

**UNITED STATES – IMPOSITION OF COUNTERVAILING DUTIES ON
CERTAIN HOT-ROLLED LEAD AND BISMUTH CARBON STEEL
PRODUCTS ORIGINATING IN THE UNITED KINGDOM**

REPORT OF THE PANEL

The report of the Panel on United States – Imposition of Countervailing Duties on Certain Hot-Rolled Lead and Bismuth Carbon Steel Products Originating in the United Kingdom is being circulated to all Members, pursuant to the DSU. The report is being circulated as an unrestricted document from 23 December 1999 pursuant to the Procedures for the Circulation and Derestriction of WTO Documents (WT/L/160/Rev.1). Members are reminded that in accordance with the DSU only parties to the dispute may appeal a panel report. An appeal shall be limited to issues of law covered in the Panel report and legal interpretations developed by the Panel. There shall be no *ex parte* communications with the Panel or Appellate Body concerning matters under consideration by the Panel or Appellate Body.

Note by the Secretariat: This Panel Report shall be adopted by the Dispute Settlement Body (DSB) within 60 days after the date of its circulation unless a party to the dispute decides to appeal or the DSB decides by consensus not to adopt the report. If the Panel Report is appealed to the Appellate Body, it shall not be considered for adoption by the DSB until after the completion of the appeal. Information on the current status of the Panel Report is available from the WTO Secretariat.

I. INTRODUCTION

1.1 On 12 June 1998, the European Communities requested consultations with the United States pursuant to Article 4 of the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU), Article XXII:1 of the General Agreement on Tariffs and Trade 1994 (GATT 1994) and Article 30 of the Agreement on Subsidies and Countervailing Measures (SCM Agreement) with respect to the imposition of countervailing duties by the United States on certain hot-rolled lead and bismuth carbon steel products (leaded bars) originating in the United Kingdom in the context of three successive annual reviews (WTO document WT/DS138/1). The European Communities and the United States held consultations on 29 July 1998, but failed to reach a mutually satisfactory solution.

1.2 On 14 January 1999, pursuant to Articles 4 and 6 of the DSU, Article XXIII of the GATT 1994 and Article 30 of the SCM Agreement, the European Communities requested the establishment of a panel with respect to the imposition of countervailing duties by the United States on certain hot-rolled lead and bismuth carbon steel products originating in the United Kingdom in the context of three successive annual reviews (WTO documents WT/DS138/3 and WT/DS138/3/Corr.1).

1.3 At its meeting on 17 February 1999, the Dispute Settlement Body (DSB) established a panel pursuant to the above request. At that meeting, the parties to the dispute agreed that the Panel should have standard terms of reference. The terms of reference were:

"To examine, in light of the relevant provisions of the covered agreements cited by the European Communities in documents WT/DS138/3 and WT/DS138/3/Corr.1, the matter referred to the DSB by the European Communities in that document and to make such findings as will assist the DSB in making the recommendations or in giving the rulings provided for in those agreements".

1.4 On 16 March 1999, the Panel was constituted as follows:

Chairman: Mr. Ole Lundby
Members: Mr. Paul O'Connor
Mr. Arie Reich

1.5 Brazil and Mexico reserved their rights as third parties to the dispute.

1.6 The Panel met with the parties on 15-16 June 1999 and 14-15 July 1999. It met with the third parties on 16 June 1999.

1.7 The Panel submitted its interim report to the parties on 6 October 1999. On 20 October 1999, both parties submitted written requests for the Panel to review precise aspects of the interim report. On 8 November 1999, each party filed comments on the written request submitted by the other party. Neither party requested a further meeting with the Panel. The Panel submitted its final report to the parties on 22 November 1999.

II. FACTUAL ASPECTS

2.1 This dispute concerns the imposition of countervailing duties by the United States on certain hot rolled lead and bismuth carbon steel products originating in the United Kingdom in the context of three successive annual reviews.

2.2 On 8 May 1992, a countervailing duty investigation was initiated by the United States against imports of hot rolled lead and bismuth carbon steel from, *inter-alia*, the United Kingdom. The period of investigation was calendar year 1991. On 27 January 1993, the United States Department of

Commerce (USDOC) issued a final determination establishing a subsidy rate of 12.69 per cent on imports from United Engineering Steels Limited (UES).¹ On 22 March 1993, following an affirmative injury determination by the United States International Trade Commission (USITC), the USDOC published a countervailing duty order at the above rate on imports from UES.

2.3 During the period of investigation, UES was a joint-venture equally owned by British Steel Public Limited Company (British Steel plc) and Guest, Keen and Nettlefolds (GKN), both of which were privately-owned companies. The alleged subsidies countervailed were not provided to either co-owner of UES but to state-owned British Steel Corporation (BSC). BSC established UES in 1986 in association with GKN. British Steel plc was related to BSC in the sense that the former assumed the property, rights and liabilities of the latter in September 1988. The British government privatized British Steel plc in December 1988 through a sale of shares. Both parties agree that the privatization of British Steel plc was "at arm's length, for fair market value and consistent with commercial considerations".

2.4 On 21 March 1995, UES became a wholly-owned affiliate of British Steel plc as this company bought out GNK's interests. UES was subsequently renamed British Steel Engineering Steels (BSES).

2.5 The alleged subsidies countervailed relate principally to equity infusions granted by the British Government to BSC during fiscal years 1977/78 – 1985/86. The USDOC classified such alleged subsidies as non-recurrent and thus spread them out over 18 years, deemed to be the useful life of productive assets in the steel industry. The USDOC found that the alleged subsidies in question "passed through" from BSC to UES first, and then more recently to BSES.

2.6 Following the original imposition of CVDs in March 1993, the DOC has undertaken six annual reviews to set the duty rate on imports of the subject product. The first review is not being challenged as it was initiated on 15 April 1994, prior to the entry into force of the SCM Agreement. The fifth review, initiated on 24 April 1998, is not being challenged either as it was completed (11 August 1999) after the request for establishment of the Panel (WTO documents WT/DS138/3 and WT/DS138/3/Corr.1). Similarly, the sixth review, initiated on 30 April 1999, is not subject to challenge given that it was opened after the request for establishment of the Panel. Therefore, the subject of this Panel are the outcomes of the second, third and fourth reviews, initiated in 1995, 1996 and 1997, respectively. UES and BSES were the only exporters involved in these reviews.²

2.7 The 1995 review, covering imports during calendar year 1994, was initiated on 14 April 1995 and was completed on 14 November 1996.³ In this review, the USDOC determined a subsidy rate of 1.69 per cent on imports from UES.

2.8 The 1996 review, covering imports during calendar year 1995, was initiated on 25 April 1996 and completed on 14 October 1997.⁴ In this review, the USDOC established two separate subsidy rates on account of the fact that UES transformed itself into BSES during the period of review. In particular, the USDOC established a subsidy rate of 2.40 per cent, applicable to imports from UES made during

¹ Final Affirmative Countervailing Duty Determination: *Certain Hot Rolled Lead and Bismuth Carbon Steel Products from the United Kingdom*. Federal Register, 27 January 1993, Vol. 58, No. 16, pp. 6237-6246.

² Allied Steel and Wire Limited (ASW Limited) was involved in the original 1992 investigation as well as in the 1994 review. However, this company has not participated in any subsequent reviews.

³ *Certain Hot-Rolled Lead and Bismuth Carbon Steel Products from the United Kingdom*; Final Results of Countervailing Duty Administrative Review. Federal Register, 14 November 1996, Vol. 61, No. 221, pp. 58377-58383.

⁴ *Certain Hot-Rolled Lead and Bismuth Carbon Steel Products from the United Kingdom*; Final Results of Countervailing Duty Administrative Review. Federal Register, 14 October 1997, Vol. 62, No. 198, p. 53306.

the period 1 January 1995 through 20 March 1995, and another subsidy rate of 7.35 per cent, corresponding to imports from BSES during the period 21 March 1995 through 31 December 1995.

2.9 The 1997 review, covering imports during calendar year 1996, was initiated on 29 April 1997 and was completed on 15 April 1998.⁵ In this review, the USDOC determined a subsidy rate of 5.28 per cent on imports from BSES.

III. ARGUMENTS OF THE PARTIES

3.1 The arguments of the parties are set out in their submissions to the Panel (see Attachments 1.1 through 1.7 for the European Communities and Attachments 2.1 through 2.8 for the United States).

[Arguments of the third parties in Section IV deleted from this version.]

⁵ *Certain Hot-Rolled Lead and Bismuth Carbon Steel Products from the United Kingdom*, Final Results of Countervailing Duty Administrative Review. Federal Register, 15 April 1998, Vol. 63, No. 72, pp. 18367-18375.

V. INTERIM REVIEW

5.1 On 6 October 1999, the Panel issued its interim report to the parties. On 20 October 1999, the European Communities and the United States requested the Panel to review precise aspects of the interim report, in accordance with Article 15.2 of the DSU. Neither party requested an additional meeting with the Panel.

B. COMMENTS BY THE EUROPEAN COMMUNITIES

5.2 The European Communities requested changes to the Panel's description of the European Communities' arguments in paragraphs 6.12, 6.36 and 6.71. We have made certain modifications to paragraphs 6.12, 6.36 and 6.71.

5.3 The European Communities requested replacing the word "effectively" in the penultimate sentence of paragraph 6.57 with the word "therefore". Because we consider the word "effectively" appropriate in this context, we decline to make the modification requested by the European Communities.

5.4 The European Communities requested the addition of certain references to footnote 66, in order to include all references where the parties have discussed the term "deter". In our view, the references we have cited in footnote 66 constitute the clearest statement of the US position on whether countervailing duties should be applied to deter subsidization. Since it is the position of the United States on this matter to which footnote 66 refers, we decline to make the modification requested by the European Communities.

5.5 The European Communities requested the Panel to include the terms "of a developing country Member" in the second sentence of footnote 86. Given the explicit wording of Article 27.13 of the SCM Agreement, we have modified footnote 86 in line with the European Communities' request.

5.6 The European Communities requested the Panel to replace the term "conferred" with the term "bestowed" in the second sentence of paragraph 6.80, to avoid confusion and to bring this sentence in line with the terminology used by the Panel elsewhere in its report. We have modified the second sentence of paragraph 6.80 accordingly.

5.7 With regard to paragraph 8.1, the European Communities requested the Panel to also recommend that the United States bring its treatment of pre-privatization subsidies into conformity with the SCM Agreement. Since our terms of reference are restricted to those measures cited by the European Communities in document WT/DS138/3 and WT/DS138/3/Corr. 1, we decline to make the modification requested by the European Communities.

