brazil and the United States notified the DSB that they had entered into a procedural agreement covering the implementation phase of the dispute.\textsuperscript{139} The agreement also recognized both the changes to the CCC programs announced June 30, 2005, and the legislative proposal sent to Congress to repeal the Step 2 program. As provided in the agreement, the United States requested arbitration of Brazil’s retaliation proposal; the DSB referred the matter to arbitration at its July 15, 2005, meeting;\textsuperscript{140} and the two countries, on August 17, 2005, requested that the arbitration be suspended.\textsuperscript{141} The agreement also provided that Brazil could request an Article 21.5 compliance panel at any time after the July 15, 2005, meeting.

In addition, because the United States had not complied with its WTO obligations regarding the actionable subsidies by September 21, 2005, Brazil shortly thereafter proposed to suspend tariff concessions as well as obligations under the TRIPS Agreement and the GATS in the annual amount of $1.037 billion.\textsuperscript{142} The United States objected to the proposal, and the matter was referred to arbitration.\textsuperscript{143} On November 21, 2005, the parties requested that the arbitration be suspended, “noting that the United States reaffirmed” at the November 18, 2005, DSB meeting “its commitment to implement the recommendations and rulings of the DSB in this dispute, and

\textsuperscript{136} Brazil stated that this amount represented “Step 2 payments estimated for marketing year 2004-2005 and total amount of applications received for export credit guarantees under GSM 102, GSM 103, and SGCP during fiscal year 2004.” Id. at 2, note 1.

\textsuperscript{137} News Release, USDA, USDA Proposes Legislative Changes to Cotton and Export Credit Programs to Comply with WTO Findings (July 5, 2005).

\textsuperscript{138} Id.

\textsuperscript{139} Understanding between Brazil and the United States Regarding Procedures under Articles 21 and 22 of the DSU and Article 4 of the SCM Agreement, United States—Subsidies on Upland Cotton, WT/DS267/22 (July 8, 2005).

\textsuperscript{140} Dispute Settlement Body, Minutes of Meeting, July 15, 2005, WT/DSB/M/193 (July 28, 2005).

\textsuperscript{141} See Communication from the Arbitrator, Recourse by the United States to Article 22.6 of the DSU and Article 4.11 of the SCM Agreement, United States—Subsidies on Upland Cotton, WT/DS267/25 (Aug. 18, 2005).

\textsuperscript{142} Recourse to Article 7.9 of the SCM Agreement and Article 22.2 of the DSU by Brazil, United States—Subsidies on Upland Cotton, WT/DS267/27 (Oct. 7, 2005).

\textsuperscript{143} Request by the United States for Arbitration under Article 22.6 of the DSU and Article 7.10 of the SCM Agreement, United States—Subsidies on Upland Cotton, WT/DS267/29 (Dec. 7, 2005).
in light of the preference for WTO-consistent solutions mutually acceptable to the parties to a dispute set out in DSU Article 3.7.\footnote{See Communication from the Arbitrator, Recourse by the United States to Article 22.6 of the DSU and Article 7.10 of the SCM Agreement, United States—Subsidies on Upland Cotton, WT/DS267/29 (Dec. 7, 2005).}

Congress subsequently repealed the Step 2 program, effective August 1, 2006.\footnote{See § 1103 of P.L. 109-171, the Deficit Reduction Act of 2005, signed by the President on February 8, 2006. For further information on U.S. actions taken in response to the WTO decision, see CRS Report RS22187, supra note 116.}

**Compliance Panel Proceeding**

On August 21, 2006, Brazil requested an Article 21.5 compliance panel, claiming WTO violations stemming from the U.S. failure to repeal the Step 2 program as of end of the 6-month period set out in Article 7.9 of the SCM Agreement (i.e., by September 21, 2005), the continued payments under the marketing loan and counter-cyclical programs authorized in the 2002 farm bill, and continued WTO-related defects in the export credit guarantee programs at issue in the case.

In December 2007, the compliance issued a report adverse to the United States with respect to both the marketing loan and CCL payments and the GSM-102 program.\footnote{Panel Report, United States—Subsidies on Upland Cotton, Recourse to Article 21.5 of the DSU by Brazil, WT/DS267/RW (Dec. 18, 2007) [U.S Cotton Article 21.5 Panel Report].}

First, the panel found that payments under the marketing loan and counter-cyclical programs authorized in the 2002 farm bill resulted in significant price suppression, which constituted present serious prejudice to the interests of Brazil in violation of Articles 5(c) and 6.3(c) of the SCM Agreement. The panel thus found that the United States was in violation of its obligation under Article 7.8 of the SCM Agreement to take “appropriate steps to remove the adverse effects of … or withdraw the subsidy.”

Second, regarding GSM-102 export credit guarantees provided after July 1, 2005 (the deadline set by the original panel), the panel found that Brazil had established that the revised GSM-102 program constituted an export subsidy on the ground that the program continued to be provided against premiums that were inadequate to cover its long-term operating costs and losses and that the program thus qualified as such under item (j) of the Illustrative List.\footnote{The compliance panel rejected Brazil’s argument that the United States had failed to comply with the panel’s recommendations, as adopted by the WTO Dispute Settlement Body, to withdraw the export subsidy with respect to payments issued before July 1, 2005. Id. paras. 14.139-14.150.} The panel further found that United States was in violation of its obligations in the Agreement on Agriculture in applying export subsidies in a manner that circumvented its export subsidy commitments regarding various unscheduled products (e.g., cotton, oilseeds, protein meals) as well as three scheduled products (rice, poultry meat, and rice).\footnote{Id. paras. 14.139-14.150.} By providing export subsidies both to unscheduled products and to scheduled products in excess of its reduction commitments, the United States was also found to be granting prohibited subsidies in violation of the SCM Agreement.\footnote{Id. paras. 14.151-14.157.}
The panel based its conclusion that the GSM-102 program constituted an export subsidy on the following factors:

(a) The US Government continues to project that new GSM 102 export credit guarantees issued under the new fee schedule will be provided at a net cost to the Government.

(b) GSM 102 fees are well below the OECD MPR’s [minimum premium rates], which we consider to provide an informed appraisal of the level of fees necessary to cover the long-term, operating costs and losses of an export credit guarantee programme;

(c) Elements of the structure, design and operation of the GSM 102 programme indicate that the programme is not designed to cover the long term operating costs and losses of that programme.\(^{150}\)

The compliance panel’s conclusion in (c) resulted from the following considerations: “the CCC’s access to funds from the US Treasury, which facilitates the functioning of the programme”; “the fact that GSM 102 fees do not vary with foreign obligor risk”; and “the fact that the one percent fee cap has not been repealed and in our view prevents the adoption of risk-based fees (notably due to the insufficient ‘scaling’ of GSM 102 fees [as risk increases]).”\(^{151}\) The panel ultimately found that the United States had failed to bring its measures into conformity with the Agreement on Agriculture and to “withdraw the subsidy without delay” as recommended by the WTO Dispute Settlement Body pursuant to Article 4.7 of the SCM Agreement.

Both the United States and Brazil appealed. In a report issued June 2, 2008, the Appellate Body largely upheld the compliance panel, though taking issues with an aspect of the panel’s methodology regarding the existence of export subsidization.\(^{152}\) The Appellate Body reversed the panel’s intermediate conclusion that the GSM-102 program would be run at a net cost to the government on the ground that the panel had not accorded sufficient weight to data provided by the United States concerning re-estimates of initial subsidy estimates for the three challenged programs for 1992-2006.\(^{153}\) The United States had argued that the re-estimates demonstrated that the programs “were in fact not provided at a net loss to the US Government even before the United States took any measures to comply with the DSB recommendations” in the case.\(^{154}\) At the same time, the Appellate Body upheld the panel’s ultimate conclusion that the revised program fell within the scope of item (j) and thus constituted an export subsidy, determining that the panel’s findings on the structure, design, and operation of the revised GSM 102 program provided “a sufficient evidentiary basis for the conclusion that it is more likely than not that … [it] operates at a loss.”\(^{155}\)

\(^{150}\) Id. para. 14.133.

\(^{151}\) Id. para. 14.131.

\(^{152}\) Appellate Body Report, United States—Subsidies on Upland Cotton, Recourse to Article 21.5 of the DSU by Brazil, WT/DS267/AB/RW (June 2, 2008)[hereinafter U.S. Cotton Article 21.5 AB Report].

\(^{153}\) Id. paras. 279-295.


\(^{155}\) U.S. Cotton Article 21.5 AB Report, supra note 152, paras. 321-322. The Appellate Body upheld the panel’s comparison of OECD MPRs with GSM-102 fees as an element of the panel’s analysis because, in the Appellate Body’s view, the comparison was used only as evidence of the magnitude of the difference between the two and thus possibly indicative of the inadequacy of the GSM-102 fees to the program’s long-term costs and losses, and was not relied upon to make a definitive determination as to whether the criterion of item (j) of the Illustrative List was met. Id. paras. 302-307.
The WTO Dispute Settlement Body adopted the reports on June 25, 2008.

2008 Farm Bill Amendments

On June 18, 2008, a week before the compliance panel and appellate reports were adopted, President George W. Bush signed the Food, Conservation, and Energy Act of 2008, P.L. 110-246 (“2008 farm bill”), a statute containing several provisions relevant to the pending dispute. Section 3101 of the act made statutory changes affecting U.S. export credit guarantee programs, changes that the bill Managers believed “satisfy U.S. commitments to comply with the Brazil cotton case with regard to the export credit programs.”156 The act repealed the GSM-103 intermediate export credit guarantee program and the Supplier Credit Guarantee Program (SCGP)157 and eliminated the 1% cap on origination fees under the GSM-102 program, a requirement contained in 7 U.S.C. § 5622(b).158 While leaving the GSM-102 program intact, Congress placed new requirements on the Secretary of Agriculture in administering the program, including “work[ing] with industry to ensure, to the maximum extent practicable, that risk-based fees associated with the guarantees cover, but do not exceed, the operating costs of and losses over the long term.”159 The phrase “long term” is defined in the statute as “a period of 10 or more years.”160 In addition, Congress directed the Commodity Credit Corporation to make available for GSM-102 programs each year through FY2012 a maximum $5.5 billion, or “the amount of guarantees that can be supported by $40 billion in budget authority (plus any budget authority for prior years) – whichever amount is less.”161

In addition, Congress reauthorized counter-cyclical payments and marketing assistance loans for cotton and other commodities for the 2008-2012 crop years.162 As discussed earlier, these two programs, as authorized in the 2002 farm bill, were successfully challenged by Brazil as actionable subsidies in the pending WTO case and are the basis of one of Brazil’s retaliation requests.

Arbitration of Brazil’s Retaliation Request

In August 2008, following the DSB’s adoption of the compliance panel and Appellate Body reports finding the U.S. not to be in full compliance in the case, Brazil requested that the arbitrations on its retaliation proposals be resumed. Brazil lowered its retaliation requests in March 2009 to approximately $2.5 billion consisting of three components: (1) a one-time countermeasure of $350 million based on payments made under the repealed Step 2 program

156 Id.
158 FCE Act, § 3101(b), amending Agricultural Trade Act of 1978, § 211(b), 7 U.S.C. § 5641(b).
161 H.Rept. 110-627 at 758. See FCE Act, § 3101(b), amending Agricultural Trade Act of 1978, § 211(b), 7 U.S.C. § 5641(b). As stated in the conference report, it was expected that USDA would be able to make available “approximately $4 billion annually in export credit guarantees on $40 million in budget authority.” H.Rept. 110-627 at 728. Regarding the export credit guarantee authorization, see generally CRS Report RL33553, Agricultural Export and Food Aid Programs, by Charles E. Hanrahan, at 8.
162 FCE Act, §§ 1104, 1201-1204. See generally CRS Report RL34594, Farm Commodity Programs in the 2008 Farm Bill, by Jim Monke.
during the 13-month period between the compliance deadline of July 1, 2005, set by the original panel, and August 1, 2006, the date that the statutory repeal entered into force; (2) an annual countermeasure of approximately $1.2 billion for prohibited subsidies resulting from the GSM-102 export credit guarantee program; and (3) an annual countermeasure of approximately $1 billion based on actionable subsidies resulting from marketing loan and countercyclical payments.163

In an arbitral proceeding involving prohibited subsidies, the Arbitrator determines whether the proposed countermeasures are “appropriate,” that is, not “disproportionate in light of the fact that the subsidies … are prohibited.”164 Where actionable subsidies are involved, the Arbitrator determines whether the proposed countermeasures are “commensurate with the degree and nature of the adverse effects determined to exist.”165

On August 31, 2009, the Arbitrator issued two reports – the first addressing retaliation for prohibited subsidies, the second for actionable subsidies.166 The Arbitrator rejected Brazil’s request for a one-time payment based on the Step 2 program; lowered the other amounts proposed by Brazil to a total $297.4 million annually for both prohibited and actionable subsidies (based on the FY2006 figures); and set out conditions under which Brazil could suspend WTO obligations involving U.S. services and intellectual property, or “cross-retaliate.” Among other findings, the Arbitrator rejected U.S. arguments that, with the expiration of the statutory authority for the marketing loan and countercyclical payments at issue in the underlying WTO proceedings, Brazil could not pursue countermeasures for serious prejudice resulting from payments under these programs. The Arbitrator’s decisions are final and not subject to appeal.

Prohibited Subsidies

In examining Brazil’s request for countermeasures for the prohibited subsidies, the Arbitrator first concluded that there was no legal basis for Brazil’s request for a one-time payment based on past disbursements under the Step 2 program. The Arbitrator found that countermeasures are an exceptional temporary remedy aimed at inducing compliance and that the United States had in fact complied with respect to this program.167

Second, the Arbitrator determined that Brazil could suspend concessions amounting to $147.4 annually for the continued operation of the GSM-102 export credit guarantee program, based on GSM-102 transactions in FY2006. As summarized by the Arbitrator, Brazil determined the trade-distorting impact of the program and thus the level of “appropriate” countermeasures for the prohibited subsidy by determining “the interest rate discounts secured by creditworthy and

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164 SCM Agreement art. 4.11 and n.10.

165 SCM Agreement art. 7.10.

166 Decision by the Arbitrator, United States—Subsidies on Upland Cotton, Recourse to Arbitration by the United States under Article 22.6 of the DSU and Article 4.11 of the SCM Agreement, WT/DS267/ARB/1 (Aug. 31, 2009) [hereinafter U.S. Cotton Arbitrator’s Decision I]; Decision by the Arbitrator, United States—Subsidies on Upland Cotton, Recourse to Arbitration by the United States under Article 22.6 of the DSU and Article 7.10 of the SCM Agreement, WT/DS267/ARB/2 (Aug. 31, 2009) [hereinafter U.S. Cotton Arbitrator’s Decision II].

