

MEMORANDUM

To: Reporters and Editors
Fr: Jill Gerber for Chairman Grassley, 202/224-6522
Re: GAO report on the *Continued Dumping and Subsidy Offset Act (CDSOA)* (“Byrd Amendment”)
Da: Monday, Sept. 26, 2005

Sen. Chuck Grassley, chairman of the Committee on Finance, today made the following comment on the Government Accountability Office report “Issues and Effects of Implementing the Continued Dumping and Subsidy Offset Act,” GAO-05-979. The report will be available today at www.gao.gov.

“This report highlights a total lack of accountability under the CDSOA. The Bureau of Customs and Border Protection does not have the resources to systematically check every claim for money under the CDSOA. The sad truth is, there’s been only one comprehensive audit out of 770 companies that received money under the program. That audit showed that expenses claimed by the company were substantially overstated. Because the amount of money received by a company is directly tied to the amount of expenses claimed by a company, the incentive to overstate qualifying expenses is strong. I suspect that’s why company claims approached \$2 trillion in 2004. When government provides an incentive to overstate claims and then fails to verify whether the claims made are accurate, it really amounts to open invitation for fraud. Once a company gets the money, there’s no way to tell how it’s been spent. According to the report, one recipient of funds under the program actually used the money to pay off a home mortgage.

“Supporters argue that CDSOA offsets the effects of unfair competition. The irony is that the program actually creates unfair competition. Unlike our trade remedy laws, where all producers of an unfairly traded product get relief, CDSOA funnels money to a select few. To date, over a billion dollars has been funneled to companies under the CDSOA. One company alone received almost 20 percent of those funds. The top five recipients account for almost half of those funds. And even that’s misleading because one of the top five owns two of the other top five. So actually, three firms account for almost half of the money doled out under the CDSOA. And 80 percent of disbursements went to just 39 companies.

“Instead of creating a level playing field, the CDSOA distorts competition in the United States, to the detriment of U.S. firms and their employees. Only companies that supported the original petition for an antidumping or countervailing duty investigation are eligible to receive funds under the CDSOA. New companies aren’t eligible. Other firms that were around but may not have known about the investigation aren’t eligible. This creates a disincentive to invest in these firms because they are at a competitive disadvantage vis-a-vis firms that get CDSOA money.

“There are other distortions as well. You can have two companies importing the same product and each paying AD/CVD duties, with one company getting CDSOA money and the

other company not. Why should one U.S. importer be forced to subsidize its competitor this way? You have companies that get CDSOA money being able to drive prices lower because they are subsidized under the CDSOA, leaving some of their U.S. competitors unable to compete. You have companies that don't get CDSOA money being forced to reduce production and cut jobs. The economic distortions go on and on. Economics and sound business practices should serve as the basis for winning or losing marketplace competition, not the government. The CDSOA is bad policy, plain and simple.

“To add insult to injury, you now have other innocent U.S. companies paying the price for continuing this program after it's been ruled inconsistent with our international trade responsibilities. The World Trade Organization (WTO) has authorized eight countries to retaliate against U.S. exports because of the CDSOA. Already our exporters face additional duties imposed by Japan, Canada, Mexico, and the European Union. U.S. products subject to retaliation include live swine, fish, oysters, cigarettes, dairy products, wine, paper products, clothing, sweet corn, industrial belts, steel products, fork lift trucks, and printing machines. And Brazil, Chile, India, and South Korea could impose sanctions at any time. As more countries exercise their authority to retaliate and as payments under CDSOA grow more and more, innocent U.S. exporters will be unfairly hurt to an ever-growing degree.

“The harm caused by the CDSOA does not end there. At a time of tremendous budgetary constraints, it just doesn't make sense to funnel money out of the federal treasury to enrich a few at the expense of the rest of us. This money can be better spent.

“I hope people will take a close look at this report. The CDSOA lines corporate coffers for a select few, and too many innocent companies and workers end up paying the tab. We need to end this unfair subsidization as soon as possible. Supporters of the CDSOA have called for negotiations to allow WTO members to pay duties collected under their AD/CVD orders to their companies. At a minimum, we should stop payments under the CDSOA until such time as WTO rules do, in fact, permit such disbursements. Better yet, we should work to repeal the CDSOA outright. Either way, we need to act soon to minimize the harm of the CDSOA on U.S. firms and their employees. To date, entrenched support has thwarted attempts to repeal the CDSOA. I hope that with the GAO report shedding light on the CDSOA, members of Congress will see it for what it really is – a misguided federal program that needs to be repealed. I'll continue my efforts to seek repeal or suspension of the CDSOA at the earliest possible time.”