C. COMMENTS BY THE UNITED STATES

5.8 The United States requested the Panel to modify paragraphs 6.24, 6.26, 6.60, 6.61 and 6.62, to reflect the distinction between the USDOC's 27 January 1993 final determination and the USDOC's 12 October 1993 remand determination. We have made certain changes to the aforementioned paragraphs.

5.9 The United States requested a modification in the second sentence of paragraph 6.25, concerning the duration of the allocation period. We have modified the second sentence of paragraph 6.25 accordingly.

5.10 The United States requested a correction concerning the identification of the Attachment referenced in footnote 66. We have corrected that reference.

5.11 The United States asked the Panel to include a fuller description of its argument in footnote 66. We have modified our description of the US argument in footnote 66.

5.12 With regard to paragraph 6.59, the United States requested certain modifications to the Panel's description of the US position regarding the existence of "benefit". The United States considered the Panel's description incomplete and disjointed. We note that the language used by the Panel to summarize the US position on the existence of "benefit" is taken from a US submission (Attachment 2.1), and that the United States would simply have the Panel include an extended description of the US position on the existence of "benefit" taken from the same US submission. Since the United States has not demonstrated that our summary of the US position is inconsistent with the arguments made by the United States before this Panel, we decline to make the changes requested by the United States. Any reader wishing to read a complete description of the US arguments on this matter may consult the original US submission, which is explicitly cross-referenced by the Panel at paragraph 6.59.

5.13 The United States requested the Panel to make technical corrections in footnote 75. We have modified footnote 75 accordingly.

VI. FINDINGS

A. INTRODUCTION

6.1 On 22 March 1993, the US Department of Commerce ("USDOC") published a countervailing duty order imposing countervailing duties on imports of leaded bars originating *inter alia* in the United Kingdom ("UK").³⁶ The USDOC initiated administrative reviews of that order in 1994, 1995, 1996, 1997, 1998 and 1999. This dispute concerns the consistency with Articles 10 and 19.4 of the Agreement on Subsidies and Countervailing Measures ("SCM Agreement") of the countervailing duties imposed as a result of the administrative reviews initiated in 1995, 1996 and 1997.

B. PRELIMINARY ISSUES

1. Participation of observers

6.2 By letter dated Friday, 11 June 1999, the United States asked the Panel to allow observers to attend the Panel's meetings with the parties. In response, the Panel issued the following decision at the first substantive meeting with the parties:

DECISION CONCERNING THE US REQUEST FOR PARTICIPATION BY OBSERVERS

By letter dated Friday, 11 June 1999, the United States asked the Panel to allow observers to attend the Panel's meetings with the parties. The Panel notes that the US request was submitted only one full working day before the first substantive meeting of the Panel with the parties on Tuesday, 15 June 1999. The Panel regrets that the United States was not able to submit its request in a more timely manner.

By letter dated Monday, 14 June 1999, the Panel sought the views of the EC, Brazil and Mexico on this matter. In separate written responses dated 14 June 1999, the EC, Brazil and Mexico asked the Panel to reject the US request. The Panel is grateful for the speed with which the EC, Brazil and Mexico were able to provide their views on this matter.

³⁶ 58 Fed. Reg., p. 15327 (hereinafter "1993 *Leaded Bars* duty order").

We note that, in accordance with paragraph 2 of the Panel Working Procedures contained in Appendix 3 of the DSU ("Appendix 3 Working Procedures"), "[t]he panel shall meet in closed session." Whereas paragraph 2 refers to the presence of the "parties to the dispute" and "interested parties"³⁷ at panel meetings, paragraph 2 does not refer to the presence of observers. For this reason, we consider that participation by observers at panel meetings would be inconsistent with paragraph 2 of the Appendix 3 Working Procedures.

Article 12.1 of the DSU provides that a panel is entitled to depart from or add to paragraph 2 of the Panel Working Procedures, after consulting the parties to the dispute. In *United States - Import Prohibition of Certain Shrimp and Shrimp Products*, the Appellate Body explained that:

" ... Article 12.1 of the DSU authorizes panels to depart from, or add to, the Working Procedures set forth in Appendix 3 of the DSU, and in effect to develop their own Working Procedures, after consultation with the parties."

Article 12.1 of the DSU requires a panel to consult with the parties before developing its own Working Procedures. Article 12.1 does not expressly require a panel to seek the agreement of the parties to the dispute before developing its own Working Procedures. However, in certain circumstances such agreement would appear appropriate. This is especially so with regard to the participation of observers, as a result of possible implications for the confidentiality of parties' oral statements to the panel.

Paragraph 3 of the Appendix 3 Working Procedures provides that "documents submitted to [the panel] shall be kept confidential." Paragraph 3 does not refer to the confidentiality of oral statements made by parties during meetings with the panel. However, to the extent that a party's oral statement refers to, or repeats, all or part of its written submission to the panel, a failure to protect the confidentiality of a party's oral statement could effectively undermine the confidentiality of its written submission.

By virtue of paragraph 3 of the Appendix 3 Working Procedures, a party may forego the confidentiality of its written and oral submissions by "disclosing statements of its own position to the public." We note that it is up to each party to decide whether it wishes to forego the confidentiality of its submissions to the panel. This is not a decision to be made by a panel. Since it is up to each party to decide whether or not it chooses to forego its right to confidentiality for its written and oral submissions to a panel, we are obliged to seek the agreement of each party before implementing Working Procedures that might undermine the confidentiality of a party's written and oral submissions. By its 14 June response to the US request of 11 June 1999, the EC effectively withheld such agreement. As a result, we are not in a position to develop any Working Procedures that might jeopardise the confidentiality of the EC written and oral submissions to the Panel. Accordingly, we are unable to grant the US request to open this meeting to observers.

2. Amicus curiae brief

6.3 On 19 July 1999, we received a brief from the American Iron and Steel Institute ("AISI") dated 13 July 1999. We note that, by virtue of Articles 12 and 13 of the DSU, a panel "has the discretionary

³⁷ In our opinion, the term "interested parties" refers to third parties, *i.e.*, "parties which have notified their interest in the dispute to the DSB" (paragraph 6, Appendix 3 Working Procedures).

authority either to accept and consider or to reject information and advice submitted to it, *whether requested by a panel or not*.³⁸ While we clearly have the discretionary authority to accept the AISI brief, in this case we chose not to exercise that authority as a result of the late submission of the brief. The AISI brief was submitted after the deadline for the parties' rebuttal submissions, and after the second substantive meeting of the Panel with the parties. Thus, the parties have not, as a practical matter, had adequate opportunity to present their comments on the AISI brief to the Panel. In our view, the inability of the parties to present their comments on the AISI brief raises serious due process concerns as to the extent to which the Panel could consider the brief. In accordance with Article 12.1 of the DSU, the Panel may have been entitled to delay its proceedings in order to provide the parties sufficient opportunity to comment on the AISI brief. However, we considered that any such delay could not be justified in the present case.

3. Request for information

6.4 In its written response to a question from the Panel,³⁹ the European Communities requested the Panel to "ask the United States to provide all parties with [the] facts [surrounding the RicheMont spin-off in *Stainless Steel Sheet and Strip in Coils from France*⁴⁰], including: (1) the essential USDOC spin-off calculation worksheets containing all the specific numbers that led to the conclusions drawn by USDOC regarding the spin-offs in the case, and (2) all supporting memorandums, including the portion of the verification report dealing with RicheMont cited by the USDOC at 64 Fed. Reg. 30776."

6.5 In response to a separate question from the Panel, the United States asserted that such information "was submitted ... as business proprietary information, and USDOC is therefore precluded by U.S. law from divulging it."

6.6 We note that, by virtue of Article 13 of the DSU, a panel has authority to seek information and technical advice from "any individual or body" it may consider appropriate, or from "any relevant source." The "comprehensive nature" of this authority was emphasised by the Appellate Body in *United States - Shrimp*.⁴¹ In *Canada - Measures Affecting the Export of Civilian Aircraft*, the Appellate Body explicitly stated that a panel has the authority to seek information from "any Member, including *a fortiori* a Member who is a party to a dispute before a panel."⁴²

6.7 Thus, if we consider it appropriate, there is no doubt that we have the authority to request information concerning the RicheMont spin-off from the United States. In particular, we are not persuaded that the proprietary nature of the information precludes us from requesting (or the United States from submitting) the information, since it is open to the Panel to implement special procedures to protect proprietary information.⁴³ However, we do not consider it necessary to request the relevant information from the United States. In our view, the present dispute can be resolved without reference to the precise facts surrounding the RicheMont spin-off in *Stainless Steel Sheet and Strip*. For this reason, we decline to exercise our authority under Article 13 of the DSU to ask the United States to provide the information sought by the European Communities.

³⁸ *United States - Import Prohibition of Certain Shrimp and Shrimp Products* (hereinafter "*United States - Shrimp*"), WT/DS58/AB/R, adopted 6 November 1998, para. 108.

³⁹ See Attachment 1.3, Question 3.

⁴⁰ *Stainless Steel Sheet and Strip in Coils from France*, 64 Fed. Reg. 30774, 8 June 1999 (hereinafter "*Stainless Steel Sheet and Strip in Coils from France*").

⁴¹ *United States - Shrimp*, WT/DS58/AB/R, adopted 6 November 1998, para. 104.

⁴² *Canada - Measures Affecting the Export of Civilian Aircraft* (hereinafter "*Canada Aircraft*"), WT/DS70/AB/R, adopted 20 August 1999, para. 185.

⁴³ We note that such special procedures were implemented by the *Canada Aircraft* panel (WT/DS70/AB/R, adopted 20 August 1999, Annex 1).

4. Standard of review

(a) The United States

6.8 The United States asserts that the standard of review set forth in Article 17.6 of the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 (hereinafter the "AD Agreement") is expressly made applicable to disputes under the SCM Agreement by virtue of the Ministerial Declaration on Dispute Settlement Pursuant to the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 or Part V of the Agreement on Subsidies and Countervailing Measures (hereinafter "Ministerial Declaration"), which refers to "the need for consistent resolution of disputes arising from anti-dumping and countervailing duty measures." The United States argues that this Ministerial Declaration "must have some meaning". In the United States' view, Members were aware of the many similarities between the anti-dumping proceedings and the countervailing duty proceedings that a panel would be reviewing, and they did not want inconsistent resolutions for disputes under the AD Agreement and the SCM Agreement simply because of the use of different standards of review. According to the United States, the import of the Ministerial Declaration is that a panel should use the AD Agreement's standard of review when reviewing a countervailing duty proceeding.

