E.U. Set To Lift Sanctions For Now
U.S. Tax Plan Prompts Move

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The European Union has decided that it will lift, at least temporarily, the sanctions it has imposed on U.S. goods, now that Congress enacted sweeping changes in corporate tax law earlier this month, an E.U. official said yesterday.

But the E.U., which doubts that the new law fully complies with a 2001 ruling by the World Trade Organization, intends to file a new complaint with the WTO, the official said. If the Geneva-based trade body finds that the new law still violates global trade rules, Brussels may reimpose the sanctions, which involve stiff duties on a targeted list of U.S. goods shipped to the European market.

Pascal Lamy, the E.U.'s outgoing trade commissioner, has scheduled a news conference today to announce the decision.

The European move sends two messages to Washington. One is conciliatory, but the other is confrontational, and may suggest that Brussels intends to play hardball in another trade dispute involving the rivalry between Boeing Co. and Airbus SAS.

By lifting the sanctions, Brussels is conveying its appreciation for Congress's efforts in hammering out legislation as required by the WTO ruling. "Some people were doubting the United States' engagement in the multilateral trading system, and this shows the extent to which the United States is committed to the WTO and its rules," said the E.U. official, who spoke on condition of anonymity because the decision was not yet public.

Failure to lift the sanctions would surely have stoked outrage in Congress, which labored for more than two years on the tax bill after the WTO ruled that the Foreign Sales Corporation/Extraterritorial Income Exclusion (FSC/ETI) provisions of the U.S. tax code illegally subsidize exports. Spurring lawmakers to act were pleas by makers of U.S. goods such as shoes, jewelry, carpets, paper and wood products, shipments of which to Europe have been slapped with 12 percent tariffs authorized by the WTO.

The 650-page bill repealing the illegal subsidies, signed into law Friday by President Bush, also reduces taxes for domestic manufacturers and builders while doling out tax breaks for a range of interests including tackle box makers and Alaskan whalers.

But Lamy has stated that the bill may not go far enough toward meeting the requirements set by the WTO's ruling because it phases out the export subsidies rather than eliminating them and contains "grandfather" clauses effectively allowing certain businesses to continue enjoying the illegal subsidies if their contracts were signed early enough. Lamy's stance has left unclear whether the E.U. will terminate the sanctions.

"We will be asking the WTO to look into the [new law's] compliance with its original findings," the E.U. official said, adding that Brussels hopes to get a ruling on this matter within three months or so.

Asked whether another ruling by the WTO against Washington would mean that the existing sanctions would go back into effect, or whether similar tariffs would be applied on a different list of goods, the official declined comment.

The E.U.'s new strategy may give it a stronger hand to play in the dispute over aircraft, which escalated on Oct. 6 when the Bush administration filed a WTO complaint accusing European governments of illegally subsidizing Airbus, the continent's airplane manufacturer.

E.U. officials were angered that the administration brought that dispute to the WTO, and they have publicly noted the fact that Boeing is one of the major beneficiaries of the FSC/ETI subsidies. That has raised the prospect that they might seek leverage for a negotiated settlement in the aircraft case by maintaining the sanctions in the FSC/ETI case.

Linking one WTO dispute to another is viewed by many trade experts as a tactic that could damage the trade body, in part because countries might file complaints just to gain leverage in other cases. Formally, the E.U.'s position is that "there is no link to the aircraft issue," the E.U. official said, but he again noted that Boeing has been "the biggest beneficiary" of the FSC/ETI subsidies.