167 U.S. Cotton Arbitrator’s Decision I, supra note 166, paras. 3.5-3.64.
uncreditworthy foreign obligors backed by GSM-102 guarantees and estimating the additional export sales obtained by US exporters as a result of these discounts.”\textsuperscript{168} Brazil referred to these two factors as the “interest rate subsidy” and “additionality.” The Arbitrator modified Brazil’s calculations, however, “in order to more accurately calculate the trade-distorting impact of the GSM-102 programme on Brazil” and, taking into account other determinations it had made, reduced Brazil’s original proposal to the figure stated above.\textsuperscript{169}

The Arbitrator found that $147.4 figure was variable, however, and could change annually depending on the total of amount of GSM-102 transactions in the most recently concluded fiscal year. The Arbitrator set out a formula that Brazil would need to use to determine the amount of permissible sanctions for a given year due to these payments, noting that “the United States does not dispute that it would be permissible for the level of appropriate countermeasures to be determined through a formula, provided that this formula was sufficiently well defined so as to make it applicable in a transparent and predictable manner.”\textsuperscript{170}

Third, the Arbitrator determined that Brazil could cross-retaliate in order to remedy the prohibited subsidy resulting from the GSM-102 payments, but set conditions on Brazil’s use of this remedy. The Arbitrator stated that “Brazil has at its disposal a sufficient range of imports of goods, including consumer goods, from the United States so as to enable it to suspend concessions in the area of trade in goods alone, without causing itself such economic harm so as to render such suspension ‘not practicable or effective,’” the standard set out in the Dispute Settlement Understanding, taking into account the cumulated $294.7 million in countermeasures the Arbitrator had determined Brazil could impose for both prohibited and actionable subsidies in this case.\textsuperscript{171} Based on Brazil’s imports of consumer goods for 2007, the Arbitrator identified at least $409.7 million of such goods that could be the subject of countermeasures.\textsuperscript{172} For certain consumer goods (food, medical products, and arms), the Arbitrator adopted a benchmark of 20%, finding that a U.S. import share of the good of less than this amount “constitutes a reasonable

\textsuperscript{168} Id. para. 4.203.
\textsuperscript{169} Id. para. 4.278. See id. paras. 4.203-4.278 for a full discussion of this portion of the decision.
\textsuperscript{170} Id. para. 4.279.
\textsuperscript{171} Id. paras. 5.198, 5.200; see id. paras. 5.61-5.201 for full discussion of this issue. Along with determining whether or not retaliating solely in trade in goods would be “practicable or effective,” the Arbitrator also needed to determine whether Brazil met the second requirement for cross-retaliation, that is, whether it had adequately shown that the “circumstances are serious enough” to warrant suspension of concessions under another agreement. Brazil maintained that this was the case because of the continued maintenance and expansion of U.S. subsidy programs, their long term distortion of world markets, and the disproportionately costly effects on the Brazilian economy and the welfare of the Brazilian population if countermeasures were confined to trade in goods. Id. para. 5.216. The Arbitrator found that Brazil’s determination was “reasonable in light of the circumstances of the case.” Id. paras. 5.217-5.218. While the Arbitrator was not persuaded that the “very granting” of the subsidies by the United States was sufficient to create the required “serious enough” circumstances, the Arbitrator agreed with Brazil that “the specific design and structure of the subsidies at issue, as they have been maintained over a significant period of time, is such as to have created an artificial and persisting competitive advantage for US producers over all other operators, and that this has a significant trade-distorting impact, not just on the US domestic market, but on the world market in these products.” Id. para. 5.219. Adding to this the amplified trade-distorting impact of the increased payments under GSM-102 program during the current credit crisis, a situation also cited by Brazil, the Arbitrator found that these factors in combination supported the required determination. Id. para. 5.220. In addition, the Arbitrator agreed that the disproportionate adverse impact of suspending concessions or other obligations on a Member’s economy was also a relevant consideration. The Arbitrator found that the fact that countermeasures involving trade in goods would no longer be “practicable or effective” for Brazil if a specified monetary threshold is reached would in this case “also directly contribute to the circumstances being ‘serious enough’ to justify recourse to suspension under another agreement.” Id. para. 5.221.
\textsuperscript{172} Id. para. 5.201.
threshold by which to estimate the extent to which Brazil may be able to find alternative sources of supply” for the product.\(^{173}\) This annual goods “threshold” is to be updated, however, under a formula set out by the Arbitrator, to take into account any change in Brazil’s total imports of U.S. consumer goods for the same year for which the annual countermeasures are determined.\(^{174}\)

Under the decision, if the total level of countermeasures for prohibited and actionable subsidies that Brazil is entitled to for a given year exceeds the updated goods threshold for that year, Brazil may cross-retaliate, i.e., suspend WTO obligations involving U.S. services, intellectual property rights, or both, in excess of the goods threshold to the full amount of permissible sanctions for the year. If permissible sanctions do not exceed the goods threshold, however, Brazil may only suspend concessions on trade in goods.

**Actionable Subsidies**

The United States preliminarily argued in the arbitration involving actionable subsidies that, with the expiration of the 2002 farm bill, payments would no longer be made under the marketing loan and countercyclical payments programs at issue in Brazil’s WTO challenge and that, because the challenged measures were removed, there was no longer a legal basis for Brazil to impose countermeasures with regard to these payments. Brazil argued that because these programs were reauthorized in the 2008 farm bill in a manner that did not materially change them as they applied to cotton, the problematic payments would continue under the same conditions and criteria as the payments subject to the earlier WTO proceedings. Until the United States achieved what the WTO Appellate Body deemed “substantial compliance,” Brazil claimed that it had the right to pursue countermeasures for continuing present serious prejudice. The United States responded that Brazil’s conclusions about payments that might be made under the 2008 farm bill and their price effect were speculative.

In assessing whether the United States had complied, the Arbitrator quoted from the Appellate Body report referred to by Brazil, in which the Appellate Body had stated that for purposes of determining whether a WTO Member has complied in a case, “substantive compliance is required, rather than formal removal of the inconsistent measure.”\(^{175}\) Informed by this principle, the Arbitrator compared the 2002 and 2008 farm bills and concluded that the replacement of the 2002 provisions with new measures that are “essentially the same” as those found to be WTO-inconsistent was not a basis for finding that the United States had complied, if the United States had not shown that “the inconsistencies that were the object of the [prior WTO] proceedings have been remedied.”\(^{176}\) Seemingly alluding to possible activity under the reauthorized CCP and marketing loan provisions, the Arbitrator noted that “any uncertainty about what might happen in the future” could not dissuade the Arbitrator from “assessing the adverse effects determined to exist in relation to a measure which did exist and which, on the facts, continues to exist.”\(^{177}\) The Arbitrator thus stated that “although the legal basis for the granting of ML and CCPs has been modified, such payments continue to be offered and may continue to be made under a new legal

\(^{173}\) Id. para. 5.181.

\(^{174}\) Id. paras. 5.201, 5.230-5.236.


\(^{176}\) Id. paras. 3.25-3.28.

\(^{177}\) Id. para. 3.28
The Arbitrator concluded that, to the extent that it was entitled to review whether compliance has been achieved in a case (a task it earlier admitted was not normally the task of arbitrators), it would not have adequate grounds to conclude that the United States had complied. Further noting that the findings in the underlying WTO proceedings related to the payments under the 2002 farm bill and not to the farm bill as such, the Arbitrator concluded that the United States had failed to establish that Brazil no longer had a legal basis to seek countermeasures for payments under these two programs.

The Arbitrator ultimately determined that Brazil could impose countermeasures for the actionable subsidies in an amount not to exceed $147.3 million annually. The Arbitrator arrived at this figure by first determining that the world cotton price would have been 9.38% higher but for the U.S. programs, with adverse effects for the rest of the world of $2.905 billion in marketing year (MY) 2005. The Arbitrator further found that this overall amount needed to be apportioned to Brazil, basing this apportionment on Brazil’s 5.1% share of worldwide cotton production for the same marketing year, or $147.3 million.

The Arbitrator also found that Brazil may cross-retaliate with regard to the actionable subsidies only if the total amount of permissible countermeasures for a given year (i.e., $284.7 million, as adjusted) exceeds the monetary import threshold (i.e., $409.7 million, as adjusted). Since annual countermeasures for the actionable subsidies is fixed at $147.3 million, the use of cross-retaliation will depend on annual increases in countermeasures due to increased U.S. payments under the prohibited subsidy, i.e., the GSM-102 export credit guarantee program.

**Recent Developments**

After the August 2009 Arbitrator’s reports on Brazil’s retaliation requests were issued, Brazil requested that the United States provide it with data on GSM-102 transactions for FY2008 and FY2009 and the most recent data on U.S. export prices of products for which the United States had made export subsidy reduction commitments (“scheduled” products), namely, pig meat, poultry meat, and rice, for 2008 and 2009. Brazil’s request was based on language in the Arbitrator’s report directing the United States to provide such data to Brazil to enable it to calculate its annual countermeasures under the formula set out by the Arbitrator in Annex 4 of the arbitral report.

On November 9, 2009, Brazil published a preliminary list of over 200 U.S. products, primarily consumer and agricultural goods, that could potentially be subject to increased tariffs. On November 19, 2009, Brazil received authorization from the WTO Dispute Settlement Body to suspend WTO tariff concessions and other obligations owed the United States in an amount, and with respect to types of trade, consistent with the August 2009 Arbitrator’s decisions.

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178 Id. para. 3.29.
179 Id. paras. 3.30.
180 Id. paras. 3.31-3.32.
182 Id. paras. 5.230-5.233.
183 Communication from Brazil, United States – Subsidies on Upland Cotton, WT/DS267/40 (Sept. 30, 2009).
185 WTO News Item, DSB authorizes Brazil countermeasures in “cotton” case, established “COOL” and poultry panels (continued...)
dispute settlement rules do not require that Brazil impose these measures once authorized or that it do so by a given date. The United States stated at the DSB meeting that it intended to comply and hoped that a resolution of the dispute could be reached, obviating the need for Brazil to impose the authorized measures.\footnote{Statements by the United States at the DSB Meeting, Item 7, Nov. 19, 2009, at http://geneva.usmission.gov/2009/11/19/1119dsb.}

As Brazil prepared for and pursued its retaliation request, the USDA made various administrative changes to the GSM-program for FY2010 that tightened prior program requirements. On September 21, 2009, the Commodity Credit Corporation and the Foreign Agricultural Service solicited comments from stakeholders on revisions to the GSM-102 fee rate schedule that were being proposed in order to implement requirements in the 2008 farm bill for the development of a risk-based fee structure for the program.\footnote{Solicitation of Input from Stakeholders on Revised Fees for the Export Credit Guarantee (GSM-102) Program, 74 Fed. Reg. 48014 (Sept. 21, 2009).} CCC’s goals in proposing the revisions were “to create fees more commensurate with risk, generate additional program revenue in fiscal (FY) 2010 to offset program costs, and consider allowing program participation by riskier countries.”\footnote{Id. at 48015.} The fee rate schedule for GSM-102 program dated November 17, 2009, posts fees that exceed those originally proposed in September.\footnote{USDA, Foreign Agricultural Service, GSM-102 Guarantee Fee Rate Schedule, updated on Nov. 17, 2009, at http://www.fas.usda.gov/excredits/gsm102fees.html.} In addition, maximum credit terms for the FY2010 program will be based on the risk category of the obligor country associated with the CCC payment guarantees, with shorter repayment terms or “tenor” as country risk category increases.\footnote{News Release, USDA, Foreign Agricultural Service, Notice to GSM-102 Program Participants, at http://www.fas.usda.gov/scriptsw/PressRelease/pressrel_dout.asp?PrNum=0280-09; USDA, Foreign Agricultural Service, Country Risk Ratings (for the GSM-102 Program), updated on Dec. 7, 2009, at http://www.fas.usda.gov/excredits/countryrisk.html.} Under the program, the maximum allowable tenor for the category of countries with the highest risk is currently one year.\footnote{Id.} The CCC has so far allocated $1.2 billion for the FY2010 program.\footnote{USDA, Foreign Agricultural Service, FY 2010 GSM-102 Announcements, As of 12/08/09, at http://www.fas.usda.gov/excredits/eccpp.asp.}

As an additional option for resolving the cotton dispute, some have suggested that the United States request a ruling by a compliance panel that the objectionable elements of the prohibited subsidy, i.e., the GSM-102 program, have been eliminated.\footnote{E.g., Letter from Export Credit Working Group (ECWG) to USTR Ronald Kirk, Sept. 22, 2009, and attached ECWG Press Release, Sept. 2, 2009, at http://www.nopa.org/content/newsroom/2009/ECWG%20to%20Amb%20Kirk_Mtg%20Request%20Letter_Pres%20Release_9-22-09.pdf. See also Kirk: U.S. Will Work Hard for Negotiated Solution to Brazil Cotton Dispute, INSIDE U.S. TRADE, Dec. 4, 2009, at 1 [hereinafter Kirk]; USTR Under Pressure to Bring Cotton Compliance Panel After Ruling, INSIDE U.S. TRADE, Sept. 4, 2009, at 1; U.S. Prepared to Discuss with Brazil Settlement of Dispute Over Cotton Subsidies, Daily Rep. for Executives (BNA), Sept. 2, 2009, at A-22.} To date, there has been no official indication that this option will be pursued\footnote{See Kirk: U.S. Will Work Hard for Negotiated Solution to Brazil Cotton Dispute, INSIDE U.S. TRADE, Dec. 4, 2009, at 1.} and, even were a compliance panel established, (...continued)
Brazil would not be precluded from imposing countermeasures during a compliance panel proceeding.

While Brazil has not definitively stated that it will impose retaliatory measures as of a given date, the Chamber of Foreign Trade of Brazil (CAMEX) stated on December 15, 2009, that a final decision regarding the products subject to retaliation and the total amount of retaliation to be imposed would be announced in February 2010.\footnote{Brazil Sets February Time Frame to Decide Key Elements of Cotton Retaliation, INSIDE U.S. TRADE, Dec. 18, 2009, at 6; Brazil Delays Final List of U.S. Goods To Be Sanctioned in WTO Cotton Dispute, 26 Int’l Trade Rep. (BNA) 1777 (Dec. 24, 2009)[hereinafter Brazil Delays Final List].} Originally expected in December 2009, the announcement is reportedly being delayed because Brazil has yet to review full FY2009 data regarding the GSM-102 program being provided by the United States.\footnote{Brazil Delays Final List, supra note 196.} On December 21, 2009, Brazil reported to the WTO Dispute Settlement Body that, based on U.S.-supplied fiscal and calendar year data for 2008, it is entitled to annual retaliation of $829.3 million, with $561 million covering trade in goods and $268.3 million covering other sectors and agreements.\footnote{WTO News Item, DSB establishes panel to examine China’s export restrictions of raw materials (Dec. 21, 2009), at http://www.wto.org/english/news_e/news09_e/dsb_21dec09_e.htm [hereinafter WTO News Item (Dec. 21, 2009)]; Brazil Says Entitled to Impose $829 Million in Annual Sanctions on U.S. in Cotton Case, 26 Int’l Trade Rep. (BNA) 1776 (Dec. 24, 2009).} If applied, Brazil’s countermeasures would be subject to Article 22.8 of the WTO Dispute Settlement Understanding, which provides that the “suspension of concessions or other obligations shall be temporary and shall only be applied until such time as the measure found to be inconsistent with a covered agreement has been removed … or a mutually satisfactory resolution is reached.”\footnote{Regarding the difficulties that may be encountered in the removal of sanctions where disagreement over compliance remains, see supra note 4.} Given the variables affecting the actual level of countermeasures that may be imposed by Brazil in a particular year, the United States would have the option, albeit a time-consuming one, of challenging any such measures in a new WTO dispute settlement proceeding if it believed that they exceeded the levels that the Arbitrator deemed to be proper in this case.\footnote{Note U.S. Cotton Arbitrator’s Decision I, supra note 166, para. 5.235; U.S. Cotton Arbitrator’s Decision II, supra note 166, para. 5.237.} For the present, it appears unlikely that a settlement will be reached in the case.\footnote{See Brazil, U.S. Remain in Stalemate Over Cotton Case Settlement, INSIDE U.S. TRADE, Dec. 18, 2009, at 7; Settling with Brazil on Cotton, WASHTRADE DAILY, Dec. 15, 2009.}

### Measures Affecting Cross-Border Supply of Gambling and Betting Services (DS285)

Antigua and Barbuda (Antigua) requested consultations with the United States in March 2003 regarding federal, state, and local laws affecting the remote supply of gambling and betting services, alleging that the overall effect of these laws was to prevent the supply of gambling and betting services from the territory of one WTO Member into the United States in violation of U.S. market access commitments in Article XVI of the General Agreement on Trade in Services (GATS).\footnote{Request for Consultations by Antigua and Barbuda, United States—Measures Affecting the Cross-Border Supply of Gambling and Betting Services, WT/DS285/1 (Mar. 27, 2003).}
As part of their GATS obligations, WTO Members make specific commitments involving particular service sectors, subject to any terms, limitations, or conditions Members may add. Commitments are made with respect to four means or “modes” by which services may be supplied, including supply from the territory of one Member into the territory of any other Member, which is the mode of supply at issue in this case. Each Member’s sectoral commitments are set out in a Schedule of Specific Commitments, which is attached to the GATS and considered an integral part of the agreement. GATS market access and national treatment apply only with respect to scheduled commitments. These obligations are set out in GATS Articles XVI and XVII, respectively. All GATS obligations are subject to various general exceptions set out in Article XIV.