6.9 In response to a question from the Panel regarding the Ministerial Decision on Review of Article 17.6 of the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 (hereinafter "Ministerial Decision"), the United States asserts that the Article 17.6 standard of review does not apply to the present dispute by virtue of the "general application" of that provision. Accordingly, the United States argues that the Ministerial Decision is not relevant in this dispute.

6.10 In the event that the Panel finds the standard of review set forth in Article 17.6 of the AD Agreement inapplicable to this dispute, the United States accepts that the Appellate Body's decision in *European Communities - Measures Concerning Meat and Meat Products*⁴⁴ states the applicable standard of review, *i.e.*, that set forth in Articles 3.2 and 11 of the DSU. However, the United States asserts that the *Hormones* decision does not represent a complete statement of the standard of review that must be applied by the Panel in this dispute. In particular, with regard to legal questions, the *Hormones* decision explains only that a panel must apply the customary rules of interpretation of public international law. It does not address what a panel should do in the situation where, as in the present case, the agreement at issue is silent with regard to a particular matter even after applying the customary rules of interpretation of public international law. According to the United States, the key provision in the SCM Agreement -- Article 1.1 -- is silent regarding how an investigating authority is to handle previously bestowed subsidies following a change in the ownership of the subsidized company.

6.11 The United States submits that, when the SCM Agreement is silent, a panel addressing a dispute under Part V of the SCM Agreement should follow either *United States - Imposition of Countervailing Duties on Imports of Fresh and Chilled Atlantic Salmon from Norway*, where the panel stopped its analysis and found the challenged approach to be not inconsistent with the relevant agreement after determining that the agreement was silent,⁴⁵ or *New Zealand - Imports of Electrical Transformers from Finland*, where the panel took a slightly different approach and found no violation

⁴⁴ *European Communities - Measures Concerning Meat and Meat Products* (hereinafter "*Hormones*"), WT/DS26/AB/R, WT/DS48/AB/R, adopted 19 February 1998, at paragraphs 114-19.

⁴⁵ *United States - Imposition of Countervailing Duties on Imports of Fresh and Chilled Atlantic Salmon from Norway* (hereinafter "*United States - Salmon*"), adopted 28 April 1994, BISD 41S/576, at paras. 243-46 and 247-49.

of the relevant agreement after concluding that the approach used by the investigating authority “appeared to be a reasonable one.”⁴⁶

(b) The European Communities

6.12 The European Communities objects to the application of the standard of review set forth in Article 17.6 of the AD Agreement to the present case. The European Communities asserts that Articles 3.2 and 11 of the DSU set the standard of review applicable in this dispute. The European Communities takes issue with the US interpretation of the Ministerial Declaration, asserting that a “consistent resolution” of disputes does not allow for an “adoption” of Article 17.6 of the AD Agreement in a different Agreement than for which it was written. The European Communities argues first that Ministerial Declaration is not a covered agreement and therefore not within the Panel’s mandate; it is more in the nature of a reminder to negotiators to aim for consistency between the Antidumping and Countervailing Duty provisions. In any event, the EC submits that any meaning it has is much more limited, requiring only that parallel provisions in the two Agreements should be dealt with in a consistent way. For example, an allegation that an investigating country had exceeded the maximum 18 months for an investigation should not be treated differently in anti-dumping and countervailing duty cases.⁴⁷ The European Communities asserts that taking the far-reaching step of adopting textual provisions into an Agreement which are not there would “add to or diminish the rights and obligations provided in the covered agreements”, and would therefore violate Article 3.2 DSU.

6.13 The European Communities submits that there is no ground for ignoring the text of the Ministerial Decision and the United States offers none. The text of the Ministerial Decision is clear, in that it should be decided at a later time whether or not Article 17.6 of the AD Agreement could be capable of “general application”. The European Communities believe that the ordinary meaning of the term “general application” is the “use outside the Anti-Dumping Agreement”, or the “use in all other covered agreements of the WTO”. The text of the Ministerial Decision does not contain any preferential treatment for the SCM Agreement, which would somehow allow the adoption of the 17.6 standard already at this moment in time in the SCM Agreement.

6.14 The European Communities denies that the SCM Agreement is “silent” on the key issues in dispute, since the SCM Agreement is not “silent” on the fundamental obligation of a Member to establish the existence of a “benefit”, and therefore a “subsidy” which may be “offset” by countervailing duties, to the company under investigation. The European Communities also argues that there is no room for a reliance on the two pre-WTO cases referred to by the United States, since they concern only technical factual calculations by national authorities in areas in which the relevant GATT Codes were silent. As such, the European Communities believes that these cases are particularly lacking in relevance in the present case, where a fundamental precept of the SCM Agreement is at issue.

(c) Evaluation by the Panel

6.15 The United States advocates the application of the standard of review set forth in Article 17.6 of the AD Agreement. Given the nature of the present dispute, it is in particular the standard of review set forth in paragraph (ii) of Article 17.6 which the United States would have us apply. Article 17.6 (ii) of the AD Agreement provides:

⁴⁶ *New Zealand - Imports of Electrical Transformers from Finland* (hereinafter “*New Zealand - Transformers*”), adopted on 18 July 1985, BISD 32/S55, at paras. 4.2-4.3.

⁴⁷ Thus, the European Communities asserts for example that disputes regarding Articles 5.10 of the AD Agreement and 11.11 of the SCM Agreement should be resolved in a consistent way.

"the panel shall interpret the relevant provisions of the Agreement in accordance with customary rules of interpretation of public international law. Where the panel finds that a relevant provision of the Agreement admits of more than one permissible interpretation, the panel shall find the authorities' measure to be in conformity with the Agreement if it rests upon one of those permissible interpretations."

6.16 At the outset, we note that the United States does not rely on the provisions of the SCM Agreement to argue that the standard of review set forth in Article 17.6 of the AD Agreement applies in the present case. We also note that, in light of the Ministerial Decision, the United States does not consider the Article 17.6 standard of review to be of "general application". Rather, the sole basis relied on by the United States for applying the Article 17.6 standard of review is the Ministerial Declaration which, in the opinion of the United States, "must have some meaning".

6.17 We agree that the Ministerial Declaration "must have some meaning". However, it is not immediately apparent from the text of the Ministerial Declaration that it has the meaning attributed to it by the United States.⁴⁸ Assuming *arguendo* that it was the intention of the Ministers to introduce the standard of review set forth in Article 17.6 of the AD Agreement into the SCM Agreement (with a view to resolving anti-dumping and countervailing duty disputes in a consistent manner)⁴⁹, there is nothing in the Ministerial Declaration to create any obligations in this regard. We note that the Ministerial Declaration is a mere "Declaration", rather than a "Decision" of the Ministers. In our view, a Declaration lacks the mandatory authority of a Decision. In the Ministerial Declaration, Ministers simply "recognize ... the need" for the consistent resolution of disputes. In our opinion, the simple recognition of the need for an action does not mandate that action. In a Ministerial Decision, by contrast, Ministers "decide" that certain action shall be taken. For these reasons, we do not consider that the Ministerial Declaration imposes any obligations on this Panel. In particular, we do not consider that the Ministerial Declaration requires this Panel to apply the standard of review set forth in Article 17.6 of the AD Agreement.

6.18 We note that, by virtue of Article 30 of the SCM Agreement, the provisions of the DSU are applicable to the settlement of disputes under the SCM Agreement, "except as otherwise specifically provided [t]herein." In the absence of any specific standard of review provided for in the SCM Agreement, we consider that we are subject to the standard of review set forth in Article 11 of the DSU. By virtue of that provision, we are required to "make an objective assessment of the matter before [us], including an objective assessment of ... the applicability of and conformity with the [SCM Agreement]". We note that this approach is entirely consistent with statements made by the Appellate Body in *Hormones*.⁵⁰ We also note that the United States has in principle accepted the application of the standard of review set forth in Article 11 of the DSU, in the event that we do not apply the standard of review set forth in Article 17.6 of the AD Agreement.

6.19 The United States has argued that the standard of review provided for in Article 11 of the DSU does not apply in cases "where the agreement at issue is silent with regard to a particular matter even after applying the customary rules of interpretation of public international law." In such cases, the United States argues that panels should apply the same standard of review applied by the GATT panels on *United States Salmon* and *New Zealand Electrical Transformers*. We do not consider it

⁴⁸ Indeed, we note that a further meaning has also been attributed to the Ministerial Declaration by the European Communities.

⁴⁹ We note that the matter in the present case is essentially concerned with the existence of a subsidy. This, of course, is not a matter that would ever arise in the context of a dispute concerning anti-dumping duties.

⁵⁰ We note in particular that, "[i]n so far as legal questions are concerned - that is, consistency or inconsistency of a Member's measure with the provisions of the applicable agreement - ... Article 11 of the DSU is directly on point, requiring a panel to "make an objective assessment of the matter before it, including an objective assessment of the facts of the case and the applicability of and conformity with the relevant covered agreements ..." (*Hormones*, WT/DS26/AB/R, WT/DS48/AB/R, adopted 19 February 1998, para. 118).

necessary to address this argument in any detail, since we disagree with the United States that the SCM Agreement is silent with regard to the particular matter at issue in the present dispute. As explained fully in the next section of our report, we consider Articles 1.1(b), 19.1, 19.4 and 21.1 of the SCM Agreement, and Article VI:3 of the GATT 1994, to be particularly relevant to the matter before us.

C. WERE THE COUNTERVAILING DUTIES IMPOSED AS A RESULT OF THE 1995, 1996 AND 1997 ADMINISTRATIVE REVIEWS CONSISTENT WITH ARTICLES 10 AND 19.4 OF THE SCM AGREEMENT?

6.20 The European Communities claims that the countervailing duties imposed as a result of the administrative reviews initiated in 1995, 1996 and 1997 are inconsistent with Articles 10 and 19.4 of the SCM Agreement because the USDOC failed to take proper account of various changes in ownership concerning the UK leaded bar producers/exporters under review. Since the European Communities' Article 19.4 claim repeats many of the arguments advanced in support of its Article 10 claim, we consider it appropriate to first address the European Communities' Article 10 claim.

6.21 Before examining the substance of the European Communities' Article 10 claim, we shall first review the principal facts surrounding the three administrative reviews at issue.

1. The Facts

6.22 From 1967 to 1986, the main UK producer/exporter of hot rolled lead and bismuth carbon steel (hereinafter "leaded bars") was British Steel Corporation ("BSC"). BSC was a state-owned enterprise. United Engineering Steels ("UES") was created in 1986, as a joint venture between BSC and privately-owned Guest, Keen and Nettlefolds ("GKN"). Both BSC and GKN provided assets to UES, in return for equal shares in the joint venture. In particular, BSC spun-off its leaded bar-producing assets (known as the "Special Steels Business") to UES. Negotiations concerning this change in ownership, including the extent of BSC's holding in UES, were conducted at arm's length, consistent with commercial considerations. BSC ceased producing leaded bars after the spin-off of its leaded bar-producing assets to UES.

6.23 BSC was privatized in 1988. As a first step, in September 1988 British Steel public limited company ("BSplc") assumed the property, rights and liabilities of BSC, including BSC's holding in UES. In December 1988, shares in BSplc were sold through the stockmarket. The US Department of Commerce ("USDOC") confirmed that the sale of BSplc shares was at arm's length, for fair market value and consistent with commercial considerations. Henceforth, both UES parent companies (BSplc and GKN) were in private hands. On 20 March 1995 BSplc purchased GKN's holding in UES, whereupon UES was renamed British Steel Engineering Steels ("BSES").

6.24 On 8 May 1992, a countervailing duty investigation was initiated by the United States against imports of leaded bars from, *inter alia*, the United Kingdom. The period of investigation was calendar year 1991. On 27 January 1993, the United States Department of Commerce (USDOC) issued its final determination, but later amended this determination on 12 October 1993 pursuant to a court remand (hereinafter collectively "1993 *Leaded Bars* determination").⁵¹ On 22 March 1993, the USDOC published a countervailing duty order imposing countervailing duties on imports of leaded bars originating *inter alia* in the United Kingdom.⁵²

⁵¹ *Final Affirmative Countervailing Duty Determination: Certain Hot Rolled Lead and Bismuth Carbon Steel Products from the United Kingdom*, 58 Fed. Reg. 6237, and *Remand Determination of US Department of Commerce on General Issues of Privatization, Certain Hot Rolled Lead and Bismuth Carbon Steel Products from the United Kingdom*, 12 October 1993 (unpublished).

⁵² 58 Fed. Reg., p. 15327 (hereinafter "1993 *Leaded Bars* duty order").

6.25 In its 1993 *Leaded Bars* determination, the USDOC found that non-recurring,⁵³ untied⁵⁴ subsidies had been bestowed on BSC prior to 1986. The USDOC allocated these subsidies over 15 years, deemed to be the useful life of productive assets in the steel industry.⁵⁵ The period over which the pre-1985/86 subsidies were allocated therefore included the creation of UES (1986), the privatization of BSplc (1988), and BSplc's acquisition of UES (1995).

6.26 The USDOC 1993 *Leaded Bars* determination concerned imports of leaded bars produced by UES. The USDOC found that a portion of the pre-1985/86 subsidies provided to BSC "travelled"⁵⁶ to UES, via BSC's Special Steels Business. In doing so, the USDOC first calculated the pro rata portion of pre-1985/86 subsidies to BSC (allocated to the period of investigation of the 1993 *Leaded Bars* determination) that could be attributed to its Special Steels Business. Using its "change-in-ownership" methodology, the USDOC then determined what portion of the pre-1985/86 subsidies attributable pro rata to BSC's Special Steels Business during the period of investigation should "pass through" to UES via BSC's Special Steels Business. Countervailing duties were imposed on imports of leaded bars produced by UES on the basis of the portion of benefit "passing through" from BSC to UES during the period of investigation.

6.27 The USDOC's 1993 *Leaded Bars* duty order was subject to administrative review in 1994, 1995, 1996, 1997, 1998 and 1999. The administrative review initiated in 1994⁵⁷ covered part of 1992 and all of 1993 imports of leaded bars produced by UES. The administrative review initiated in 1995⁵⁸ covered 1994 imports of leaded bars produced by UES. The USDOC applied the methodology described in the preceding paragraph to calculate the amount of countervailing duties to be imposed on such imports.

6.28 The administrative review initiated in 1996⁵⁹ covered imports during the calendar year 1995, the year in which BSplc acquired GKN's interest in UES. For 1995 imports of leaded bars prior to BSplc's March 1995 acquisition of UES (*i.e.*, leaded bars produced by UES), the USDOC applied the same "change-in-ownership" methodology as for the 1993 *Leaded Bars* determination, and the 1994 and 1995 administrative reviews.

6.29 For 1995 imports subsequent to BSplc's 20 March 1995 acquisition of UES (*i.e.*, imports of leaded bars produced by BSplc/BSES), the USDOC adopted a two-stage "pass through" approach. First, the USDOC took the benefit of prior BSC subsidies already deemed to have "passed through" to

⁵³ The parties do not disagree that these subsidies were "non-recurring". The Panel sees no reason to question the classification of the relevant subsidies as "non-recurring", since they were provided on an irregular basis.

⁵⁴ The parties do not disagree that these subsidies were "untied". The Panel sees no reason to question the classification of the relevant subsidies as "untied", since they were provided on a company-wide basis, rather than being directed at specific products.

⁵⁵ The Panel understands that the USDOC assumed that the "benefit" from non-recurring, untied "financial contributions" bestowed on BSC would "benefit" BSC's future production, because it would be used for investment in productive assets. It is for this reason that the duration of future "benefit" is determined by reference to the useful life of productive assets in the steel industry. The European Communities has not disputed this approach.

⁵⁶ *Remand Determination of US Department of Commerce on General Issues of Privatization, Certain Hot Rolled Lead and Bismuth Carbon Steel Products from the United Kingdom, 12 October 1993 (unpublished), page 3.*

⁵⁷ *Certain Hot Rolled Lead and Bismuth Carbon Steel Products from the United Kingdom*, 60 Fed. Reg. 44029 (hereinafter "1994 administrative review").

⁵⁸ *Certain Hot Rolled Lead and Bismuth Carbon Steel Products from the United Kingdom*, 61 Fed. Reg. 58377 (hereinafter "1995 administrative review").

⁵⁹ *Certain Hot Rolled Lead and Bismuth Carbon Steel Products from the United Kingdom*, 62 Fed. Reg. 53306 (hereinafter "1996 administrative review").

UES (as for pre-20 March 1995 imports), and used its change-in-ownership methodology to allocate that benefit between BSplc (the buyer) and GKN (the seller). Second, the USDOC calculated the benefit "passed through" from BSC to BSplc upon the privatization of BSC.⁶⁰ To do so, USDOC calculated all the non-recurring, untied subsidies previously bestowed on BSC, minus those already allocated to UES by virtue of the latter's acquisition of BSC's Special Steels Business assets. This residual category of subsidies to BSC had not been considered by the USDOC before, since BSC had not produced any of the imported leaded bars hitherto taken into account by the USDOC. Using its change-in-ownership methodology, USDOC then allocated a portion of these residual BSC subsidies to BSplc (the buyer of BSC), and a portion to the United Kingdom government (the seller of BSC). Thus, countervailing duties for post-20 March 1995 imports of leaded bars produced by BSplc/BSES were calculated on the basis of (1) "benefit" passing through from UES to BSplc, and (2) "benefit" passing through from BSC to BSplc.

6.30 The administrative review initiated in 1997⁶¹ covered imports during the calendar year 1996. The USDOC adopted the same two-stage approach as in the 1996 administrative review for post-20 March imports of leaded bars produced by BSplc/BSES.

2. The EC Article 10 claim

(a) Arguments of the parties

6.31 We set forth below our understanding of the principal arguments advanced by the parties.

(i) *The European Communities*

6.32 The European Communities submits that the three administrative reviews at issue are inconsistent with Article 10 of the SCM Agreement, read in conjunction with Articles 19, 1 and 14 of the SCM Agreement, because they impose countervailing duties on the imports of privately-owned companies without first examining or establishing whether there exists any subsidy relating to those imports. According to the European Communities, Article 10 of the SCM Agreement requires that a WTO Member take "all necessary steps" to ensure that countervailing duties are imposed by its authorities only in conformity with the terms of the SCM Agreement. The European Communities asserts that Article 10 mandates that a Member make a threshold determination of the "existence" of a subsidy before examining other ASCM requirements. Such a determination must occur prior to and wholly distinct from the later determination of the amount of a subsidy, for which it is a necessary condition precedent.

6.33 The European Communities considers that, consistent with the mandate of Article 10, the fundamental requirement first to determine that a "subsidy exists" is also found elsewhere in the SCM Agreement, including Articles 19.1 and 19.4, and in Article VI of the GATT 1994. Article 19.1 establishes that a Member may impose countervailing duties only after making "a final determination of the existence and amount of a subsidy . . .". Article 19.4 ASCM requires that "[n]o countervailing duty shall be levied on any imported product in excess of the amount of the subsidy found to exist . . .". Article VI:3 of the GATT 1994 sets forth the same obligation, requiring that "[n]o countervailing duty shall be levied on any product . . . in excess of an amount equal to . . . the subsidy determined to have been granted. . .".

⁶⁰ Thus, it is only once BSplc acquires full ownership of UES that the privatization of BSC becomes relevant to the USDOC's findings.

⁶¹ *Certain Hot Rolled Lead and Bismuth Carbon Steel Products from the United Kingdom*, 63 Fed. Reg. 18369 (hereinafter "1997 administrative review").

6.34 Thus, according to the European Communities, the terms of the SCM Agreement require Members to “take all necessary steps” to demonstrate the existence of a subsidy. Consistent with this plain language, this inquiry must occur before a countervailing measure may be imposed. A Member’s obligation in this regard cannot and does not end with a determination that an unrelated party at some point in the past received a subsidy. According to the European Communities, it must be demonstrated as a result of all available evidence that the party under investigation, whose goods are the ones subject to an offsetting countervailing duty, was the recipient of a subsidy. This means that it must be demonstrated (not arbitrarily assumed) that the party under investigation has either received itself a financial contribution and a benefit, or has benefited from a financial contribution to a third party. By the clear terms of the Agreement, calculating the amount or allocation of a “subsidy” may not take place without first establishing its existence.

6.35 The European Communities notes that, according to Article 1.1 of the SCM Agreement, a "subsidy" exists if a "financial contribution" by a government or public body confers a "benefit". The European Communities acknowledges that a “financial contribution” was made by the United Kingdom Government to BSC. The European Communities further acknowledges that such financial contributions benefited BSC in the past and constituted “subsidies” to that firm. The European Communities contends, however, that such prior contributions are not “subsidies” in the cases that form the basis for the dispute before this Panel, because they confer no “benefit” on UES or BSplc/BSES, the companies whose products are subject to the relevant US countervailing duty determinations and whose imports into the United States are being assessed for countervailing duties.

6.36 The European Communities submits that, with reference to the context provided by Article 14 of the SCM Agreement, "benefit" must be determined by reference to the market. A "benefit" is only conferred if a "financial contribution" is made available on terms more favourable than those available to the recipient on the market. Accordingly, where a privately-owned company has purchased productive assets at fair market value in an arm’s-length transaction, there can be no benefit conferred on the purchaser within the meaning of the ASCM. A purchaser of formerly state-owned assets at market value is not in any way put in a more advantageous position in comparison to the market.