Among other market access obligations, Article XVI(a) of the GATS prohibits a WTO Member, in sectors where it has scheduled a specific commitment, from maintaining or adopting, unless specified in its Schedule, “limitations on the number of service suppliers whether in the form of numerical quotas, monopolies, exclusive service suppliers or the requirements of an economic needs test.” In addition, Article XVI(c) prohibits a Member, in any such sectors, from maintaining or adopting, unless specified in its Schedule, “limitations on the total number of service operations or on the total quantity of service output expressed in terms of designated numerical units in the form of quotas or the requirement of an economic needs test.”

Panel and Appellate Body Reports

Although the United States did not expressly identify gambling and betting services in its Schedule of Specific Commitments to the GATS, the WTO panel, in its November 2004 report, interpreted the services sub-sector titled “Other Recreational Services (except sporting)” as including gambling and betting services, and concluded that the United States, by not placing any limitations on the supply of such services from the territory of one WTO Member into the United States, had made market access commitments in the area.202 The panel then found that three federal statutes and provisions of four state laws conflicted with these obligations. The federal statutes were the Wire Act, the Travel Act, and the Illegal Gambling Business Act (IGBA);203 the state laws were those of Louisiana, Massachusetts, South Dakota, and Utah. The panel found that by preventing one, several, or all means of delivering gambling and betting services, the statutes constituted impermissible market access limitations on the number of service suppliers for purposes of Article XVI:2(a) of the GATS or, alternatively, on the total number of total number or service operations or total quantity of service output expressed in terms of designated numerical units for purposes of Article XVI:2(c).

The panel further found that, with regard to the federal laws, the United States could not successfully invoke exceptions in GATS Article XIV for “measures necessary to protect public morals or to maintain public order” (Article XIV(a)) or for “measures necessary to secure compliance with” GATS-consistent laws and regulations (Article XIV(c)) because the United States had not shown that the measures were “necessary” to achieve the stated end or that they

were consistent with the Article XIV proviso, which requires that measures justified under the exception not be applied “in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where like conditions prevail.” Under WTO jurisprudence, such discrimination may occur not only between the different exporting Members but also between an exporting Member and the importing Member and thus in this case between foreign and domestic providers of Internet gambling services.204

In an appeal by both parties to the dispute, the WTO Appellate Body, using a different mode of analysis than the panel, nonetheless determined that the United States had made sectoral commitments regarding gambling and betting services.205 Though the AB upheld the panel’s finding of a violation of GATS market access obligations,206 it reversed the panel on its finding that the United States could not justify the federal measures under GATS exceptions. The AB also reversed the panel’s finding that four state laws were inconsistent with the GATS, finding that because Antigua had not made a prima facie case that eight state measures violated the Agreement, the panel had improperly examined their GATS-consistency.

With respect to the GATS exceptions, the AB found that the panel had erroneously concluded that the three federal statutes could not be considered “necessary” for purposes of Articles XIV(a) and XIV(c) because the United States had not entered into consultations with Antigua to find a less trade-restrictive alternative. The AB ultimately found that statutes were “necessary to protect public morals or to protect public order” for purposes of Article XVI(a) and that they thus fell within the scope of this exception.207 At the same time, the AB also found that, in light of a provision in the Interstate Horseracing Act (IHA) that might facially continue to allow the remote supply of wagering on horseracing by domestic firms, the United States had not shown that the Wire Act, the Travel Act, and the IGBA were being applied consistently with the Article XVI proviso, that is, that they may possibly be used to prosecute foreign, but not domestic, providers of remote horserace gambling services.208

Antigua had based its argument that the United States was applying the three statutes inconsistently with the Article XIV proviso on two aspects of the IHA, a statute allowing the acceptance of interstate off-track wagers provided certain conditions are met, making violators civilly liable for damages to named entities, including the state in which the subject horserace takes place, and authorizing certain civil suits against violators.209 First, Antigua cited § 5 of the act, which it characterized as expressly allowing an interstate off-track wager to be accepted by an off-track betting system, where consent is obtained from certain organizations.210 Second, it

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206 The AB stated that “limitations amounting to a zero quota are quantitative limitations and fall within the scope of Article XVI:2(a)” and that prohibitions on service supply “amount to a ‘zero quota’ on service operations or output with respect to such services ... and a[s] such fall within the scope of Article XVI:2(c).” Id. paras. 238, 251.
207 Because it had found that the U.S. statutes were “necessary” for purposes of XVI(a), the AB did not address whether the statutes fulfilled the “necessity” test of Article XIV(c), the GATS exception for measures necessary to enforce GATS-consistent laws and regulations. Id. paras. 337, 373(D)(iv)(b).
208 Id. paras. 338-372, 373(v),(vi).
210 Section 4 of the IHA, 15 U.S.C. § 3003, prohibits a person from accepting an “interstate off-track wager” except as provided in the act. Section 5(a) of the IHA, 15 U.S.C. § 3004(a), states that “[a]n interstate off-track wager may be (continued...)
cited the statutory definition of “interstate off-state wager,” which, in pertinent part, includes pari-mutuel wagers “placed or transmitted by an individual in one State via telephone or other electronic media and accepted by an off-track betting system in the same or another State,” provided the wagers are lawful in the States involved.211 In the words of the AB, Antigua thus argued that:

the IHA, on its face, authorizes domestic service suppliers, but not foreign service suppliers, to offer remote betting services in relation to certain horse races. To this extent, in Antigua’s view, the IGHA “exempts” domestic service suppliers from the prohibitions of the Wire Act, the Travel Act, and the IGBA.212

As further described by the AB, “[t]he Panel found that the evidence provided by the United States was not sufficiently persuasive to conclude that, as regards wagering on horseracing, the remote supply of such services by domestic firms continues to be prohibited notwithstanding the plain language of the IHA.”213 The AB concluded that the panel did not err in making this finding.

The Appellate Body report and the panel report, as modified by the AB, were adopted April 20, 2005.

Responses of the United States and Antigua

The United States reported at the May 19, 2005, meeting of the DSB that it intended to implement the rulings and had begun to consider options for doing so, but that it would need a reasonable period to comply.214 After the disputing parties had failed to agree on a reasonable period of time for compliance, Antigua requested that the compliance period be arbitrated.215 In its submission to the Arbitrator, the United States stated that compliance would be achieved “by further clarifying the relationship between the IHA and preexisting federal criminal laws” and that “U.S. authorities intend to seek further clarification through legislation.”216

The United States sought a 15-month compliance period, stressing that such legislative action would be “technically complex.”217 In an award made public August 19, 2005, the Arbitrator

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accepted by an off-track betting system only if consent is obtained from—(1) the host racing association ...; (2) the host racing commission; (3) the off-track racing commission.”

211 IHA, § 3(3), 15 U.S.C § 3002(3).
212 Gambling AB Report, supra note 205, para. 361 (footnotes omitted)(emphasis in original).
213 Id. para. 364 (emphasis in original).
214 Dispute Settlement Body, Minutes of Meeting, May 19, 2005, at 9, WT/DSB/M/189 (June 17, 2005).
217 The United States argued as follows regarding the complexity of the foreseen legislative action:

... It requires consideration of the relationship between the IHA and three different federal criminal statutes—the Wire Act, the Travel Act, and the Illegal Gambling Business statute The Appellate Body has made no finding as to whether the activity that is prohibited by these statutes is permitted under the IHA. Instead the Appellate Body has emphasized the need to “demonstrate[] that—in the light of the existence of the Interstate Horseracing Act—the Wire Act, the Travel Act, and the (continued...)
determined that the compliance period would last 11 months and two weeks from the date of adoption of the panel and AB reports, thus expiring April 3, 2006.\textsuperscript{218}

Legislative action was not taken before the deadline; instead, the United States stated in a status report to the DSB that it had complied in the case based on the position of the Department of Justice (DOJ) regarding remote gambling on horse racing, articulated as follows in April 5 DOJ testimony before a House committee:

> The Department of Justice views the existing criminal statutes as prohibiting the interstate transmission of bets or wagers, including wagers on horse races. The Department is currently undertaking a civil investigation relating to a potential violation of law regarding this activity. We have previously stated that we do not believe that the Interstate Horse Racing Act, 15 U.S.C. §§ 3001-3007, amended the existing criminal statutes.\textsuperscript{219}

Antigua disagreed that the United States was in compliance, and in May 2006, the parties entered into a procedural agreement regarding the possible seeking by Antigua of a compliance panel and countermeasures in the case.\textsuperscript{220}

\textbf{(...continued)}

Illegal Gambling Business Act are applied consistently with the requirements of the [Article XIV] chapeau.” Accordingly a reasonable legislative option would have the effect of clarifying that relevant U.S. federal laws entail no discrimination between foreign and domestic service suppliers in the application of measures prohibiting remote supply of gambling and betting services.

... There will be ample room for reasonable and principled disagreements among legislators as to precisely how to achieve such a clarification in the context of Internet gambling....

... A legislative clarification will be further complicated by the fact that, starting in the 105th Congress (1997-98), and continuing in each subsequent Congress through the 108th Congress (2003-04), U.S. federal lawmakers have considered a wide range of proposals to address Internet gambling. Members of Congress are actively considering introduction of Internet gambling bills in the current 109th Congress (2005-2006), and will undoubtedly find it necessary to consider the need for compliance with the DSB’s recommendations and rulings in the context of this continuing debate, and the variety of broader proposals already supported by different groups of legislators. The issue of how to achieve compliance with the DSB’s recommendations and rulings is thus further complicated by its potential to affect, and be affected by, elements of an already complex legislative debate that has gone unresolved over the past four Congresses.

\textit{Id.} at 5-7.


Compliance Proceedings

Antigua requested a compliance panel in July 2006, claiming that the United States had failed to bring the Wire Act, the Travel Act and the Illegal Gaming Business Act into conformity with U.S. GATS obligations and that then-pending legislation—H.R. 4777 and H.R. 4411—was “expressly contrary” to the WTO ruling in that each bill “would further institutionalise the discriminatory effect” of the three cited statutes. It also questioned whether the DOJ statement was a “measure” or a “measure taken to comply” for purposes of the DSU, noting that the same position had been maintained by the United States during the course of the dispute and was subsequently rejected by the panel and Appellate Body. Antigua further argued that regardless of the nature of the DOJ statement for purposes of the DSU, the United States remained out of compliance with the GATS because of, *inter alia*, the existence of reasonable technical alternatives to prohibitions on remote gambling and betting services and governmental enforcement problems regarding domestic and cross-border service providers.\(^{221}\) The compliance panel was established July 19, 2006.

On March 30, 2007, the compliance panel issued a report adverse to the United States, finding that the United States had not taken any measures to comply in the case and thus left the statutory ambiguity cited by the panel unresolved.\(^{222}\) The panel noted that legislation was not the only means of compliance in the proceeding and that “other forms of administrative action, or judicial action, [could be used] to bring the measures into conformity.”\(^{223}\) The United States did not appeal the report, which was adopted by the DSB on May 22, 2007.

In early May 2007, the Office of the USTR announced that the United States intended to invoke Article XXI of the GATS “in order to clarify its commitment involving ‘recreational services,’”\(^{224}\) in order to bring the United States into compliance in the dispute and to resolve the dispute permanently.\(^{224}\) The modification would explicitly exclude gambling and betting services from...

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Antigua also made separate arguments regarding the inconsistency of the then-pending bills with U.S. GATS obligations, faulting in particular their exclusions for transactions made in accordance with the Interstate Horseracing Act (IHA), intrastate transactions, and remote gambling conducted by Native American tribes in accordance with existing federal laws applicable to Native American gaming.

In October 2006, the President signed into law the SAFE Port Act, which contains an Internet gambling title that generally follows the House-reported language of H.R. 4411, Unlawful Internet Gambling Enforcement Act (UIGEA), P.L. 109-347, Title VIII. The statute prohibits gambling businesses from accepting checks, credit cards, electronic transfers and similar forms of payment in connection with illegal Internet gambling, while exempting intrastate and intratribal Internet gambling operations that include age and location verification requirements imposed as a matter of law. The legislation also leaves unresolved questions as to the extent to which the Interstate Horseracing Act restrains the reach of other federal statutes. For further information, see CRS Report RS22749, *Unlawful Internet Gambling Enforcement Act (UIGEA) and Its Implementing Regulations*, by Charles Doyle and Brian T. Yeh [hereinafter CRS Report RS22749]; CRS Report RS21984, *Internet Gambling: An Abridged Overview of Federal Criminal Law*, by Charles Doyle.

\(^{222}\) Panel Report, Recourse to Article 21.5 of the DSU by Antigua and Barbuda, *United States—Measures Affecting the Cross-Border Supply of Gambling and Betting Services*, WT/DS285/RW (Mar. 30, 2007) [hereinafter U.S. Gambling Article 21.5 Report]. Among other things, the panel concluded that enactment of the UIGEA, see supra note 221, did not resolve any of the issues involved in the dispute, citing the statute’s express exclusion of activities allowed under the Interstate Horseracing Act and its “sense of Congress” statement that UIGEA “is not intended to resolve any existing disagreements over how to interpret the relationship between the IHA and other Federal statutes.” U.S. Gambling Article 21.5 Report, supra, paras. 6.130-6.135.

\(^{223}\) Id. para. 6.90

\(^{224}\) Press Release, Office of the U.S. Trade Representative, Statement of Deputy United States Trade Representative John K. Veroneau Regarding U.S. Actions under GATS Article XXI (May 4, 2007) [hereinafter USTR Press Release, (continued...)
this broader services category. With Antigua’s subsequent pursuit of retaliation in the underlying WTO dispute, the United States became engaged in two WTO proceedings, one involving negotiations with various WTO Members under Article XXI on compensation for changes in the U.S. GATS schedule, and the other involving arbitration of Antigua’s request to impose countermeasures against the United States for non-compliance with the WTO decision.

**Negotiations on Compensation under GATS Article XXI**

Article XXI allows a WTO Member to modify or withdraw any commitment in its GATS Schedule, but any WTO Member whose GATS benefits may be affected by the proposed change has a right to negotiate a compensation agreement with the Member making the change. In negotiating an agreement, Members must try to maintain “a general level of mutually advantageous commitments” that are as favorable to trade as was the case with the Schedule in its original form. In its May 2007 announcement, USTR stated that in negotiating the GATS, the United States “did not make it clear” that its international commitments to open its market to recreational services did not extend to gambling and that since “no WTO Member either bargained for or reasonably could have expected the United States to undertake a commitment on gambling, there would be very little, if any basis for ... [compensation] claims.”