6.37 The European Communities submits that a "benefit" must be shown to have been conferred on the company whose imports are to be countervailed. According to the European Communities, the record of the *Leaded Bars* determinations before this Panel makes clear that the United States explicitly and repeatedly has refused to enquire as to whether a benefit, and therefore a “subsidy”, was conferred on BSplc/BSES or UES, much less to demonstrate that such a "benefit" was actually conferred. Rather, the United States improperly presumed that such a "benefit" was conferred by stating that a previous contribution to BSC “passed through” to UES and BSplc/BSES without demonstrating the “pass through” as an economic reality or explaining the nature of the “pass through” by reference to the SCM Agreement or to any commercial or market benchmark.

6.38 With reference to footnote 36 to Article 10 of the SCM Agreement, and Article VI.3 of the GATT 1994, the European Communities asserts that the object and purpose of countervailing duties is to offset, or neutralise, a subsidy. A Member may not impose countervailing duties to more than offset a subsidy. The European Communities submits that countervailing duties were levied by the United States on UES and, in turn, BSplc/BSES without any demonstration by the United States of the existence of a "subsidy". In doing so, the United States by definition imposed countervailing duties that go beyond “offsetting” any subsidy bestowed directly or indirectly upon the manufacture, production or export of subject merchandise by those companies.

(ii) *The United States*

6.39 The United States submits that the USDOC administrative reviews at issue were consistent with Article 10 of the SCM Agreement. According to the United States, the SCM Agreement only directs (in Article 1) that the investigating authority identify the existence of a "subsidy," including a

subsidy "benefit," as of the time of the subsidy bestowal and (in Article 14) that the investigating authority measure the identified subsidy "benefit" through certain market-rate benchmarks as of the time of the subsidy bestowal.

6.40 In addition, the SCM Agreement contemplates that the measured subsidy "benefit" will be allocated over time, although it does not direct how this allocation must be done. Beyond that, however, the SCM Agreement is silent. It does not address a change in ownership, at least in the context of a countervailing duty proceeding. Specifically, it does not explain whether and, if so, how the investigating authority should take account of a change in ownership taking place after the subsidy bestowal. In fact, the only place where the SCM Agreement addresses changes in ownership is in a provision dealing not with countervailing duty proceedings (under Part V of the SCM Agreement), but rather with WTO subsidy challenges under Part III of the SCM Agreement. That provision, Article 27.13, strongly implies a general rule that previously bestowed subsidies remain actionable and are allocable to the successor company's production following a change in ownership, which is consistent with USDOC's approach but exactly the opposite of the approach advocated by the EC.

6.41 According to the United States, nothing in Article 1 or Article 14 requires the investigating authority to make a new "benefit" determination, or a new measurement of "benefit", simply because the ownership of the original subsidy recipient/beneficiary has changed hands. The United States submits that the SCM Agreement assumes that subsidies satisfying the requirements of Article 1.1 benefit the merchandise produced as a result of those subsidies, regardless of who owns the company or the productive assets used to produce the merchandise and regardless of who purchases the merchandise. In the case of untied, non-recurring subsidies, the relevant financial contribution is deemed to benefit the activities of the subsidized company over a period of time, known as the "benefit stream". Likewise, the United States submits that, because Article 27.13 of the SCM Agreement contemplates a general rule that previously bestowed subsidies remain actionable and are allocable to the production of the surviving privatized company, Article 27.13 implicitly rejects the contrary notion that a subsidy "benefit" must be re-identified or re-measured as of the time of the change in ownership.

6.42 The United States believes that the European Communities is making a crucial -- yet unsupported -- assumption when it argues that the investigating authority is required to make another "benefit" determination when the ownership of the subsidy recipient changes hands, given that the SCM Agreement requires the investigating authority to establish that the firm under investigation was the subsidy recipient before it may impose duties. The European Communities is assuming that when the ownership of the subsidy recipient changes hands, the successor firm is unrelated to, and different from, the subsidy recipient. Plainly, while the owners may be different and unrelated, the productive assets which benefitted from the subsidy before the change in ownership are the same ones used by the new owners after the change in ownership. The United States argues that the determinative factor is the productive assets -- not the owners -- given that Article VI:3 of the GATT 1994 and Article 10 of the SCM Agreement refer to the "subsidy" as having been "bestowed, directly or indirectly, upon the manufacture, production or export of" the product. In focusing on the productive assets, the United States asserts that the successor firm really is "no different" from the subsidy recipient, and consequently there is no need -- even under the European Communities' theory -- for a second benefit determination after the change in ownership.

6.43 The United States also strongly disagrees with the European Communities' assertion that it is necessary for the investigating authority to demonstrate that the firm under investigation was the actual recipient of the subsidy before it may impose duties. This assertion in no way follows from the fact that the investigating authority must first identify the existence of a subsidy before measuring and allocating the amount of the subsidy found to exist and imposing a countervailing duty. The simple requirement that the investigating authority begin its analysis by first identifying the existence of a subsidy does not shed any light on the question whether the identified benefit must be the one bestowed originally or whether a *continuing* benefit must be identified with regard to the new owner

of the subsidy recipient.⁶² Furthermore, the United States considers it especially significant that the European Communities does not, in its view, rely on the text of the provision that directly governs the identification of the subsidy benefit, i.e., Article 1.1(b), or even the context provided by the measurement provisions of Article 14, when it attempts to support its crucial assertion that it is necessary for the investigating authority to demonstrate that the firm under investigation was the subsidy recipient before it may impose duties. Instead, the only support that the EC offers is what it (erroneously) views as the object and purpose of the SCM Agreement, which, according to the EC, is the imposition of duties to offset the continuing subsidy benefit received by the firm under investigation. The United States concedes that, in the context of the SCM Agreement, there must be, as a practical matter, some entity or individual that receives the Article 1.1 financial contribution. However, this by itself does not mean that the Article 1.1 "benefit" is to that recipient entity or individual. In fact, Article 1.1 itself is silent regarding who or what is the beneficiary of a subsidy. Article VI:3 of GATT 1994 and Article 10 of the SCM Agreement, meanwhile, provide that the purpose of imposing countervailing duties is to offset subsidies bestowed on the manufacture, production or export of the merchandise. In other words, the United States submits that these provisions contemplate that a subsidy benefits the manufacture, production or export of merchandise.

6.44 The United States asserts that the USDOC's change-in-ownership methodology is consistent with the object and purpose of the SCM Agreement, which is to deter and offset trade-distorting government subsidies benefitting merchandise and causing injury to an industry in an importing country. Consistent with this object and purpose, USDOC's methodology helps to remedy the injurious trade distortions that result from government subsidization even after the ownership of the subsidy recipient/beneficiary has changed hands in an arm's length, fair market value transaction. In the United States' view, the European Communities has misstated the object and purpose of the SCM Agreement as being the imposition of duties to offset the continuing subsidy benefit received by the firm under investigation. The United States asserts that the object and purpose of the SCM Agreement is, in fact, to deter and offset trade-distorting government subsidies benefitting merchandise and causing injury to an industry in the importing country. The United States submits that the USDOC imposes countervailing duties in a change-in-ownership situation in order to offset the subsidization found to exist, just as is contemplated by Article 19.4 of the SCM Agreement. The United States does not impose any additional duties in an effort to deter subsidization.

(b) Evaluation by the Panel

6.45 Article 10 of the SCM Agreement provides in relevant part:

"Members shall take all necessary steps to ensure that the imposition of a countervailing duty* on any product of the territory of any Member imported into the territory of another Member is in accordance with the provisions of Article VI of GATT 1994 and the terms of this Agreement." (* footnote omitted)

6.46 In applying Article 10 of the SCM Agreement, we recall that Article 3.2 of the DSU requires panels to interpret "covered agreements", including the SCM Agreement, "in accordance with customary rules of interpretation of public international law". The rules of treaty interpretation set forth in Article 31 of the Vienna Convention on the Law of Treaties ("Vienna Convention"), have

⁶² The United States agrees that the investigating authority must first identify the existence of a subsidy, i.e., a "financial contribution" and a "benefit," before measuring and allocating the amount of the subsidy found to exist or imposing a countervailing duty. The United States notes, however, that when the investigating authority uses the benefit-to-recipient measurement standard, the act of identifying the benefit (under Article 1 of the SCM Agreement) is normally the same as measuring the benefit (under Article 14 of the SCM Agreement). The separate act of allocating the identified and measured benefit over time can only be done afterwards.

"attained the status of a rule of customary or general international law".⁶³ Article 31.1 of the Vienna Convention provides:

"A treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose".

6.47 By virtue of the ordinary meaning of Article 10, a Member is required to "take all necessary steps" to ensure that any countervailing duty it applies is "in accordance with" Article VI of GATT 1994 and the terms of the SCM Agreement. A Member will therefore violate Article 10 if it imposes a countervailing duty that is not "in accordance with" Article VI of GATT 1994 or the terms of the SCM Agreement.

(ii) *Conditions for the imposition of countervailing duties*

6.48 The European Communities has argued that the United States has violated Article 10 by imposing countervailing duties on imports of leaded bars produced by UES and BSplc/BSES in a manner not in accordance with Article 19 of the SCM Agreement or Article VI:3 of the GATT 1994. According to the European Communities, paragraphs 1 and 4 of Article 19 of the SCM Agreement require the United States to demonstrate the existence of a subsidy in respect of imports of leaded bars produced by UES and BSplc/BSES before imposing countervailing duties on such imports.

6.49 Article 19.1 of the SCM Agreement provides:

"If, after reasonable efforts have been made to complete consultations, a Member makes a final determination of the existence and amount of the subsidy and that, through the effects of the subsidy, the subsidized imports are causing injury, it may impose a countervailing duty in accordance with the provisions of this Article unless the subsidy or subsidies are withdrawn."

6.50 Consistent with the ordinary meaning of Article 19.1, the imposition by a Member of a countervailing duty on an imported product is subject to two conditions. First, the Member must have made a final determination of the existence and amount of a (countervailable)⁶⁴ subsidy in respect of the imported products. Second, the Member must have made a final determination that the subsidized imports are causing injury to the relevant domestic industry. Leaving aside the issue of injury, Article 19.1 is therefore clearly based on the premise that no countervailing duties shall be imposed on imported products unless the existence (and amount) of a (countervailable) subsidy is demonstrated in respect of such imports.

6.51 Article 19.4 of the SCM Agreement provides that:

"No countervailing duty shall be levied* on any imported product in excess of the amount of the subsidy found to exist, calculated in terms of subsidization per unit of the subsidized and exported product." (* footnote omitted)

6.52 By virtue of the ordinary meaning of the text of Article 19.4 of the SCM Agreement, any countervailing duty imposed on an imported product shall not exceed the amount of subsidy found to exist in respect of the imported product. Logically, and consistent with the ordinary meaning of Article 19.4, no countervailing duty may be imposed on an imported product if no (countervailable)

⁶³ *United States - Standards for Reformulated and Conventional Gasoline* (hereinafter "*Gasoline*"), WT/DS2/AB/R, adopted 20 May 1996, p. 17.

⁶⁴ A subsidy is "countervailable" when it is (1) specific within the meaning of Article 2 of the SCM Agreement, and (2) not non-actionable by virtue of Part IV of the SCM Agreement.

subsidy is found to exist with respect to that imported product, since in such cases the amount of subsidy found to exist with respect to the imported product would be zero. Thus, like Article 19.1, Article 19.4 of the SCM Agreement establishes a clear nexus between the imposition of a countervailing duty, and the existence of a (countervailable) subsidy.

6.53 The same nexus between the imposition of a countervailing duty and the existence of a (countervailable) subsidy underlies Article VI:3 of the GATT 1994, which provides in relevant part:

"No countervailing duty shall be levied on any product of the territory of any contracting party imported into the territory of another contracting party in excess of the amount equal to the estimated bounty or subsidy determined to have been granted, directly or indirectly, on the manufacture, production or export of such product in the country of origin or exportation, including any special subsidy to the transportation of a particular period."

6.54 We believe that at least one other provision of the SCM Agreement is equally relevant in the present context, since it is also based on the premise that no countervailing duties shall be imposed absent (countervailable) subsidization. That provision is Article 21.1, which provides that:

"A countervailing duty shall remain in force only as long as and to the extent necessary to counteract subsidization which is causing injury."

6.55 By virtue of Article 21.1, countervailing duties may only remain in force so long as there is (1) (countervailable) subsidization, and (2) injury caused by such subsidization. Thus, Article 21.1 establishes a clear link between the (continued) imposition of countervailing duties and the (continued) existence of (countervailable) subsidization.

6.56 In our view, the above provisions are all based on the premise that no countervailing duty may be imposed absent (countervailable) subsidization. Furthermore, we consider that this premise underlies the very purpose of the countervailing measures envisaged by Part V of the SCM Agreement. Footnote 36 to Article 10 of the SCM Agreement provides that "[t]he term 'countervailing duty' shall be understood to mean a special duty levied **for the purpose of offsetting any subsidy** bestowed directly or indirectly upon the manufacture, production or export of any merchandise, as provided for in paragraph 3 of Article VI of GATT 1994" (emphasis supplied). Thus, the imposition of a countervailing duty is only envisaged in circumstances where it is necessary to "offset" a (countervailable) subsidy. In our view, footnote 36 to Article 10 does not envisage the imposition of countervailing duties when no (countervailable) subsidy is found to exist, for in such cases there would be no (countervailable) subsidy to "offset". We note that the parties agree with our understanding of the object and purpose of the countervailing measures envisaged by Part V of the SCM Agreement. The European Communities has stated that "the established purpose for assessment of countervailing duties is to offset the advantage afforded imported merchandise by a subsidy bestowed upon the manufacture, production or export of that merchandise."⁶⁵ Despite a different understanding of the object and purpose of the SCM Agreement more generally, the United States has confirmed that the "USDOC imposes countervailing duties in a change-in-ownership situation in order to *offset* the subsidization found to exist, just as is contemplated by Article 19.4 of the SCM Agreement."⁶⁶

⁶⁵ See Attachment 1.1, para. 95.

⁶⁶ See Attachment 2.6, para. 80. Initially, the United States was understood by the European Communities to argue that countervailing duties were intended to deter subsidization. At the aforementioned paragraph of the aforementioned submission, the United States clarified that this was not the case: "[t]he United States does not impose any additional duties in an effort to *deter* subsidization. That being said, the United States remains of the view that the mere existence of the disciplines found in the SCM Agreement inherently deters governments from subsidizing, and deterrence is indeed one of the purposes of the SCM Agreement."

6.57 Thus, consistent with the fundamental premise underlying Articles 19.1, 19.4, and 21.1 of the SCM Agreement, and Article VI:3 of the GATT 1994, and consistent with the object and purpose of countervailing duties envisaged by Part V of the SCM Agreement, we consider that a countervailing duty may only be imposed on an imported product if it is demonstrated that a (countervailable) subsidy was bestowed directly or indirectly on the manufacture, production or export⁶⁷ of that merchandise.⁶⁸ Since the United States imposed countervailing duties on 1994, 1995 and 1996 imports of leaded bars, we consider that, in light of the fundamental premise underlying Articles 19.1, 19.4, and 21.1 of the SCM Agreement, Article VI:3 of the GATT 1994, and the object and purpose of countervailing duties, the United States was effectively required, by virtue of Article 10, to demonstrate that a (countervailable) subsidy was bestowed directly or indirectly on the production of those imports. In order to determine whether the United States satisfied this requirement, it is necessary to examine the criteria for determining the existence of a "subsidy".

(iii) *The existence of "benefit"*

6.58 The criteria for determining the existence of a subsidy are set forth in Article 1 of the SCM Agreement. In short, Article 1.1 of the SCM Agreement provides that a subsidy exists if a "financial contribution" by a government or public body confers a "benefit". In challenging the USDOC findings that subsidies were bestowed on the production of leaded bars produced by UES and BSplc, the European Communities asserts that the "financial contributions" to BSC did not confer any "benefit" on UES or BSplc. It is the alleged absence of any finding of "benefit" to UES or BSplc which forms the basis for the European Communities' Article 10 claim.⁶⁹

6.59 With regard to the existence of "benefit", the United States has informed us that:

"the U.S. countervailing duty statute contains 'the irrebuttable presumption that nonrecurring subsidies benefit merchandise produced by the recipient over time,' without requiring any re-evaluation of those subsidies based on the use or effect of those subsidies or subsequent events in the marketplace.

The 'irrebuttable presumption' concept, as used in this context, is simply a reference to USDOC's normal allocation methodology. Under that methodology, which applies to so-called 'non-recurring' subsidies, (footnote omitted) USDOC allocates the measured subsidy benefit over time, i.e., to future production, pursuant to a standard declining balance formula that generates a net present value equal to the amount of the subsidy. The period of time selected for this allocation is based on the subsidy

Without taking any position on the alleged deterrent effect of the existence of the disciplines found in the SCM Agreement, we agree with the United States that countervailing duties should not be imposed in order to deter subsidization.

⁶⁷ As the present case concerns alleged production subsidies, we shall give no further consideration to the potential existence of subsidies bestowed directly or indirectly on manufacture or export.

⁶⁸ The United States appears to accept the premise that a countervailing duty may only be imposed if there is subsidization. In its first submission, the United States asserted that the USDOC "is authorized to impose duties on the showing that two statutory requirements are satisfied: "(1) **a subsidy is provided with respect to the manufacture, production, or sale of a class or kind of merchandise**; and (2) a domestic industry is injured by reason of imports into the United States of that class or kind of merchandise." (See Attachment 2.1, para. 58 (emphasis supplied).

⁶⁹ The European Communities is not disputing the existence of relevant "financial contributions". We agree fully with the European Communities in this regard, since a "financial contribution" does not have to be bestowed directly on a company in order to confer a "benefit" on that company. For example, one company may be found to "benefit" from a "financial contribution" conferred on another company. Furthermore, in certain circumstances an untied, non-recurring "financial contribution" bestowed directly on, and benefiting, a prior company may be deemed to have been bestowed indirectly on the successor company.

recipient's average useful life of assets. ... On the basis of these principles, USDOC affirmatively adopted the approach of treating non-recurring subsidies previously provided to the seller as potentially allocable to the production transferred to the purchaser in a privatization or other change-in-ownership transaction, such as when a government-owned company sells one of its productive units."⁷⁰

6.60 This approach was explained further by the USDOC in its 1993 *Leaded Bars* determination, where the USDOC examined whether "potentially allocable subsidies ... could have travelled with the productive unit" following a change in ownership.⁷¹

6.61 In its 1993 *Leaded Bars* determination, the USDOC "calculate[d] the benefit from prior subsidies which passed through from BSC to UES"⁷² when UES acquired BSC's Special Steels Business, the latter considered by the USDOC to be a "productive unit." The USDOC explained that "[w]hen a productive unit is sold by a company which continues to operate (such as BSC), the potentially allocable subsidies which could have travelled with the productive unit, but did not because they were accounted for as part of the purchase price, simply stay with the selling company. As such, they have not been extinguished. Instead, they continue to benefit the seller and our calculation represents the allocation of the subsidies between the seller and the productive unit it has sold." As a result, the USDOC imposed countervailing duties on imports of leaded bars produced by UES, based on that portion of "benefit" from prior subsidies that was deemed by the USDOC to have passed through to UES. With regard to the existence of "benefit" in particular, we understand the USDOC to have found that "benefit" conferred on BSC by pre-1985/86 "financial contributions" to BSC passed through in part to UES. This understanding is confirmed by the USDOC in its 1995 administrative review of its 1993 *Leaded Bars* duty order, in which it stated that "when UES was formed, a portion of the pre-1985/86 subsidies provided to BSC continued to benefit the production of UES."³⁶

6.62 In its 1995 administrative review, the USDOC "found that UES continues to benefit from subsidies received by BSC",⁷³ and continued to impose countervailing duties on 1994 imports of leaded bars produced by UES. The USDOC effectively made the same finding of "benefit" with respect to UES in its 1996 administrative review, and therefore continued to impose countervailing duties on 1995 imports of leaded bars produced by UES. In its 1996 administrative review, the USDOC also found that a portion of pre-1985/86 subsidies bestowed on BSC "travel[ed]" to BSplc/BSES.⁷⁴ Again, with regard to the existence of "benefit" in particular, we understand the USDOC to have found that the "benefit" conferred on BSC by pre-1985/86 "financial contributions" to BSC passed through to BSplc/BSES. As a result, the USDOC imposed countervailing duties on 1995 imports of leaded bars produced by BSplc/BSES. The USDOC effectively made the same

⁷⁰ See Attachment 2.1, paras. 43, 44 and 46.

⁷¹ *Remand Determination of US Department of Commerce on General Issues of Privatization, Certain Hot Rolled Lead and Bismuth Carbon Steel Products from the United Kingdom, 12 October 1993 (unpublished)*, page 5. We note that at page 6240 of its 27 January 1993 determination, the USDOC stated that "as [a subsidized] company disposes of its productive entities, these entities take a portion of the [subsidy] benefits with them when they 'travel to their new home'."