Antigua, Australia, Canada, Costa Rica, European Union (EU), India, Japan, and Macao requested consultations with the United States by June 22, 2007, the deadline for WTO Members to notify the United States that their interests may be affected by the U.S. Schedule modification. The following month USTR filed a notice in the Federal Register asking for public comment on the requested compensation negotiations. As provided in GATS procedural rules, negotiations were expected to conclude within three months, i.e., toward the end of September 2007, but the parties agreed on two extensions with a final deadline of January 14, 2007. On December 17, 2007, the United States and the EU announced that they had reached a bilateral compensation agreement providing EU service suppliers with improved market access in the U.S. postal and courier, research and development, warehouse and storage, and technical testing services sectors. The United States also announced that it had reached agreement with

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227 USTR Request for Public Comment, supra note 226.


Canada and Japan as well. Australia had reportedly settled outstanding issues with the United States several months earlier and had withdrawn from the negotiations. Since the United States had not agreed on compensation with Antigua, Costa Rica, India, or Macao by the end of the negotiating period, these Members had a right to request that compensation be arbitrated, provided that they made their request within 45 days after deadline, i.e., by January 28, 2008. If none of these Members requested arbitration, the United States would then be free to implement its Schedule modification, as originally proposed. Antigua and Costa Rica each filed timely arbitration requests. India and Macao reportedly did not choose this option and thus effectively abandoned their claims. In February 2008, Costa Rica reached agreement with the United States on compensation and as a result withdrew its request to arbitrate. Antigua was thus the only remaining Member pursuing arbitration under Article XXI.

Under GATS rules, any arbitral panel established under Article XXI would be expected to issue its report within three months after the panel is appointed. Once a report is issued, the United States would not be able to modify its GATS Schedule until it made compensatory adjustments in conformity with the arbitration. If the United States modified its Schedule without complying with the arbitral decision, Antigua could modify or withdraw substantially equivalent benefits in conformity with the arbitral findings. GATS rules would allow the Antigua to apply any such change only to the United States, notwithstanding the general most-favored-nation obligation in GATS Article II.

Antigua’s Retaliation Request

In the WTO dispute itself, Antigua has requested authorization from the DSB to impose $3.4 billion in countermeasures against the United States for non-compliance, primarily by suspending obligations owed the United States under the Agreement on Trade-Related Intellectual Property Rights. The United States objected to the request, challenging both the level of suspension of concessions and Antigua’s compliance with DSU principles and procedures governing a WTO Member’s consideration of which concessions to suspend. Because of the U.S. objection,
Antigua’s proposal was sent to arbitration. In a ruling issued December 21, 2007, the Arbitrator determined that Antigua may request authorization from the DSB to suspend concessions under the TRIPS agreement at a level not to exceed $21 million annually. The amount was based on the Arbitrator’s assumption that the United States would have complied with the ruling by opening its market to Antiguan providers of remote gambling on horseracing.

Recent Developments

Although Antigua requested arbitration in January 2008 under GATS Article XXI on compensation owed by the United States because of the U.S. withdrawal of gambling commitments in its GATS Schedule, there have not been reports that panelists have been appointed to hear this claim. Moreover, Antigua has not yet requested the WTO Dispute Settlement Body to authorize its retaliation request as modified by the December 2007 Arbitrator’s report in the original WTO dispute settlement proceeding. In a July 2009 government press release, the Minister of Finance of Antigua is quoted as stating that “...while we may in the future consider exercising the right to impose sanctions, as of this moment, I am instead looking forward to meeting with the United States government in the near future and focusing on a mutually beneficial resolution of the issues raised by the remote gambling case.” The USTR’s annual report for 2008 also indicates that the parties have been consulting with a view to achieving “a mutually agreeable resolution” to the dispute.

A June 10, 2009, European Commission staff report on an investigation under the European Union (EU) Trade Barriers Regulation, initiated as a result of a complaint submitted by the London-based Remote Gambling Association, indicates persistent EU concerns over U.S. Internet gambling regulation and its consistency with U.S. GATS obligations. Regarding possible future action, a fact sheet accompanying the report states as follows: “The report concludes that WTO action would be justified. However, this is not an automatic consequence. The report does not include any recommendation for action and also suggests that the issue should be addressed with the US Administration, with a view to finding an amicable solution.”

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meeting in Washington, USTR Kirk and EU Trade Ambassador Ashton discussed the EU report “and its implications for the WTO rights and obligations of the parties concerned.”243

In November 2008, the Treasury Department and the Board of Governors of the Federal Reserve System issued a final rule implementing the provisions of the 2006 Unlawful Internet Gambling Enforcement Act ( UIGEA), P.L. 109-347, Title VIII.244 The statute prohibits gambling businesses from accepting checks, credit cards, electronic transfers and similar forms of payment in connection with illegal Internet gambling, while exempting intrastate and intratribal Internet gambling operations that include age and location verification requirements imposed as a matter of law. The rule became effective on January 19, 2009; the original compliance date of December 1, 2009, was recently extended, however, to June 1, 2010. Various bills have also been introduced in the 111th Congress to permit Internet gambling under a federal licensing program.245

Pending Cases Involving Administrative Action

Four pending WTO disputes in the compliance phase involve administrative action. These address the practice of “zeroing,” a methodology used by the Department of Commerce (DOC) in antidumping proceedings under which, in calculating dumping margins for an imported product, it disregards non-dumped sales. Two of these cases were brought by the European Union (DS294 and DS350), one by Japan (DS322), and one by Mexico (DS344). These have resulted in a broad prohibition on the use of this practice in U.S. antidumping investigations and related antidumping proceedings.

In response to the first EU challenge, the Commerce Department in early 2007 discontinued the use of zeroing in the price comparison employed most frequently in original antidumping investigations and recalculated dumping margins in the investigations cited by the EU under the revised methodology. The United States has yet to fully comply with the WTO decisions in this case and in the cases initiated by Japan and Mexico to the extent that the decisions affect the use of zeroing in other aspects of U.S. antidumping proceedings. WTO compliance proceedings in the first EU case and Japan’s challenge, concluded in 2009, resulted in findings adverse to the United States and the complainants may now pursue requests to impose sanctions. In addition, Mexico initiated compliance proceedings against the United States on August 19, 2009, and a compliance deadline of December 19, 2009, was established in the second EU challenge. With the United States having taken limited action to comply with the WTO decision in the second EU challenge, the United States and the EU have entered into a “sequencing” agreement setting out a procedural framework for a compliance panel request by the EU.

The United States acted in 2009 to resolve two other disputes in which administrative action was needed to comply: United States – Measures Related to Shrimp from Thailand (DS343) and United States – Customs Bond Directive for Merchandise Subject to Anti-

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243 Press Release, Office of the U.S. Trade Representative, U.S. and EU discuss ways forward on bilateral trade issues (last updated July 14, 2009).


245 For further information on the UIGEA and proposed legislation, see CRS Report RS22749, supra note 221.
WTO Dispute Settlement: Status of U.S. Compliance in Pending Cases

Dumping/Countervailing Duties (DS345). Each of these involved a successful challenge to the U.S. enhanced customs bond requirement (EBR) for shrimp subject to antidumping duty orders, with the dispute with Thailand also involving a successful challenge to the U.S. use of zeroing in determining the original dumping margin for the subject shrimp imports. The United States was subject to an April 1, 2009, deadline in both disputes for all issues raised.

In January 2009, the United States implemented a Section 129 determination in which the Commerce Department recalculated the dumping margins for shrimp from Thailand without the use of zeroing using its modified methodology for original investigations (discussed below). The recalculation resulted in two de minimis margins, a lower margin for one exporter, and a lower rate for exporters that were not individually investigated (“all others” rate), effective January 16, 2009. Consequently, antidumping duties were no longer collected for the two exporters with de minimis rates.

In a Federal Register notice published April 1, 2009, U.S. Customs and Border Protection (CBP) announced that, in response to the two WTO decisions, it was as of that date ending the designation of shrimp subject to antidumping duty or countervailing duty orders as a “special category” or “covered case” subject to the EBR and that importers subject to this requirement could request the termination of any existing continuous bonds and submit a new bond application. CBP did not apply the new policy retroactively to all entries of subject merchandise calculated using the EBR, which some commenters had argued was necessary to fully comply with the WTO decision. At the WTO Dispute Settlement Body meeting of April 20, 2009, the United States announced the revision of its policy and stated that, with this change, it had complied with its WTO obligations in each dispute. While Thailand and India indicated at the time that they did not consider the issues raised in the case to be fully resolved and that they would thus monitor U.S. implementation, neither WTO Member appears to have raised the issue of U.S. compliance at subsequent DSB meetings. In August 2009, the U.S. Court of International Trade ruled that the EBR, in applying only to importers of shrimp subject to antidumping duties, was arbitrarily and capriciously applied, that it was unreasonable in amount, and that, thus, individual bond determinations were not in accordance with law. The court ordered broad relief for shrimp importers, including the recalculation of bonds for earlier time.

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\(^{250}\) Dispute Settlement Body, Minutes of Meeting, Apr. 20, 2009, at 15, WT/DSB/M/267 (June 26, 2009) [hereinafter DSB Minutes (Apr. 20, 2009)]. The United States also stated that, in response to another ruling and recommendation in the dispute involving India, it had notified documents relating to the EBR to the WTO Committee on Antidumping Practices and the Committee on Subsidies and Countervailing Measures. Id. at 16.

\(^{251}\) Id. at 15, 16.

periods on which plaintiffs may remain liable as principal until all goods entered during the period are liquidated.

Use of “Zeroing” in Antidumping Proceedings: Background

Under U.S. law, antidumping duties will be applied to an imported product if the Department of Commerce (DOC) determines that the product is being, or is likely to be sold, in the United States at less than its fair value and the U.S. International Trade Commission (ITC) determines that a U.S. industry is materially injured or threatened with material injury by reason of either imports of dumped goods, or sales or likely sales of such goods for importation. Antidumping duties are imposed in the amount of the dumping margin calculated by DOC. The dumping margin is the amount by which the normal value of the product, i.e., the price at which the product is sold in the exporting country, exceeds the export price or constructed export price. Antidumping duties will not be imposed if the weighted average dumping margin is de minimis, i.e., less than two percent ad valorem.

Under the practice of zeroing, the Department assigns a zero value to non-dumped sales—that is, sales at prices that are equal to or greater than normal value—and disregards these sales in calculating a dumping margin for the product under investigation. The practice of zeroing is said to inflate dumping margins by not allowing dumped sales to be weighed against non-dumped sales, whereas others argue that the practice combats masked dumping—i.e., the situation where an exporter masks sales of goods at less than normal value by sales at prices above normal value—and that actual dumping may be remedied even though exporters may not sell all products at dumped prices in a national market. The United States has applied zeroing or relied on zeroing-based dumping margins in all phases of U.S. antidumping duty proceedings.

Original Antidumping Investigations

The United States uses a “retrospective” system of duty assessment under which the final liability for antidumping duties is determined after the goods are imported. The Commerce Department, ordinarily on the basis of an industry petition, first conducts an original investigation of the allegedly dumped product. It investigates merchandise sold for a specified annual period, usually the four most recently completed fiscal quarters as of the month preceding the month in which the petition was filed. DOC ultimately makes a final determination as to whether dumping has occurred during the period of investigation and, if so, calculates an estimated weighted-average dumping margin for each known exporter of the subject merchandise. It also calculates an “all others” rate for exporters that are not investigated individually. If the ITC makes a final

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253 Tariff Act of 1930, § 731, 19 U.S.C. § 1673. The U.S. International Trade Commission may also find that the establishment of a industry in the United States is materially retarded by reason of the dumped products, but this situation has rarely been alleged in an antidumping investigation.


257 19 C.F.R. § 351.212(a).

258 19 C.F.R. § 351.204(b)(1).

259 19 C.F.R. § 341.204(c)(1).

260 Tariff Act of 1930, § 735(c)(1)(B)(i)(II), 19 U.S.C. § 1673d(c)(1)(B)(i)(II). Liquidation of entries may also be (continued...)
determination that domestic industry is materially injured by reason of the dumped imports, DOC will issue an antidumping order under which estimated duties are assessed and importers make cash deposits in this amount on the subject goods. DOC also orders the suspension of liquidation, i.e., the final assessment of duties, for the imported items.

**Annual Administrative Reviews**

One year after the antidumping order is published, an interested party may petition DOC for an administrative review of the order. In an administrative review, DOC examines entries or sales of the subject merchandise during the 12 months immediately preceding the anniversary month of the order, and calculates dumping margins for these goods. The Department considers this the final antidumping duty and the goods are liquidated in this amount. The rate calculated in the administrative review also serves as the cash deposit rate for goods entering the United States under the antidumping order during the upcoming year. If requested, administrative reviews are conducted annually. If no review is requested for the first anniversary, DOC will apply the cash deposit rate applicable at the time the merchandise was entered and liquidate the entries at this amount. If there is an initial administrative review and a review is not requested for the following year, duties will be assessed at the rate established in the completed review covering the most recent prior period.

**Other Reviews of Antidumping Orders**

DOC also conducts other types of reviews of antidumping duty orders, including: (1) “new shipper reviews,” in which exporters that did not export goods during the period of investigation or that were not affiliated with an exporter that did export, may obtain their own individual dumping margins on an expedited basis; (2) “changed circumstances reviews,” under which interested parties may seek revocation of an AD order on the ground that changed circumstances (e.g., the cessation of material injury to the U.S. industry) are sufficient to warrant revocation; and (3) mandatory five-year “sunset reviews” of existing AD orders, under which DOC and the ITC determine whether revocation of the order would be likely to lead to continuation or recurrence of dumping and material injury and DOC must revoke the order if negative determinations are made.

**Calculating Dumping Margins with Use of Zeroing**

In calculating dumping margins in original investigations, the Department of Commerce is authorized under U.S. law to make three types of price comparisons, each of which is recognized in Article 2.4.2 of the Antidumping Agreement. These comparisons are: (1) weighted average...

(...continued)

delayed because of litigation challenging a dumping or injury determination.

261 19 C.F.R. § 351.213.
262 19 C.F.R. § 351.212(a).
264 Tariff Act of 1930, § 751(b), 19 U.S.C. § 1675(b); regulations at 19 C.F.R. § 351.216.
265 Tariff Act of 1930, § 751(b), 19 U.S.C. § 1675(c); regulations at 19 C.F.R. § 351.218.
of normal values to weighted average of export prices for comparable merchandise (average-to-
average); (2) normal values of individual transactions to export prices of individual transactions
for comparable merchandise (transaction-to-transaction); and (3) where there is a pattern of prices
that differs significantly among purchasers, regions or time periods, or so-called “targeted
dumping,” weighted average of normal values to export prices of individual transactions for
comparable merchandise (average-to-transaction).  

The DOC ordinarily uses average-to-average comparisons in original investigations, as was the
case in the original investigations cited in the EU’s complaint in DS294, discussed below. In
applying the average-to-average method to a product under investigation, DOC ordinarily divides
export transactions into sub-groups of the product. Considering sales of the products in a sub-
group to be comparable, DOC compares an average of the export prices or constructed export
prices of the sales in the group to the weighted average of the normal values of such sales and
determines a dumping margin for the group. Once DOC determines the dumping margin for
each such group, DOC calculates a weighted average dumping margin for each individual
exporter or producer by aggregating the results of the comparisons. The term “weighted average
dumping margin” is defined in statute as “the percentage determined by dividing the aggregate
dumping margins determined for a specific exporter or producer by the aggregate export or
constructed export prices of such exporter or producer.”