⁷² *Remand Determination of US Department of Commerce on General Issues of Privatization, Certain Hot Rolled Lead and Bismuth Carbon Steel Products from the United Kingdom, 12 October 1993 (unpublished)*, page 2.

⁷³ *Ibid.*

⁷⁴ 1996 administrative review, at p. 53308.

finding of "benefit" with respect to BSplc/BSES in its 1997 administrative review, and continued to impose countervailing duties on 1996 imports of leaded bars produced by BSplc/BSES.⁷⁵

6.63 Are the USDOC's findings on "benefit" sufficient to determine that subsidies were bestowed on the production by UES and BSplc/BSES respectively of leaded bars imported into the United States in 1994, 1995 and 1996? In our view, a proper interpretation of the term "benefit" provides the key for resolving this issue.

6.64 The term "benefit" was recently interpreted by the *Canada Aircraft* panel. That panel found that:

"... the ordinary meaning of "benefit" clearly encompasses some form of advantage. ... In order to determine whether a financial contribution (in the sense of Article 1.1(a)(i)) confers a "benefit", *i.e.*, an advantage, it is necessary to determine whether the financial contribution places the recipient in a more advantageous position than would have been the case but for the financial contribution. In our view, the only logical basis for determining the position the recipient would have been in absent the financial contribution is the market. Accordingly, a financial contribution will only confer a "benefit", *i.e.*, an advantage, if it is provided on terms that are more advantageous than those that would have been available to the recipient on the market."⁷⁶

6.65 The *Canada Aircraft* panel's interpretation of "benefit" was upheld by the Appellate Body. The Appellate Body stated that:

"A 'benefit' does not exist in the abstract, but must be received and enjoyed by a beneficiary or a recipient. Logically, a "benefit" can be said to arise only if a person, natural or legal, or a group of persons, has in fact received something. The term 'benefit', therefore, implies that there must be a recipient."

"We also believe that the word 'benefit', as used in Article 1.1(b), implies some kind of comparison. This must be so, for there can be no 'benefit' to the recipient unless the 'financial contribution' makes the recipient 'better off' than it would otherwise have been, absent that contribution. In our view, the marketplace provides an appropriate basis for comparison in determining whether a 'benefit' has been 'conferred', because the trade-distorting potential of a 'financial contribution' can be identified by determining whether the recipient has received a 'financial contribution' on terms more favourable than those available to the recipient in the market."⁷⁷

6.66 We agree with the approach of the panel and the Appellate Body in *Canada Aircraft*.⁷⁸ In our view, the existence or non-existence of "benefit" rests on whether the potential recipient or beneficiary, which "logically" must be a legal or natural person, or group of persons, has received a 'financial contribution' on terms more favourable than those available to the potential recipient or beneficiary in the market. Moreover, in the particular context of countervailing duties, we believe

⁷⁵ We note that the USDOC recently completed its 1998 administrative review of the 1993 *Leaded Bars* duty order (64 Fed. Reg., Number 154). The 1999 administrative review of the 1993 *Leaded Bars* duty order was initiated on 30 April 1999 (64 Fed. Reg., at p. 23269).

⁷⁶ *Canada Aircraft*, WT/DS70/R, adopted 20 August 1999, para. 9.112.

⁷⁷ *Canada Aircraft*, WT/DS70/AB/R, adopted 20 August 1999, paras. 154 and 157.

⁷⁸ We recall that, while adopted panel reports are not binding on subsequent panels, they do create "legitimate expectations among WTO Members, and therefore, should be taken into account where they are relevant to any dispute" (*Japan - Taxes on Alcoholic Beverages*, WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R, 4 October 1996, p. 14). We consider the same to be true of adopted Appellate Body reports.

that consideration should also be given to Article VI:3 of the GATT 1994, and footnote 36 to Article 10 of the SCM Agreement.

6.67 Article VI:3 of the GATT 1994 provides in relevant part:

"The term 'countervailing duty' shall be understood to mean a special duty levied for the purpose of offsetting any bounty or subsidy bestowed, directly, or indirectly, upon the manufacture, production or export of any merchandise."

6.68 Footnote 36 to Article 10 of the SCM Agreement provides that:

"The term 'countervailing duty' shall be understood to mean a special duty levied for the purpose of offsetting any subsidy bestowed directly or indirectly upon the manufacture, production or export of any merchandise, as provided for in paragraph 3 of Article VI of GATT 1994."

6.69 These provisions state that countervailing duties levied on imported products are intended to offset (countervailable) subsidies found to have been bestowed on *inter alia* the production of such imported products. The notion of "subsidy" comprises two elements: (1) "financial contribution, and (2) "benefit". As noted above, "benefit" is determined by reference to the terms on which a "financial contribution" would have been made available to a particular legal or natural person, or group of persons, in the market. Full consideration of Article VI:3 of the GATT 1994 and footnote 36 to Article 10 of the SCM Agreement leads us to conclude that, in the context of countervailing duty investigations, the existence of a "benefit" should be determined by reference to the market terms on which a "financial contribution" bestowed directly or indirectly upon the production of any merchandise would have been made available to the producer of that merchandise. Thus, in order to determine whether any subsidy was bestowed on the production by UES and BSplc/BSES respectively of leaded bars imported into the United States in 1994, 1995 and 1996, it is necessary to determine whether there was any "benefit" to UES and BSplc respectively (*i.e.*, the producers of the imported leaded bars at issue).

6.70 We recall the US argument that the USDOC was not required to find "benefit" to UES and BSplc/BSES specifically, because BSC, UES and BSplc/BSES are not "different companies", since the operations of UES and BSplc are "essentially the same as"⁷⁹ the operations of BSC. We, however, are in no doubt that, for the purpose of determining "benefit", a clear distinction should be drawn between BSC, and UES and BSplc/BSES respectively. This is because the changes in ownership leading to the creation of UES and BSplc/BSES involved the payment of consideration for the productive assets etc. acquired by those entities from BSC. Since the finding of "benefit" to BSC was effectively based on BSC acquiring those productive assets etc. for free,⁸⁰ the fact that consideration is provided for those productive assets etc. by UES and BSplc/BSES, or the owners thereof, must raise the possibility that the original "benefit" determination in respect of BSC is no longer valid⁸¹ for UES and BSplc/BSES respectively. For this reason, we consider that the changes in ownership leading to the creation of UES and BSplc/BSES should have caused the USDOC to examine whether the

⁷⁹ See Attachment 2.8, para. 3.

⁸⁰ The term "benefit" effectively represents the portion of a "financial contribution" that, by reference to a market benchmark, the recipient gets for "free". This is the portion of a "financial contribution" that, by reference to a market benchmark, the recipient has not "paid for". In the case of "benefit" conferred by untied, non-recurring "financial contributions", the United States presumes that such "benefit" is used to benefit future production through investment in productive assets. In this sense, the beneficiary of untied, non-recurring "financial contributions" is deemed to have acquired productive assets for "free". The European Communities has not disputed this approach in respect of "benefit" to BSC.

⁸¹ The original "benefit" determination may not remain valid either because there is no longer any "benefit" conferred on the successor company, or because the amount of "benefit" conferred on the successor company is less than that conferred on the prior company.

production of leaded bars by UES and BSplc/BSES respectively, and not BSC, was subsidized. In particular, the USDOC should have examined the continued existence of "benefit" already deemed to have been conferred by the pre-1985/86 "financial contributions" to BSC, and it should have done so from the perspective of UES and BSplc/BSES respectively, and not BSC.

6.71 The United States has argued that there is no need to determine "benefit" in respect of successor companies, because there is an "irrebuttable presumption" that "benefit" continues to flow from untied, non-recurring "financial contributions", even after changes in ownership. The European Communities has argued that any such presumption can never be "irrebuttable". We agree with the European Communities in this regard. We consider that the presumption of "benefit" flowing from untied, non-recurring "financial contributions" is rebutted in the circumstances surrounding the changes in ownership leading to the creation of UES and BSplc/BSES respectively. In such circumstances, the continued existence of "benefit" to UES and BSplc/BSES respectively must be demonstrated.

6.72 This conclusion, which is founded on a proper interpretation of Article 1.1(b) of the ASCM, is necessarily at odds with the US argument that Article 1.1(b) of the ASCM only requires "benefit" to be established once, as of the time of bestowal of the "financial contribution". The United States based that argument on the fact that Article 1.1 describes the relevant "financial contribution" and "benefit" in the present tense. According to the United States, "the ordinary meaning arising from the use of the present tense to describe both elements is that Article 1.1 is concerned with, and requires the identification of, the 'benefit' that is conferred at the time that the government provides the 'financial contribution'". The United States supports its interpretation of Article 1.1. by reference to the four examples of "financial contributions" contained in Article 14. According to the United States, "[if] there is a general rule that can be derived from the text of Article 14, it is that the investigating authority should look to the time of the subsidy bestowal for the measurement of the subsidy benefit". On the basis of these interpretations of Articles 1.1 and 14, the United States concludes that "the SCM Agreement assumes that subsidies satisfying the requirements of Article 1.1 benefit the merchandise produced as a result of those subsidies, regardless of who owns the company or the productive assets used to produce the merchandise and regardless of who purchases the merchandise".⁸²

6.73 We are not convinced by the US interpretation of the use of the present tense in Article 1.1 of the SCM Agreement. In our view, the use of the present tense simply means that the requisite "financial contribution" and "benefit" must exist during the relevant period of investigation or review. The use of the present tense does not speak to the issue of whether or not the existence of "benefit" should be determined at the time of bestowal of the "financial contribution", or whether or not there is any need for any subsequent review of the original determination of "financial contribution" and / or "benefit".⁸³ It simply means that when an investigation or review takes place, the investigating authority must establish the existence of a "financial contribution" and "benefit" during the relevant period of investigation or review. Only then will that investigating authority be able to conclude, to the satisfaction of Article 1.1 (and Article 21), that there **is** a "financial contribution", and that a "benefit" **is** thereby conferred.

6.74 In respect of Article 14 of the SCM Agreement, the United States asserts that "benefit" should be determined by reference to the market practice prevailing **at the time that** each of the four types of "financial contribution" identified in that provision is bestowed. We do not share the United States' temporal interpretation of Article 14. Certainly, this interpretation is not consistent with the ordinary meaning of the text of that provision. Nothing in the text of Article 14 restricts the analysis envisaged in sub-paragraphs (a) – (d) of that provision to the time at which the relevant "financial contribution"

⁸² See Attachment 2.1, para. 133.