1677f-1(d)(1)(B), has been rarely used but may be employed where the other comparison methodologies “cannot
account for a pattern of prices that differ significantly among purchasers, regions, or time periods.” Uruguay Round
SAA, supra note 7, at 843. Targeting dumping would occur when an exporter sold a product at a dumped price in
certain areas or to certain customers, while masking these sales with non-dumped exports elsewhere.;

268 19 C.F.R. § 351.414(c)(1).

269 19 C.F.R. § 351.414(d)(1). The products in a sub-group, or “averaging group,” are identical or virtually identical in
all physical characteristics and sold at the same level of trade. 19 C.F.R. § 351.414(d)(2).

270 19 C.F.R. § 351.414(d)(1).

Before the Department discontinued the use of zeroing (sometimes referred to as “model zeroing”) in average-to-average comparisons in original investigations, an action it announced in late 2006 in response to the adverse decision in DS294, it would have assigned a dumping margin of zero to any subgroup for which the export price was equal to or exceeded the normal value, i.e., where there was no dumping. As a result, when the results of the averaging groups were aggregated to determine the weighted-average dumping margin for the product as a whole, negative dumping margins for particular models could not be used to offset positive margins for other models. In other words, in aggregating the model-specific results to determining the numerator in the “weighted average dumping margin” calculation, the Department used only positive dumping margins.272

In annual administrative reviews, where DOC assesses the final antidumping duties to be imposed on entries of the merchandise entered during the prior year, the Department calculates the duty owed by an importer by using the average-to-transaction method, i.e., by comparing the price of each individual export transaction with a monthly weighted-average normal value,273 and employing what is sometimes referred to as “simple zeroing.” Thus, where the export price of the transaction exceeds the normal value, DOC will consider the dumping margin for the export transaction to be zero. The overall weighted average dumping margin for the product is then calculated by combining the results of these multiple comparisons and, again, the numerator for the overall weighted average margin is determined only on the basis of positive dumping margins. DOC ordinarily uses average-to-transaction comparisons with simple zeroing in new shipper and changed circumstances reviews.274 In sunset reviews, the Department relies on dumping margins obtained through zeroing in determining whether dumping is likely to continue or recur if the antidumping order at issue is revoked.

**Domestic Legal Basis for Zeroing**

Although the Tariff Act of 1930, at section 735(A), 19 U.S.C. § 1677(35), defines the terms “dumping margin” and “weighted average dumping margin,” it does not expressly address the practice of zeroing.275 Using the *Chevron* standard of judicial review, U.S. courts have held that the statute does not unambiguously require zeroing, but the Commerce Department’s interpretation of the statute as allowing the practice is a permissible one.276 Courts have also

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273 19 C.F.R. § 351.414(c)(2).


275 The term “dumping margin” is defined as “the amount by which the normal value exceeds the export price or constructed export price of the subject merchandise.” Tariff Act of 1930, § 777(35)(A), 19 U.S.C. § 1677(35)(A).

refused to implement adverse WTO decisions on zeroing, leaving determinations as to “whether, when, and how” to comply with such rulings to the executive branch.277

The U.S. Court of International Trade ruled in July 2009 that the Commerce Department’s determination under section 123 of the Uruguay Round Agreements Act to eliminate zeroing in average-to-average comparisons in original antidumping investigations and to offset sales made at less than fair value with fair value sales, an action taken in response to the WTO decision in DS294, was based on a reasonable interpretation of U.S. antidumping law for purposes of Chevron and was thus in accordance with law.278 As discussed earlier, section 123 sets out statutory requirements for U.S. regulatory modifications taken to implement WTO decisions. The court also took into consideration the fact that the Department was undertaking this interpretation in the context of authorities and requirements in section 123, stating that the “deference accorded to Commerce’s interpretation [under Chevron] is at its highest when that agency acts under the authority of a Congressional mandate to harmonize U.S. practices with international obligations, particularly when it allows the Executive Branch to speak on behalf of the U.S. to the international community on matters of trade and commerce.”279 The court further held that, because the section 123 action was in accordance with law, the Department’s use of this new approach in a Section 129 Determination taken to comply with the WTO decision was “not unlawful.”280 Industry plaintiffs have since appealed the decision.

U.S. courts, under Step 2 of Chevron, have also refused to find it unreasonable for the Commerce Department to construe section 735(A) of the Tariff Act as simultaneously permitting the use of zeroing in administrative reviews and the abandonment of the practice in average-to-average comparisons in original investigations.281

### Challenges to the U.S. Use of Zeroing in the WTO

In addition to the four pending disputes and the resolved dispute with Thailand discussed earlier in this report, three new challenges against the United States for its use of zeroing are currently active. In the first of these, United States—Antidumping Measures on Polyethylene Retail Carrier Bags from Thailand, WT/DS383, Thailand challenged the U.S. use of zeroing in an original antidumping investigation, an issue dealt with in earlier WTO decisions adverse to the United States. On January 22, 2010, the dispute panel issued a report finding that the United States was in violation of its obligations under the WTO Antidumping Agreement.282 U.S. implementation of the panel report, which has not yet been adopted by the WTO Dispute Settlement Body, is subject to a procedural agreement between the United States and Thailand, notified to the WTO on January 7, 2010. Among other things, the United States pledged not to contest Thailand’s claim and the parties agreed that the United States will have six months to implement the panel report once the report is adopted, provided the panel makes the adverse finding specified in the

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277 Koyo Seiko Co. v. United States, 551 F.3d 1286, 1290-91 (Fed. Cir. 2008).
279 Id. at 1212.
280 Id. at 1216.
281 Union Steel v. United States, 645 F.Supp.2d 1298 (Ct. Int’l Trade 2009); see also Corus Staal BV v. United States, 502 F.3d 1370 (Fed. Cir. 2007).
The conduct of antidumping investigations and the imposition of antidumping duties is subject to obligations in the WTO Agreement on Antidumping and Article VI of the General Agreement on Tariffs and Trade. While neither of these agreements expressly address the use of zeroing in antidumping investigations or in the various reviews and duty assessments carried out in antidumping proceedings, WTO panels and the Appellate Body have found that the use of zeroing in original investigations, except in one type of price comparison, is inconsistent with obligations in Article 2.4.2 of the WTO Antidumping Agreement requiring WTO Members to determine dumping margins by comparing normal and export values of "all comparable export transactions." In addition, with the exception of some early panels, WTO panels and the Appellate Body have concluded that the use of zeroing in subsequent phases of antidumping proceedings violates GATT and Antidumping Agreement prohibitions on imposing antidumping duties that exceed the dumping margin for the goods under investigation. Further, reliance on zeroing-based dumping margins in mandatory five-year sunset reviews of antidumping duty orders has been found to violate Article 11.3 of the WTO Antidumping Agreement on the ground that such reliance taints the fundamental determination made in sunset reviews, namely, whether

283 Agreement on Procedures between Thailand and the United States, United States—Antidumping Measures on Polyethylene Retail Carrier Bags from Thailand, WT/DS383/4 (Jan. 12, 2010).

284 Along with the eight cases discussed or otherwise mentioned in the text, eight other WTO disputes have involved challenges to the U.S. use of zeroing, though not all of these have resulted in panels. These include: United States—Anti-dumping Measure on Shrimp from Ecuador, WT/DS335 (adverse panel report; dispute appears to have been resolved with the August 2007 revocation of the AD order in question); United States—Anti-dumping Determinations Regarding Stainless Steel from Mexico, WT/DS325 (consultations only; see WT/DS355, discussed in text, for further action); United States—Provisional Anti-dumping Measures on Shrimp from Thailand, WT/DS324 (consultations only; see WT/DS343, supra, for further action); United States—Anti-dumping Measures on Cement from Mexico, WT/DS281 (panel established but work suspended; dispute settled with 2006 bilateral Trade in Cement Agreement); United States—Final Dumping Determination on Softwood Lumber from Canada, WT/DS264 (adverse panel and AB reports in original dispute; adverse AB report in compliance panel proceeding; dispute settled with 2006 bilateral Softwood Lumber Agreement); United States—Provisional Anti-dumping Measures on Import of Certain Softwood Lumber from Canada, WT/DS247 (consultations only; dispute settled with 2006 bilateral Softwood Lumber Agreement); United States—Sunset Review of Anti-dumping Duties on Corrosion-Resistant Carbon Steel Flat Products from Japan, WT/DS255 (Appellate Body reversed panel finding that United States did not violate WTO Antidumping Agreement in relying on zeroing-based dumping margin in challenged sunset review, but found that it had insufficient factual basis to complete analysis of Japan’s claim); United States—Anti-dumping Duties on Silicon Metal from Brazil, WT/DS239 (consultations only).

285 Article 2.4.2 states, in pertinent part, as follows: “Subject to the provisions governing fair comparison in paragraph 4, the existence of margins of dumping during the investigation phase shall normally be established on the basis of a comparison of a weighted average normal value with a weighted average of prices of all comparable export transactions or by a comparison of normal value and export prices on a transaction-to-transaction basis.” The first WTO decision in which the U.S. practice of zeroing was ruled to be inconsistent with this provision of the WTO Antidumping Agreement was United States—Final Dumping Determination on Softwood Lumber from Canada (Softwood Lumber), WT/DS264. The case involved the application of zeroing in an average-to-average price comparison in an original antidumping investigation. As summarized in the January 2010 panel report in Thai Carrier Bags, the WTO Appellate Body found in Softwood Lumber “that the terms ‘margins of dumping’ and ‘all comparable export transactions’ in Article 2.4.2 must be interpreted in an ‘integrated manner’, such that where ‘an investigating authority has chosen to undertake multiple comparisons, the investigating authority necessarily has to take into account the results of all those comparisons in order to establish margins of dumping for the product as a whole under Article 2.4.2.” Thai Carrier Bags Panel Report, supra note 282, para. 7.20.
revocation of the antidumping order is likely to lead to the recurrence or continuation of dumping and injury.

As a result of these cases, the use of zeroing has been found to be broadly prohibited in the calculation of duties in antidumping proceedings. Moreover, particularly important for the U.S. “retrospective” antidumping duty system are findings in related compliance panel proceedings that WTO decisions faulting the use of zeroing in original antidumping investigations continue to apply with respect to subsequent administrative reviews. It has also been found in these proceedings that, where goods have entered the United States before the end of the compliance period established in a WTO dispute but final duties have not been collected, zeroing-based duties may not be applied to such goods once this period has ended. In addition, the Appellate Body recently found that an additional claim may be made in an initial WTO complaint against zeroing, namely, the “continued use” of the practice in subsequent domestic proceedings relating to a particular antidumping duty order.

The United States has expressed concerns with Appellate Body’s broad prohibition on the use of zeroing at meetings of the WTO Dispute Settlement Body and in related documents circulated to Members. In addition, the United States submitted proposals in June 2007 to the WTO Negotiating Group of Rules, which has been negotiating revisions to antidumping and subsidy rules in the Doha Round, asking that negotiators evaluate the reasoning of the WTO panels that have examined the issue of zeroing and stating that “the proper resolution of this issue requires clear text providing that margins of dumping may be determined without offsets for non-dumped transactions, consistent with the long-held concept of dumping.” The United States also proposed revised language for the Antidumping Agreement to this effect. While the draft negotiating text issued by the Chairman of the Doha Negotiating Group in November 2007 contained proposed language reflecting U.S. concerns, the draft text issued in December 2008 does not contain such language and instead notes that, with regard to zeroing, “[d]elegations remain profoundly divided on this issue,” with positions ranging from “insistence on a total prohibition of zeroing irrespective of the comparison methodology used and in respect of all proceedings to a demand that zeroing be specifically authorized in all contexts.”

**Laws, Regulations, and Methodology for Calculating Dumping Margins (“Zeroing”) (DS294)**

In June 2003, the European Union (EU) requested consultations with the United States over the use of zeroing by the Commerce Department in determining dumping margins, arguing that the practice as it relates to original antidumping investigations and subsequent administrative, new shipper, changed circumstances, and sunset reviews was inconsistent “as such” with provisions of the WTO Agreement on Antidumping and Article VI of the GATT 1994. That is, complainants argued that the existence of the practice violated these agreements regardless of any specific

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application. The EU also alleged that the United States had acted inconsistently with its WTO obligations in applying zeroing in 31 specific cases, including 15 original investigations and 16 administrative reviews. The EU further claimed that insofar as dumping margins in original investigations should be calculated without the use of zeroing and some exporters may thus have de minimis dumping margins, these imports should be excluded from the volume of dumped imports that the ITC takes into account in determining whether such imports are causing material injury to domestic industry. The EU argued that WTO obligations require the United States to make this determination based only on the volume of imports remaining after this exclusion. A panel was established in March 2004.

**Panel and Appellate Body Reports**

In a report issued October 31, 2005, the WTO panel found that zeroing, as applied in the weighted-average-to-weighted average price comparisons made in the 15 original investigations cited in the EU’s complaint, was inconsistent with Article 2.4.2 of the Antidumping Agreement. This article provides, in pertinent part, that “[s]ubject to the provisions governing fair comparison in [Article 2] paragraph 4, the existence of margins of dumping during the investigation phase shall normally be established on the basis of a comparison of weighted-average normal value of prices of all comparable export transactions or by a comparison of normal value and export prices on a transaction-to-transaction basis.” The panel based its conclusion on Appellate Body rulings in earlier cases that “when a margin of dumping is calculated on the basis of multiple averaging by model type, the margin of dumping for the products in question must reflect the results of all such comparisons, including weighted average export prices that are above the normal value for individual models.” The Appellate Body had earlier concluded that the term “dumping” in WTO agreements is defined “in relation to a product as a whole” and that, as a result, dumping can thus be found to exist “only for the product under investigation as a whole” and not solely “for a type, model, or category of that product.” Thus, in considering the U.S. multiple averaging technique in light of WTO obligations, the Appellate Body concluded that the

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290 Request for the Establishment of a Panel by the European Communities, *United States—Laws, Regulations and Methodology for Calculating Dumping Margins (“Zeroing”),* WT/DS294/7 (Feb. 6, 2004) and WT/DS294/7/Rev.1 (Feb. 19, 2004). The EC’s use of zeroing in establishing the existence of dumping margins in antidumping investigations, as applied in a case involving goods from India, had been successfully challenged by India in 2001. See panel and Appellate Body reports in *European Communities—Anti-Dumping Duties on Imports of Cotton-type Bed Linen from India,* WT/DS141.

291 Request for Consultations by the European Communities, *United States—Laws, Regulations and Methodology for Calculating Dumping Margins (“Zeroing”),* WT/DS294/1 (June 19, 2003) and WT/DS294/1/Add.1 (Sept. 15, 2003). The WTO Appellate Body has described “as such” claims as follows: “By definition, an ‘as such’ claim challenges laws, regulations, or other instruments of a Member that have general and prospective application, asserting that a Member’s conduct—not only in a particular instance that has occurred, but in future situation as well—will necessarily be inconsistent with that Member’s WTO obligations. In essence, complaining parties bring ‘as such’ challenges seek to prevent Members ex ante from engaging in certain conduct. The implications of such challenges are obviously more far-reaching than ‘as applied’ claims.” Appellate Body Report, *United States—Sunset Review of Anti-Dumping Measures on Oil Country Tubular Goods from Argentina,* para. 172, WT/DS268/AB/R (Nov. 29, 2004).


293 Id. paras. 7.27-7.32 (emphasis added).

only was that a dumping margin could be properly established for the product as a whole would be to aggregate “all of the ‘results’ of the multiple comparisons for all product types.”

The panel also found that zeroing, as it relates to original investigations, was a “well established and well-defined norm” that could be challenged “as such” in a WTO dispute even though it was not in written form, and that, with respect to its use in weighted-average-to-weighted-average price comparisons in original investigations, the norm “as such” was inconsistent with Article 2.4.2.

The panel rejected the EU’s claims regarding the application of zeroing in the 16 administrative reviews cited by the EU, as well as on the use of zeroing “as such” in administrative reviews, new shipper reviews, changed circumstances reviews, and sunset reviews. One dissenting panelist would have struck down the use of the practice in proceedings other than original investigations, however. The panel did not address EU claims involving the need for a new injury determination based on excluded imports, viewing this as a dependent claim and finding that any conclusion would not provide the United States with additional guidance as to how to remedy the primary violation.

The panel report was appealed by the United States and the EU. While the United States appealed the panel’s finding that zeroing was a challengeable norm, it did not appeal the panel’s conclusion that the use of zeroing in weighted-average-to-weighted-average price comparisons in the cited original investigations violated the Antidumping Agreement.

On April 18, 2006, the Appellate Body found, although on different grounds from the panel, that the zeroing methodology could be challenged “as such” as it relates to original investigations and upheld the panel’s finding that the practice is inconsistent with Article 2.4.2 of the Antidumping Agreement.

The AB also expanded the range of proceedings in which zeroing was prohibited, finding, contrary to the panel, that the United States could not use zeroing in making weighted-average-to-transaction comparisons to assess duties and set cash deposit rates in the 16 administrative reviews challenged by the EU. The AB found that the application of zeroing in these reviews violated Article 9.3 of the Antidumping Agreement and Article VI:2 of the GATT 1994 since the practice resulted in the imposition of antidumping duties that exceeded the exporters’ or producers’ dumping margins. Article 9.3, which sets out obligations regarding the assessment of antidumping duties, provides that the “amount of the anti-dumping duty” imposed by a WTO Member “shall not exceed the margin of dumping as established under Article 2” of the

295 Id. para. 98 (emphasis added).
296 U.S. Zeroing Panel Report (EC I), supra note 292, paras. 7.91-7.106. The panel rejected the EC’s claims that various provisions of the Tariff Act of 1930, which define terms “dumping margin” and “weighted average dumping margin,” establish the basic authority for imposing antidumping duties, and authorize the price comparison methodologies discussed above, were inconsistent with WTO obligations, finding that these provisions did not address the issue of zeroing. Id. paras. 7.50-7.69. The cited provisions were Tariff Act of 1930, §§ 771(35)(A),(B), 731, 777A(d), 19 U.S.C. §§ 1677(35)(A),(B), 1673, 1677f-1(d).
299 Id. para. 133.
Agreement. Article VI:2 of the GATT 1994 provides that a WTO Member may impose an antidumping duty on a dumped product “no greater in amount than the margin of dumping in respect of such product.” The Appellate Body did not determine whether the use of zeroing in these reviews was “as such” inconsistent with WTO obligations, however, due to insufficient facts in the panel record to complete this analysis.

The AB report, which also addressed other issues, and the modified panel report were adopted on May 9, 2006. While the United States vigorously disputed the Appellate Body decision, it stated at a subsequent DSB meeting that it intended to comply. The disputing parties later agreed on an implementation deadline of April 9, 2007.

U.S. Actions in Response

Shortly before the AB report was issued, the DOC had announced in the Federal Register that, in response to the WTO panel report, it would abandon the use of zeroing in weighted-average-to-weighted-average comparisons in antidumping investigations and was seeking comments on alternative approaches that might be appropriate in future investigations. The Department noted that the United States had not appealed the panel’s finding that the zeroing could not be used in making such comparisons in the specific antidumping investigations challenged by the EU.

On December 26, 2006, the Department, following the requirements in section 123 of the Uruguay Round Agreements Act (URAA), published a Federal Register notice stating that it was modifying its antidumping practice as announced earlier, noting that the modification would be used in implementing the findings of the WTO panel pursuant to section 129 of the URAA with regard to the specific antidumping investigations challenged by the EU in the dispute, and, moreover, that it would apply the modification in all current and future antidumping investigation as of the effective date, which at the time was planned for January 16, 2007. The Department later extended the date to January 23, 2007, and then to February 22, 2007, noting each time that it was acting “after further consultations with Congress and in order to afford adequate time for review.”

300 Dispute Settlement Body, Minutes of Meeting, May 9, 2006, at 7-13, WT/DSB/M/211 (June 12, 2006).
301 Along with criticizing the Appellate Body report at DSB meetings, the United States took the uncommon step of circulating detailed critiques of the decision to WTO Members. See Communication from the United States, United States—Laws, Regulations and Methodology for Calculating Dumping Margins (“Zeroing”), WT/DS294/16 (May 17, 2006); Communication from the United States, United States—Laws, Regulations and Methodology for Calculating Dumping Margins (“Zeroing”), WT/DS294/18 (June 19, 2006).
302 Dispute Settlement Body, Minutes of Meeting, May 30, 2006, at [1], WT/DSB/M/213 (June 21, 2006).
303 Agreement under Article 21.3(b) of the DSU, United States—Laws, Regulations and Methodology for Calculating Dumping Margins (“Zeroing”), WT/DS294/19 (Aug. 1, 2006).
305 Notice of Antidumping Modification, supra note 272.

Representative Rangel, Chairman of the House Ways and Means Committee, and Senator Baucus, Chairman of the Senate Finance Committee, had written to the Secretary of Commerce and the USTR on January 19, 2007, requesting (continued...)
The Department also announced on February 22, 2007, that it was initiating section 129 proceedings in which it would implement the WTO ruling with respect to 12 of the 15 original antidumping investigations cited by the EU, three of the cited AD orders having been revoked. On April 9, 2007, the Department of Commerce issued new Section 129 Determinations in 11 of the proceedings using average-to-average comparisons in which offsets were provided, two of which resulted in findings of no dumping. The DOC also postponed its determination in the twelfth investigation, a proceeding involving stainless steel products from Italy, as it was investigating a possible clerical error in the original investigation alleged by the respondent. Recalculations were done without the use of zeroing as provided in the modification originally announced in December 2006. Regarding the administrative reviews at issue in the dispute, the United States stated that since they had been superseded by new administrative reviews, it did not need to take any further action to bring these reviews into compliance with the WTO decision. The USTR instructed DOC to implement the new determinations on April 23, 2007.

While the United States considered itself in compliance, the EU questioned the prospective nature of the new determinations, that is, that they did not cover duties on goods entered before the date the Section 129 Determinations were implemented; claimed that DOC had “massively increased the ‘all others’ rate (applicable to exporters who do not have an individual duty rate, notably new exporters)”\(^{312}\); and stated that the United States was obligated to review the dumping

(...continued)

that DOC postpone its decision whether to modify the practice to March 31, 2007, to give Committee members additional time to consider the issue. The letter stated that the 60-day consultation period, which in this case ended in mid-January, was insufficient given the limited actual time for consultation, the complexity of the matter, and the controversial nature of the ruling. Text of letter available at http://finance.senate.gov/press/Bpress/2007press/prb012207.pdf. The House Ways and Means Committee went on to solicit comments on the DOC action. See Advisory from the Committee on Ways and Means, FC-7 (Jan. 31, 2007), at http://waysandmeans.house.gov.

In mid-December 2006, 11 Senators signed a letter to the same Administration recipients in which they took issue with the Appellate Body decision in DS294, favorably referred to several earlier GATT and WTO panels that had ruled differently, and expressed their disagreement with any modification of the U.S. practice. Text of December 2006 letter and of USTR memo to Congress under section 123 regarding the modification available at Inside US Trade, Dec. 15, 2006, at 19-21.

In addition, H.R. 496 (Rangel), introduced January 14, 2009, provides that the 2007 regulatory modification will expire March 1, 2009, and the prior departmental practice will thenceforth apply, unless and until the department issues a revised methodology pursuant to procedures laid out in the bill. Note also S. 364 (Rockefeller), 110th Cong., 1st Sess. (2007), discussed at supra note 21.

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307 See Department of Commerce Federal Register notice and fact sheet at http://ia.ita.doc.gov/ia-highlights-and-news.html. The Department stated in its Federal Register notice that since a Section 129 Determination is implemented prospectively, the date on which the USTR directs the Commerce Department to implement the determination “will necessarily be after the effective date of the revocation” of the AD orders in the three referenced cases and that “[a]s a result, the Department is not conducting section 129 proceedings with respect to the three investigations.”


309 Id.


312 April 2007 Zeroing Status Report, supra note 310.
margins in the 16 challenged administrative reviews, claiming that to its knowledge the United States had not taken any action to bring these reviews into compliance with the WTO decision.313

On May 4, 2007, the United States and the EU entered into a procedural agreement regarding possible Article 21.5 compliance panel proceedings and the sequencing of a possible retaliation request in the event the United States was found not to have complied in the case.314 The EU requested consultations with the United States under Article 21.5 in July 2007.315

In September 2007, DOC issued a new determination in the outstanding antidumping case involving steel products from Italy, finding that the alleged clerical errors were not raised in the WTO dispute and thus were outside the scope of the Section 129 proceeding.316

Compliance Proceedings

The EU requested a compliance panel in September 2007, claiming that the United States had failed to take compliance actions in some cases and that measures that it had taken in others were inconsistent with WTO obligations.317 In its panel request, the EU cited specific administrative reviews and sunset reviews undertaken by the United States in the 15 original investigations and 16 administrative review that were successfully challenged in the original proceeding. The EU also claimed that United States violated its WTO obligations in those cases where it had recalculated dumping margins in original investigations without the use of zeroing, found that some exporters were not dumping or had de minimis margins, and maintained the antidumping order without determining whether the remaining amount of dumped were causing material injury to domestic industry.

The compliance proceeding was complex not only because of the number of U.S. antidumping determinations that the EU claimed were WTO-inconsistent, but also because of the interaction of the retrospective U.S. duty system with what has generally been considered to be the prospective nature of remedies in a WTO dispute. As described by the WTO Appellate Body, the WTO dispute settlement system is one under which “compliance has to be accomplished at the latest from the end of the reasonable period of time [i.e. the compliance period] with prospective effect.”318 At the same time, due to the U.S. retrospective system, there were goods that had

314 Understanding between the United States and the European Communities Regarding Procedures under Articles 21 and 22 of the DSU, United States—Laws, Regulations and Methodology for Calculating Dumping Margins (“Zeroing”), WT/DS294/21 (May 9, 2007).
315 Request for Consultations, Recourse to Article 21.5 of the DSU by the European Communities, United States—Laws, Regulations and Methodology for Calculating Dumping Margins (“Zeroing”), WT/DS294/22 (July 12, 2007).
316 The final antidumping margins were 2.11 percent for the individually investigated producer and 2.11 for all other exporters and producers, the same as the preliminary margins, each a reduction from an original margin of 11.23 percent. Implementation of the Findings of the WTO Panel in US-Zeroing (EC); Notice of Determination Under Section 129 of the Uruguay Round Agreements Act: Antidumping Duty Order on Stainless Steel Sheet and Strip from in Coils from Italy, 72 Fed. Reg. 54640 (Sept. 29, 2007); Department of Commerce, Issues and Decision Memorandum for the Final Results of the Section 129 Determination (Aug. 20, 2007), at http://ia.ita.doc.gov/download/section129/Italy-SSSS-in-Coils-129-Final-Decision-Memo-08-20-07.pdf.
318 Report of the Appellate Body, United States—Laws, Regulations and Methodology for Calculating Dumping (continued...)
entered the United States before the date on which the compliance period ended but for which final duty assessments would not be made until after this date, or for which final assessments were made before this date, but the duties were not collected until after the period expired. While the United States and the EU agreed that the WTO Dispute Settlement Understanding provides only for prospective remedies, the parties disagreed on what this entailed for the United States with regard to these earlier-entered goods.319

Questions also arose as to whether dumping determinations made in a phase of the proceeding that occurred after the one at issue in the original WTO dispute were considered measures taken to comply or whether they were properly before the panel for other reasons. Some of the challenged determinations, which had been rendered in original investigations, were the subject of later administrative or sunset reviews. In addition, the challenged administrative reviews had been superseded by determinations made in subsequent administrative reviews. Further, the United States had taken new action in some of the challenged proceedings before the panel and Appellate Body reports were issued.

The United States argued that administrative reviews of challenged dumping determinations made in original investigations were not measures taken to comply with the WTO decision and thus outside the panel’s terms of reference.320 In its view, the compliance panel could only review whether the original determination now complied with the WTO decision and could not examine whether the United States had employed zeroing in the subsequent review. The United States made the same argument with regard to administrative reviews that occurred after those that were challenged in the dispute and protested the inclusion of sunset reviews of challenged determinations as well.321 As noted above, the United States maintained that since the challenged administrative reviews had been superseded by later reviews, the United States was not required to take any action to ensure that the challenged determinations were in compliance. The EU argued that under this approach, the EU would need to initiate a new dispute settlement proceeding for each subsequent administrative review with which it disagreed, thus allowing the United States to avoid permanent compliance with a WTO decision as it related to a specific investigation or review that was successfully challenged.322 In addition, the United States had undertaken sunset reviews of some of the challenged original determinations and administrative reviews prior to the adoption of the panel and Appellate Body reports by the Dispute Settlement Body, actions that the EU claimed could not be considered measures taken to comply with the WTO rulings and recommendations in these reports.

(...continued)


320 Id. para. 8.33.

321 Id. paras. 8.33-8.34, 8.36.

322 Id. paras. 8.40, 8.42.
Compliance Proceedings: Panel and Appellate Body Reports

In December 2008, the panel issued a mixed report regarding U.S. compliance,\(^{323}\) which the EU appealed. In a report issued May 20, 2009, the Appellate Body found that the United States remained out of compliance with its WTO obligations in a variety of respects.\(^{324}\)

Regarding whether actions taken by the United States before the panel and Appellate Body reports were adopted were within the panel’s terms of reference, the Appellate Body, reversing the panel, found that measures taken before this date were potentially reviewable as compliance measures. The Appellate Body found that the relevant inquiry was not whether the measures were intentionally taken to comply, but instead whether they each had a “sufficiently close nexus, in terms of nature, effects, and timing,” with the WTO decision and with the declared measures that were in fact taken to comply.\(^{325}\) The AB found that of the five sunset reviews that met this test determinations in four of these, having relied on dumping margins calculated with the use of zeroing, were inconsistent with WTO obligations; no findings were made on the fifth.\(^{326}\)

Regarding whether subsequent administrative and sunset reviews of challenged measures were amenable to review, it was determined in the compliance proceeding that administrative reviews involving the calculation of a dumping margin based on zeroing and subsequent sunset reviews in which DOC relies on dumping margins calculated with the use of zeroing, could potentially fall within the scope of the compliance proceeding. This conclusion was based on two grounds: (1) the “close nexus that exists in terms of their nature” between the subsequent reviews and measures at issue in the original dispute and (2) the fact that “the subsequent reviews potentially affect or undermine the steps otherwise taken—or the steps that should have been taken—by the United States to comply with the recommendations and rulings of the DSB, notably in the form of Section 129 determinations.”\(^{327}\) The panel had noted that the use of zeroing in an administrative review of an original determination could potentially negate the results of a Section 129 determination in which the dumping margin was calculated without its use, thus undoing an action taken to comply with the WTO decision.\(^{328}\)

Further, regarding the scope of U.S. obligations involving imports entering the United States before the end of the compliance period, the Appellate Body agreed with the panel that the calculation of dumping margins in administrative reviews, or “definitive duty determinations,” that occurred after the end of the compliance period, but that involved imports entered before this date, could not be made with the use of zeroing.\(^{329}\) Contrary to the panel, however, the Appellate Body determined that duties could not be collected after the end of compliance period consistently with WTO obligations if they are based on dumping margins calculated with the use of zeroing during administrative reviews that occur before the end of the compliance period. The panel had found entries could be liquidated on the basis of a zeroing-based dumping determination without violating WTO obligations even though actions taken by the United States after the compliance deadline would ordinarily be expected to comply with the WTO decision.

\(^{324}\) U.S. Zeroing Article 21.5 AB Report (EC I), supra note 318.
\(^{325}\) Id., para. 226 (emphasis in original).
\(^{326}\) Id., paras. 233-35, 392-97.
\(^{328}\) Id., para. 8.108
\(^{329}\) U.S. Zeroing Article 21.5 AB Report (EC I), supra note 318, para. 311.
The Appellate Body found that any measures that “derives mechanically” from the assessment of duties, as is the case with the collection (or liquidation) of antidumping duties, would not be WTO-compliant to the extent they are based on zeroing and are applied after the compliance deadline expires.\(^{330}\)

Before drawing these conclusions, the AB had generally noted that, with respect to the original determinations and administrative reviews in which the use of zeroing was challenged “as applied,” the assessment of a final duty for previously imported goods in an administrative review also affects the cash deposit rate for certain future imports, a situation that has implications for the administrative reviews not directly at issue in the case. Thus, in light of the prospective nature of WTO remedies, “compliance is not confined by the limited duration of the original measures at issue, especially when a subsequent measure replaces or supersedes the measure at issue in the original proceeding.”\(^{331}\)

The panel and AB made various findings regarding the inconsistency of particular determinations challenged by the EU with the obligation to eliminate zeroing. Further, the panel, in an issue not reviewed by the AB, determined that, with regard to four original determinations for which Section 129 determinations were issued, the United States violated the Antidumping Agreement by not revisiting its ITC material injury determinations due to revised import volumes. In some cases, the recalculated dumping margins had led to findings of no dumping or de minimis margins for particular exporters and thus the panel found that, in these four cases, the United States was obligated to reconsider whether dumped imports were causing material injury to domestic industry using import volumes that excluded these non-dumped and de minimis imports.\(^{332}\)

Recent Developments

The adverse Appellate Body report and the modified compliance panel report were adopted on June 11, 2009. With the compliance panel proceeding completed, the EU has stated that the United States is required to comply “without delay” by recalculating dumping margins without the use of zeroing in the numerous dumping determinations faulted in the case and then collecting duties at the recalculated rates.\(^{333}\) At the same time, the United States has raised concerns about what it views as the expanded scope of U.S. obligations in the case.\(^{334}\) According to the U.S.-EU procedural agreement, the EU may now request authorization to suspend concessions owed the United States and may also request negotiations on compensation. In its January 9, 2010, status report to the WTO Dispute Settlement Body, the United States stated that it “will continue to consult with interested parties in order to address the findings contained in these [panel and Appellate Body] reports.”\(^{335}\)

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\(^{330}\) Id. (emphasis in original).

\(^{331}\) Id. para. 304.


\(^{334}\) Id.

\(^{335}\) Status Report by the United States, United States—Laws, Regulations and Methodology for Calculating Dumping Margins (“Zeroing”), WT/DS294/34/Add. 5 (Jan. 8, 2010).
Measures Relating to Zeroing and Sunset Reviews (DS322)

In November 2004, Japan instituted a broad challenge of the use of zeroing by the United States, claiming in its subsequent panel request that the use of this practice in original antidumping investigations, administrative reviews (referred to in the case as “periodic reviews”), new shipper reviews, sunset reviews, and changed circumstances reviews was in violation of obligations in the WTO Antidumping Agreement. Japan also challenged zeroing as applied in 15 specific antidumping proceedings, including one original investigation, 12 administrative reviews, and two sunset reviews. The cited cases involved imports of steel plate and steel flat products, as well as roller, ball, spherical plain, and antifriction bearings. In addition, Japan challenged subsequent material injury determinations made by the U.S. International Trade Commission based on dumping margins determined through zeroing and made further claims regarding sunset reviews and changed circumstances reviews in which determinations were based on dumping margins obtained in this way.

Panel and Appellate Body Reports

In a report circulated September 20, 2006, the WTO panel concluded that zeroing, when used by DOC in weighted-average-to-weighted-average comparisons in original antidumping investigations and consequently, the use of zeroing in the one original investigation cited by Japan, were inconsistent with Article 2.4.2 of the Antidumping Agreement. As in DS294, discussed above, zeroing was found to be a norm that could be challenged “as such” in a WTO dispute settlement proceeding.

At the same time, the panel rejected Japan’s claims that the use of zeroing in transaction-to-transaction comparisons and weighted-average-to-transaction comparisons in original investigations, its use administrative reviews and new shipper reviews, its application in the 11 cited administrative reviews was violative of the Antidumping Agreement. The panel also found that Japan had failed to make a prima facie case that the use of zeroing in changed circumstances reviews and sunset reviews violated WTO obligations. The panel also rejected Japan’s claims that the ITC had improperly relied on dumping margins calculated in previous proceedings in the two sunset reviews cited by Japan. Both Japan and the United States appealed the decision.

In a ruling issued January 9, 2007, the Appellate Body upheld the panel’s findings that zeroing could be challenged “as such,” but went further in finding that U.S. measures did in fact constitute “as such” violations of the WTO antidumping obligations. The Appellate Body found that, in maintaining zeroing procedures in transaction-to-transaction comparisons in original investigations, the United States was in violation of Articles 2.4 of the Antidumping Agreement, which requires that a “fair comparison ... be made between the export price and the normal value,” and Article 2.4.2 of the Agreement, which as noted earlier, provides that “[s]ubject to the provisions governing fair comparison in paragraph 4, the existence of margins of dumping during the investigation phase shall normally be established on the basis of a comparison of weighted-average normal value of prices of all comparable export transactions or by a comparison of normal value and export prices on a transaction-to-transaction basis.”

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The Appellate Body further found that by maintaining zeroing procedures in administrative reviews, the United States acted inconsistently with Article 2.4 of the Antidumping Agreement, Article 9.3 of the Agreement, which provides that amount of the antidumping duty actually assessed “shall not exceed the margin of dumping” as determined under Article 2 of the Agreement, and Article VI:2 of the GATT 1994, which provides that a WTO Member may impose an antidumping duty on a dumped product “no greater in amount than the margin of dumping in respect of such product.”

The Appellate Body also found that, by using zeroing in new shipper reviews, the United States was out of compliance with Articles 2.4 and 9.5 of the Antidumping Agreement, the latter setting out requirements for such reviews.

In addition, the Appellate Body upheld Japan’s “as applied” claims, finding that the United States had acted inconsistently with Articles 2.4 and 9.3 of the Antidumping Agreement and Article VI:2 of the GATT 1994 by applying zeroing in the 11 administrative reviews cited by Japan.

The Appellate Body also determined that, in relying on zeroing-based dumping margins in two cited sunset reviews, the United States had acted inconsistently with Article 11.3 of the Antidumping Agreement. Article 11.3 requires that duties be terminated after five years unless authorities determine in a review “that the expiry of the duty would be likely to lead to continuation or recurrence of dumping and injury.” The Appellate Body had found in an earlier dispute that WTO Members are not required to rely on dumping margins in making this determination, but that, if Members choose to do so, they must calculate the margin in conformity with the requirements of Article 2.4 of the Agreement.338 If not, the “likelihood” determination would not serve as a proper foundation for maintaining the duty under Article 11.3. The Appellate Body found in the instant case that the United States, in making its sunset determinations, had relied on zeroing-based margins calculated in earlier administrative reviews. Since the Appellate Body had also found that the use of zeroing in such reviews is inconsistent “as such” with Articles 2.4 and 9.3 of the Antidumping Agreement, it concluded that reliance on these margins in the sunset reviews thus violated Article 11.3.

The Appellate Body report and the panel report, as modified, were adopted by the DSB at its January 23, 2007, meeting.340 The United States, while once again disputing the Appellate Body’s reasoning, told the DSB on February 20, 2007, that it intended to comply with its WTO obligations in the case and that it needed a reasonable period of time to do so.341 It later circulated a critical analysis of the Appellate Body decision to WTO Members.342 While Japan had

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342 Communication from the United States, United States—Measures Relating to Zeroing and Sunset Reviews, WT/DS322/16 (Feb. 26, 2007). On June 1, 2007, the United States submitted a proposal to the WTO Negotiating Committee on Rules asking that negotiators evaluate the reasoning of the WTO panels that have examined the issue of zeroing and stating its view that “the proper resolution of this issue requires clear text providing that margins of dumping may be determined without offsets for non-dumped transactions, consistent with the long-held concept of dumping.” Communication from the United States, Offsets for Non-Dumped Comparisons, TN/RL/W/208 (June 5, 2007). (continued...)
originally requested the compliance period be arbitrated, the parties later agreed on a compliance period ending December 24, 2007.

**Actions by the United States and Japan in Response**

In its December 7, 2007 WTO status report on the case, the United States made reference to the modification adopted by the Commerce Department in February 2007 under which zeroing would no longer be used in weighted average-to-weighted average comparisons in original investigations and stated only that is was "continually to consult internally on steps to be taken with respect to the other DSB recommendations and rulings." While the Department of Commerce had initiated a proceeding under section 129 of Uruguay Round Agreements in November 2007 regarding the challenged original investigation, a proceeding involving certain steel plate products, and publicly released final results on December 27, 2007, it took no final action to comply by the December 24 deadline.

In January 2008, Japan requested authorization to retaliate by imposing additional import duties on selected products in an initial annual amount of $181.2 million. While the subsequent U.S. objection sent Japan’s request to arbitration, the disputing parties entered into a procedural agreement in March 2008 under which Japan was permitted to request a compliance panel without first seeking consultations and, if it made such a request, its retaliation request would be suspended. Under the procedural agreement, either party may request that the arbitration resume in the event that the compliance proceeding results in a finding that U.S. compliance measures are inadequate or non-existent or “there is no disagreement” between Japan and the United States that “a measure taken to comply does not exist” with respect to certain U.S. actions that were successfully challenged in the original dispute.

(...continued)

343 Request by Japan for Arbitration under Article 21.3(c) of the DSU, United States—Measures Relating to Zeroing and Sunset Reviews, WT/DS322/17 (Mar. 30, 2007).
344 Agreement under Article 21.3(b) of the DSU, United States—Measures Relating to Zeroing and Sunset Reviews, WT/DS322/20 (May 8, 2007).
348 Recourse to Article 22.2 of the DSU by Japan, United States—Measures Relating to Zeroing and Sunset Reviews, WT/DS322/24 (Jan. 11, 2008); Recourse to Article 22.2 of the DSU by Japan, United States—Measures Relating to Zeroing and Sunset Reviews, WT/DS322/23 (Jan. 11, 2008).
349 Request by the United States for Arbitration under Article 22.6 of the DSU, United States—Measures Relating to Zeroing and Sunset Reviews, WT/DS322/25 (Jan. 21, 2008).
350 Understanding between the United States and Japan Regarding Procedures under Articles 21 and 22 of the DSU, Recourse to Article 22.2 of the DSU by Japan, United States—Measures Relating to Zeroing and Sunset Reviews, WT/DS322/26 (Mar. 12, 2008).
The United States maintained in a status report to the Dispute Settlement Body and in a DSB meeting held on January 21, 2008, that it was in compliance in the case because it was no longer making average-to-average price comparisons in original investigations without offsets, it had issued a revised dumping determination using this methodology in the one challenged original investigation, and it did not need to take action with respect to the challenged administrative reviews because they had been superseded by subsequent reviews.\(^{351}\)

**Compliance Panel Proceedings**

As provided for in the U.S.-Japan procedural agreement, Japan requested a compliance panel on April 7, 2008, stating that the United States was in violation of its WTO obligations by not having fully complied with respect to the one original investigation at issue; by continuing to use zeroing in transaction-to-transaction comparisons in original investigations, administrative reviews, and new shipper reviews; by applying zeroing in five of the administrative reviews originally challenged by Japan and as well as in three “closely connected” administrative reviews that the United States argued had superseded earlier reviews; and by relying on zeroing in one of the originally challenged sunset reviews and a subsequent sunset review of the same antidumping duty order.\(^{352}\) The compliance panel was established on April 18, 2008. On June 6, 2008, the United States and Japan asked the arbitration panel that was reviewing Japan’s January 2008 retaliation request to suspend its work.\(^{353}\)

In the interim, DOC, on May 20, 2008, announced the results of the section 129 proceeding involving the challenged original investigation, stating in the *Federal Register* that it had recalculated the affected dumping margins, arriving at slightly reduced rates, which, at the direction of the U.S. Trade Representative, went into effect on April 8, 2008.\(^{354}\)

The compliance panel issued its report on April 20, 2009, finding that the United States had not complied with its WTO antidumping obligations in the administrative reviews cited by Japan and in maintaining zeroing in transaction-to-transaction comparisons in original investigations and in any price comparison used in administrative and new shipper reviews.\(^{355}\) While the United States had argued that it did not have compliance obligations with respect to five of the reviews because the covered goods had entered the United States before the end of the compliance period, the panel found that the United States was required to bring the importer-specific assessment rates determined in these reviews into compliance with its WTO obligations by the end of the compliance period.\(^{356}\) The panel also addressed a situation that had not been ruled upon in DS294—that is, one in which duties are assessed before the end of the compliance period, but liquidation instructions are delayed because of injunctions issued under domestic judicial

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\(^{353}\) Communication from the Arbitrator, Recourse by the United States to Article 22.6 of the DSU, *United States—Measures Relating to Zeroing and Sunset Reviews*, WT/DS322/30 (June 10, 2008).

\(^{354}\) Notice of Japan Steel Section 129 Determination, *supra* note 346.


\(^{356}\) *Id.*, para. 7.149.
proceedings challenging the assessment—and found that the fact that the delay was due to litigation was of no consequence to compliance with the WTO obligations in the case.357

The panel further determined that the United States had violated GATT Article II prohibitions on imposing tariff surcharges on goods subject to negotiated tariff rates (so-called “bound items”) by issuing WTO-inconsistent liquidation instructions in four challenged administrative reviews involving ball bearing products after the compliance period expired.358 These reviews were among the five with delayed liquidations because of pending litigation. While the panel had agreed with the United States that the Article II claims were derivative of Japan’s claims under the Antidumping Agreement, it nonetheless found it appropriate to rule on them because “they raise an important point of contention between the parties regarding the right of the United States to continue liquidating entries after the expiry of the RPT [reasonable period of time] on the basis of liquidation measures issued pursuant to administrative reviews that have already been found to be WTO-inconsistent.”359

The panel additionally concluded that the United States was out of compliance with its WTO obligations by not withdrawing or modifying the likelihood of dumping determination in the challenged 1999 sunset review in which the United States had relied on zeroing-based dumping margins.360

Recent Developments

The United States appealed the adverse compliance panel report in May 2009. In a report issued August 18, 2009, the Appellate Body upheld the compliance panel on all issues appealed, including against U.S. claims regarding the judicial delay of liquidation and violations of GATT Article II.361 The Appellate Body emphasized that all antidumping duties collected after the end of the compliance period needed to be calculated without the use of zeroing. Among other things, it upheld the panel’s dismissal of the U.S. argument that judicial delay of liquidation permits the collection of zeroing-based antidumping duties after the compliance period expires, stating, inter alia, that it was “not persuaded that the initiation by private parties of domestic judicial proceedings is relevant for determining the scope of the United States compliance obligations in this case.”362

The Appellate Body and compliance panel reports issued in the Article 21.5 proceeding were adopted by the WTO Dispute Settlement Body on August 31, 2009. At the meeting, the United States referred Members to its earlier public statements regarding its intent to comply in all the WTO zeroing disputes and stated that it was “working actively to implement these recommendations and rulings, including those made in other disputes for which the reasonable period of time … is still ongoing.”363 The United States added, however, that in its view the

357 Id. para. 7.153.
358 Id. paras. 7.198-7.208. GATT Article II permits the imposition of antidumping duties on bound items but the duties must be applied consistently with GATT VI. See GATT 1994 art. II:2(b).
360 Id. paras. 7.223-7.229.
361 Appellate Body Report, United States—Measures Relating to Zeroing and Sunset Reviews; Recourse to Article 21.5 of the DSU by Japan, WT/DS322/AB/RW (Aug. 18, 2009).
362 Id. paras. 170-187, 188.
appeal of the compliance panel report in this case “was not about zeroing but rather concerns what a Member with a retrospective antidumping system must do to come into compliance with the DSB’s recommendations and rulings with respect to individual administrative reviews” and that the dispute in addition “raised important procedural issues as to the scope of dispute settlement proceedings.” Noting the prospective nature of WTO remedies, the United States cited the systemic implications of applying obligations under a WTO decision to governmental actions involving goods that enter the defending Member’s customs territory before the end of the compliance period, an approach that, in its view, could be taken toward all border measures imposed on imports, including ordinary tariffs. It also took issue with Appellate Body’s finding that the obligation not to use zeroing applied to duty liquidations that take place after the expiration of the compliance period where the liquidation is delayed due to litigation, as well as the Appellate Body’s affirmance that a particular administrative review could be reviewed by a compliance panel even though the proceeding was not in existence at the time that Japan made its panel request.

Under the U.S.-Japan procedural agreement, either the United States or Japan may ask that the arbitration on Japan’s January 2008 retaliation request be resumed. The arbitration was suspended in June 2008 following Japan’s request for a compliance panel. Japan has not yet taken further action in the case.

Final Anti-Dumping Measures on Stainless Steel from Mexico (DS344)

Mexico challenged (1) the use of model zeroing by the United States in original antidumping investigations, both as such and as applied in an original investigation of Mexican stainless steel sheet and strips in coils and (2) the use of simple zeroing in annual administrative reviews, both as such and as applied in the cited antidumping investigation. A panel report issued December 20, 2007, concluded that model zeroing, as used in original investigations, was inconsistent with Article 2.4.2 of the Antidumping Agreement, both as such and as applied in the cited antidumping investigation. The panel ruled in favor of the United States, however, in finding that the use of simple zeroing, either as such or as applied in the cited administrative reviews, was not inconsistent with the GATT Article VI or the Antidumping Agreement.

In an appeal by Mexico, the Appellate Body issued a report on April 30, 2008, in which it reversed the panel’s findings on the use of simple zeroing, finding, as it had in earlier disputes, that the use of this practice in administrative reviews, both as such and as applied in cited antidumping cases, was inconsistent with Article VI:2 of the GATT and Article 9.3 of the Antidumping Agreement. The Appellate Body also criticized the panel for not adhering to

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364 Request for the Establishment of a Panel by Mexico, United States—Final Anti-dumping Measures on Stainless Steel from Mexico, WT/DS344/3 (Oct. 16, 2006).


earlier Appellate Body rulings on this issue, stating that, although it was “well settled that Appellate Body reports are not binding, except with respect to resolving the particular dispute between the parties,” this principle “does not mean that subsequent panels are free to disregard the legal interpretations and the ratio decidendi contained in previous Appellate Body reports that have been adopted by the DSB.” Examining the use made of panel and Appellate Body reports in subsequent disputes and by WTO Members in enacting laws and issuing regulations, and the role played by the Appellate Body in the WTO dispute settlement system vis à vis panels, the Appellate Body concluded that the “Panel’s failure to follow previously adopted Appellate Body reports addressing the same issues undermines the development of a coherent and predictable body of jurisprudence clarifying Members’ rights and obligations under the covered agreements as contemplated under the DSU.”

The Appellate Body report and modified panel report were adopted at the May 20, 2008, meeting of the Dispute Settlement Body. During the meeting, the United States stated its support for the panel’s conclusions regarding simple zeroing and questioned the approach taken by the Appellate Body in reversing the panel. It did not, however, discuss compliance in the case. The United States later circulated a document in which it questioned in a more detailed fashion the reasoning and approach of the Appellate Body regarding the use of zeroing in the transaction-specific calculations employed in administrative reviews.

Because the parties could not agree on the length of the compliance period, the issue was arbitrated at Mexico’s request. In an October 31, 2008, decision, the Arbitrator set a deadline of April 30, 2009.

The Commerce Department issued a determination under section 129 of the Uruguay Round Agreements Act on March 31, 2009, in which it recalculated the dumping margin in the original investigation without the use of zeroing, and later published a notice in the Federal Register that the USTR had instructed the Department to implement this determination effective April 23, 2009. The recalculation resulted in a reduction of the dumping margin from 30.85 percent to 30.69 percent for one individually investigated exporter and the same reduction in the “all others” rate.

With respect to the administrative reviews that were challenged “as applied,” the United States has reportedly informed the WTO Dispute Settlement Body at its May 20, 2009, meeting “that ‘any prospective effect of those reviews has been eliminated and all entries of merchandise under the five reviews have been liquidated for customs purposes.’” With regard to other rulings and

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367 Id. para. 158.
368 Id. paras. 160-61.
369 Dispute Settlement Body, Minutes of Meeting, May 20, 2008, at 9-11, WT/DSB/M/250 (July 1, 2008).
370 Communication from the United States, United States—Final Anti-dumping Measures on Stainless Steel from Mexico, WT/DS344/11 (June 11, 2008).
371 Award of the Arbitrator, United States—Final Anti-dumping Measures on Stainless Steel from Mexico, Arbitration under Article 21.3(c) of the Understanding on Rules and Procedures Governing the Settlement of Disputes, WT/DS344/15 (Oct. 31, 2008).
373 Request for Consultations, United States—Final Anti-dumping Measures on Stainless Steel from Mexico, Recourse to Article 21.5 of the DSU by Mexico, at 3, WT/DS344/18 (Aug. 24, 2009) [hereinafter Mexico Article 21.5 (continued...)}
recommendations in the dispute, however, the United States “informed the DSB that it ‘has also been conferring with Mexico about the steps that the United States has taken to comply with the recommendations and rulings of the DSB.’” On May 19, 2009, the United States and Mexico entered into a sequencing agreement involving the possible request by Mexico of a compliance panel and, if it is later determined that the United States has not taken a measure to comply or its compliance measures are inconsistent with WTO obligations, a request for authorization to suspend concessions owed the United States.

Recent Developments

On August 19, 2009, Mexico requested consultations with the United States under Article 21.5 of the DSU regarding U.S. compliance in the case. Mexico maintains that the United States has not complied with the WTO decision because it: (1) “has not taken any steps” to eliminate the use of simple zeroing in periodic, i.e., administrative, reviews; (2) continues to maintain and use simple zeroing in the five administrative reviews originally challenged in the case; and (3) continues to “impose, assess and/or collect anti-dumping duties in excess of the proper margin of dumping, and evidences its intention to continue to do so, through … five subsequent periodic reviews [of the original antidumping duty order on stainless steel and sheet in coils from Mexico] … , any amendments thereto, any measures closely related thereto, any future subsequent periodic reviews, and the United States Government instructions and notices.” The U.S.-Mexico procedural agreement gave the parties 15 days to consult on Mexico’s request, after which Mexico could request a compliance panel. To date, Mexico has not made such a request.

Continued Existence and Application of Zeroing Methodology (DS350)

Although the European Union (EU) had successfully challenged the U.S. use of zeroing in DS294, it was concerned that the United States had not yet broadly discontinued use of the practice. In October 2006, the EU challenged the continued use and application of zeroing in 18 specific antidumping cases, citing the continued application of antidumping duties at a level in excess of the margins that would result from correct application of the Antidumping Agreement. Ten of the 18 cases had been at issue in the EU’s earlier challenge, DS294. The EU also challenged the use of zeroing in administrative and sunset reviews in 13 cases, a sunset review in one case, and original investigations in four others, a total of 52 agency determinations.

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Consultation Request]. Recalculation of dumping margins in the challenged administrative reviews was not part of the Section 129 proceeding for the original antidumping investigation at issue in the case. See Department of Commerce, Issues and Decision Memorandum for the Final Results of Proceedings Under Section 129 of the Uruguay Round Agreements Act: Antidumping Measures on Stainless Steel from Mexico, [Mar. 31, 2009], at http://ia.ita.doc.gov/download/section129/mexico-ssss-coil-129-final-memo-04-03-09.pdf

374 Mexico Article 21.5 Consultation Request, supra note 373, at 3.

375 Understanding between Mexico and the United States Regarding Procedures under Articles 21 and 22 of the DSU, United States—Final Anti-dumping Measures on Stainless Steel from Mexico, WT/DS344/17 (May 20, 2009).

376 Mexico Article 21.5 Consultation Request, supra note 373.

377 Request for the Establishment of a Panel by the European Communities, United States—Continued Existence and Application of Zeroing Methodology, WT/DS350/6 (May 11, 2007).
Along with challenging the use of zeroing both “as such” and “as applied” in the cited antidumping determinations, the EU also claimed that a duty based on zeroing, while not falling within either of these two categories, was a “measure” subject to WTO dispute settlement. The EU considered this new argument to be “key” to the proceeding since, in its view, its effect would be that of bringing the future use of United States zeroing in each case within the scope of the panel findings. The EU later abandoned its “as such” claim after Japan successfully obtained a ruling on this point in DS322.

In its October 1, 2008 report, the WTO panel found that the United States acted inconsistently with its obligations in the Antidumping Agreement by (1) using model zeroing in the four cited original investigations; (2) applying simple zeroing in 29 of the cited administrative reviews cited; and (3) relying on dumping margins obtained through model zeroing in the eight sunset reviews at issue. The panel found, however, that claims involving the continued application of antidumping duties in the 18 antidumping cases were not within the panel’s terms of reference. One panelist, while agreeing with these conclusions, disagreed with the legal reasoning used by the panel in considering the EU’s claims on simple zeroing in periodic reviews and, in part, on model zeroing in original investigations. The report was appealed by both the EU and the United States.

In a report issued on February 4, 2009, the Appellate Body ruled that “the continued use of zeroing in successive proceedings in which duties resulting from the 18 anti-dumping duty orders are maintained, constitute ‘measures’ that can be challenged in WTO dispute settlement.” The Appellate Body determined that it had a sufficient factual record to make findings on this basis in four of the 18 cases cited by the EU and found that, with respect to these four cases, the application and continued application of antidumping duties was (1) inconsistent with Article 9.3 of the Antidumping Agreement and Article VI:2 of the GATT 1994 to the extent that the duties were calculated with zeroing in administrative reviews, and (2) inconsistent with Article 11.3, to the extent that reliance was placed on a zeroing-based margin in sunset reviews.

The Appellate Body also upheld the panel’s findings that zeroing was improperly applied in 29 of the challenged administrative reviews and, contrary to the panel, was able to find that the United States had acted inconsistently with its WTO obligations in five additional administrative reviews originally cited by the EU. In addition, the Appellate Body upheld the panel’s finding that the

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378 This issue implicates Article 6.2 of the WTO Dispute Settlement Understanding, which states that a Member’s written request for the establishment of a panel must, inter alia, “identify the specific measures at issue” in the dispute (emphasis added).
379 EC 2009 U.S. Trade Barriers Report, supra note 58, at 60.
380 Id.
382 Appellate Body Report, United States—Continued Existence and Application of Zeroing Methodology, para. 185, WT/DS350/17 (June 4, 2009) [hereinafter U.S. Zeroing AB Report (EC II)]. The “continued use” argument has since been made by Brazil its consultations and panel requests in United States—Anti-dumping Administrative Reviews and Other Measures Related to Imports of Certain Orange Juice from Brazil. Request for Consultations by Brazil, WT/DS382/1/Add.1 (May 27, 2009), at 2; Request for the Establishment of a Panel by Brazil, WT/DS382/4 (Aug. 21, 2009), at 3.
384 Id. paras. 242-357. One Appellate Body member, in a concurrence to the AB’s findings that zeroing was not permitted in administrative reviews, called for an end to litigation on the issue. Despite “arguments of substance made on both sides,” the member stated that Appellate Body had “spoken definitively” on the issue of zeroing, the AB (continued...)
United States had acted inconsistently with Article 11.3 of the Antidumping Agreement in eight sunset reviews.\(^{385}\)

The Appellate Body Report and the modified panel report were adopted at the February 19, 2009, meeting of the Dispute Settlement Body. As it had with respect to past appellate reports on zeroing, the United States expressed concerns with the Appellate Body’s approach to a variety of issues in the case.\(^{386}\) At the March 20, 2009, meeting of the Dispute Settlement Body, the United States stated that it intended to comply in the dispute, “would be considering carefully how to do so,” and would need a reasonable period of time for this undertaking.\(^{387}\) In June, the United States and the EU agreed on a compliance period ending December 19, 2009.\(^{388}\)

**Recent Developments**

With the compliance deadline of December 19, 2009, before it, the United States stated in its December 10, 2009, WTO status report that the USTR had sent a written request to the Secretary of Commerce to issue a Section 129 determination that would render four final antidumping determinations at issue in the case not inconsistent with the recommendations and rulings of the WTO Dispute Settlement Body.\(^{389}\) The United States also stated that it would “continue to consult with interested parties in order to address the other findings” contained in the adopted panel and Appellate Body reports.\(^{390}\) At the December 21, 2009, meeting of the WTO Dispute Settlement Body, the United States added that it was “sure that Members appreciate the difficulties that are raised for the United States by the Appellate Body findings on zeroing in this disputes and others,” reiterating the action that it had taken and the ongoing discussions on unresolved issues.\(^{391}\) At the same meeting, the EU reportedly “expressed its disappointment that the reasonable period of time for implementation had expired and the US had yet to bring itself into compliance.”\(^{392}\) With other issues in the case remaining unaddressed, the United States and the EU entered into a procedural agreement in the case in January 2010 providing for a possible compliance panel request by the EU.\(^{393}\)

\(^{385}\) Id. paras. 369-83.
\(^{386}\) Dispute Settlement Body, Minutes of Meeting, Feb. 19, 2009, at 18-21, WT/DSB/M/265 (Apr. 29, 2009).
\(^{387}\) DSB Minutes (Mar. 20, 2009), supra note 59, at 14.
\(^{388}\) Agreement under Article 21.23(b) of the DSU, United States—Continued Existence and Application of Zeroing Methodology, WT/DS350/17 (Feb. 4, 2009).
\(^{389}\) Status Report by the United States, United States—Continued Existence and Application of Zeroing Methodology, WT/DS350/18 (Dec. 11, 2009).
\(^{390}\) Id.
\(^{392}\) WTO News Item (Dec. 21, 2009), supra note 197.
\(^{393}\) Understanding between the European Union and the United States Regarding Procedures under Articles 21 and 22 of the DSU, United States—Continued Existence and Application of Zeroing Methodology, WT/DS350/19 (Jan. 6, 2010).
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