⁸³ The need for a review is determined by provisions such as Article 21.1, 21.2 and 21.3 of the SCM Agreement.

was bestowed. In our view, Article 14 simply does what it says it does: it provides guidelines to be respected by Members whenever they calculate "benefit". Those guidelines apply whether "benefit" is calculated at the time of bestowal, or at some subsequent time. Article 14 does not, therefore, guide Members as to when that calculation of "benefit" should take place.

6.75 The United States has also relied heavily on Article 27.13 of the SCM Agreement to reject the notion that a subsidy "benefit" must be re-identified or re-measured at some time subsequent to the initial bestowal of the relevant "financial contribution". The basis for the US argument is that Article 27.13 "contemplates a general rule that previously bestowed subsidies remain actionable and are allocable to the production of the surviving privatized company".⁸⁴

6.76 We note that the scope of Article 27.13 is restricted to the application of Part III of the SCM Agreement vis-à-vis certain subsidies "granted within and directly linked to a privatization programme of a developing country Member". Given that the scope of Article 27.13 is construed in such narrow terms, we hesitate before relying on that provision as context to draw conclusions regarding the conferral of "benefit" by "financial contributions"⁸⁵ that, as in this case, were manifestly not "granted within and directly linked to" privatization programmes of a developing Member.⁸⁶ We are particularly hesitant given that the conclusion we are asked to draw – namely that there is no requirement under Part V of the SCM Agreement for "benefit" to be re-identified or re-measured at some time subsequent to the initial bestowal of the "financial contribution" -- is contrary to what we consider to be the proper interpretation of the term "benefit". In any event, we note that our interpretation of "benefit" would not necessarily render pre-change in ownership "financial contributions" non-actionable: it simply means that, with regard to certain changes in ownership, pre-change in ownership "financial contributions" will only remain actionable if a valid, post-change in ownership, "benefit" determination has been made.⁸⁷

6.77 In order to further explain why it was not necessary for the USDOC to revisit its original "benefit" determination, the United States argued that a determination of "benefit" is not specific to a particular legal or natural person, so that there was therefore no obligation on the USDOC to find "benefit" to UES and BSplc/BSES specifically. According to the United States, "in the context of the SCM Agreement, there must be, as a practical matter, some entity or individual that receives the Article 1.1 financial contribution. However, this by itself does not mean that the Article 1.1 "benefit" is to that recipient entity or individual. In fact, Article 1.1 itself is silent regarding who or what is the beneficiary of a subsidy. Article VI:3 of GATT 1994 and Article 10 of the SCM Agreement ... provide that the purpose of imposing countervailing duties is to offset subsidies bestowed on the manufacture, production or export of the merchandise. In other words, these provisions contemplate that a subsidy benefits the manufacture, production or export of merchandise."⁸⁸

6.78 In light of our interpretation of the term "benefit", and with reference to the statement by the Appellate Body that "[a] 'benefit' does not exist in the abstract, but must be received and enjoyed by a beneficiary or a recipient", we disagree that "benefit" is conferred on the manufacture, production or export of merchandise, irrespective and without consideration of the person(s) manufacturing,

⁸⁴ See Attachment 2.1, para. 156.

⁸⁵ We also agree with the European Communities that Article 27.13 pre-supposes the existence of a "subsidy", and would therefore provide little guidance in the context of determining whether or not a "subsidy" or, more particularly, a "benefit", actually exists.

⁸⁶ The United States asks the Panel to conclude that Article 27.13 refers to pre-privatization subsidies (See Attachment 2.5, para. 61). To the extent that a pre-privatization subsidy is "granted within and directly linked to" a privatization programme of a developing country Member, we would agree with the United States. However, consistent with the ordinary meaning of the text of Article 27.13, pre-privatization subsidies that are not "granted within and directly linked to" a privatization programme, such as in this case, would clearly fall outside the scope of that provision.

⁸⁷ See para. 6.81 below.

⁸⁸ See Attachment 2.8, para. 43.

producing, or exporting, the product. In particular, we disagree with the US assertion that "Article 1.1 itself is silent regarding who or what is the beneficiary of a subsidy."⁸⁹ In our view, the US approach to determining "benefit" would be abstract in the extreme, since it is impossible to determine whether any "financial contribution" bestowed on manufacture, production or export *per se* is or was made on terms more favourable than those which manufacture, production or export *per se* could have obtained in the market.⁹⁰

6.79 Thus, we are not convinced by the US arguments that, following the relevant changes in ownership, it was not incumbent on the USDOC to demonstrate the continued existence of "benefit" from the perspective of UES and BSplc/BSES, subsequent to the time of bestowal of the relevant "financial contributions".

(iv) *"Benefit" to UES and BSplc/BSES*

6.80 Consistent with the proper interpretation of the term "benefit", any finding of "benefit" to UES or BSplc/BSES, the producers at issue, must be based on market criteria. In particular, it is necessary to determine whether any "financial contribution" was bestowed on UES or BSplc/BSES on terms more favourable than UES or BSplc/BSES respectively could have obtained in the market.

6.81 We recall that BSC's leaded bar assets were spun-off to UES in 1986. The USDOC found that the transaction "represented an arm's length transaction in which BSC acted consistently with commercial considerations".⁹¹ The United States has not denied that the BSC spin-off was negotiated for fair market value. Furthermore, we recall that BSplc was fully privatized in December 1988. The USDOC found that the privatization of BSplc "was at arm's length, for fair market value and consistent with commercial considerations."⁹² Thus, fair market value was paid for all productive assets, goodwill etc. employed by UES and BSplc/BSES in the production of leaded bars imported into the United States in 1994, 1995 and 1996. In these circumstances, we fail to see how pre-1985/86 "financial contributions" bestowed on BSC could subsequently be considered to confer a "benefit" on UES and BSplc/BSES during the relevant periods of review.⁹³ This does not mean that the pre-1985/86 "financial contributions" bestowed on BSC are necessarily irrelevant for the purpose of determining subsidization of the production of leaded bars by UES and BSplc/BSES. As noted above,⁹⁴ we consider that an untied, non-recurring "financial contribution" bestowed on a prior company may constitute a "financial contribution" bestowed indirectly on a successor company. This is because the untied, non-recurring "financial contribution" will be deemed to have been invested in the productive assets etc. of that company. Thus, when those productive assets etc. are acquired by the successor company, the successor company indirectly acquires the "financial contribution" embodied in those productive assets etc. Assuming "financial contributions" bestowed directly on

⁸⁹ See Attachment 2.8, para. 43.

⁹⁰ In the case of equity infusions, for example, the existence of "benefit" is normally determined by reference to the equityworthiness of the firm into which the capital is injected. A "benefit" will be conferred if that firm is not equityworthy. A similar approach would not be possible if "benefit" were determined from the perspective of the firm's manufacture, production, or export *per se*, since it would obviously be impossible to determine the equityworthiness of the firm's manufacture, production, or export, *per se*.

⁹¹ 1993 *Leaded Bars* determination, at p. 6244.

⁹² *Remand Determination of US Department of Commerce on General Issues of Privatization, Certain Hot Rolled Lead and Bismuth Carbon Steel Products from the United Kingdom, 12 October 1993 (unpublished)*.

⁹³ In *Stainless Steel Sheet and Strip in Coils from France*, the USDOC investigated whether the sale of assets to a government constituted a countervailable subsidy. The USDOC "found no evidence to indicate that the transaction was anything other than an arms-length (*sic*) transaction for full market value. Accordingly, [the USDOC] determine[d] that this program does not constitute a countervailable subsidy ..." Although the investigation of that transaction did not concern the application of the USDOC's change-in-ownership methodology, we nevertheless find it instructive that the USDOC found that the sale of assets did not constitute a subsidy precisely because the sale was an arm's length transaction for full market value.

⁹⁴ See note 69 above.

BSC could be deemed to have been bestowed indirectly on UES and BSplc/BSES, this fact alone would not mean that pre-1985/86, untied, non-recurring "financial contributions" bestowed on BSC necessarily confer any "benefit" on UES or BSplc/BSES. This would only be the case if those "financial contributions" were found to have been bestowed indirectly (*i.e.*, through the relevant change-in-ownership transactions) on UES and BSplc/BSES respectively on terms more favourable than UES and BSplc/BSES respectively could have obtained in the market. We consider that such a finding would only be possible if fair market value was not paid for all productive assets etc. acquired by UES and BSplc/BSES respectively from BSC. Since fair market value was paid for all such productive assets etc., we do not consider that any untied, non-recurring "financial contribution" bestowed indirectly on UES and BSplc/BSES could be deemed to confer a "benefit" on those entities.⁹⁵

6.82 In our view, it is irrelevant that the aforementioned fair market value was paid by the (new) owners of UES and BSplc/BSES respectively, rather than those companies themselves. Any approach requiring that fair market value be paid by the company itself, rather than its owners, would elevate form over substance. In the context of privatizations negotiated at arm's length, for fair market value, and consistent with commercial principles, the distinction between a company and its owners is redundant for the purpose of establishing "benefit". Following privatization at arm's length, for fair market value, and consistent with commercial principles, the owners of the privatized company will be profit-maximizers, set on obtaining a market return on the entirety of their investment in the privatized company. Ultimately, therefore, the owners' investment in the privatized company will be recouped through the privatized company providing its owners a market return on the full amount of their investment. In such circumstances, it would be misleading in the extreme to suggest that the price paid by the owners of the privatized company is not ultimately paid by the privatized company itself.

6.83 We note that the USDOC adopted a similar approach to the distinction between a company and its owners in the context of privatization. In 1993, certain petitioners argued before the USDOC that a subsidy should only be considered repaid in the context of privatization if the monies paid to the government -- in the form of the purchase price paid for the privatized company -- came from that company's own funds, and not those of the new owners of that company. The USDOC rejected that argument in the following terms:

"Merely because a company has been incorporated to protect its owners from the company's legal liabilities or for beneficial tax and accounting purposes (or both), it does not follow that the financial condition of the owners is irrelevant to the financial position of the firm. The form in which new owners purchase the government company creates no appreciable difference in how that company will be operated overall. The fact that the owners are shareholders and raise capital to purchase the government-owned company through new share issuings, rather than the company itself taking on debt, does not mean that the owners can be indifferent to the profit margin the company generates, as petitioners assert.

Rather, in the real-world marketplace, the owner-shareholders' expectations of a return on their investment cannot be separated from the profitability of the newly

⁹⁵ We note the US reference to "injurious trade distortions that result from government subsidization even after the ownership of the subsidy recipient/beneficiary has changed hands in an arm's length, fair market value transaction" (See Attachment 2.1, para. 150). We do not need to take any position on whether or not any such "injurious trade distortions" persist after a fair market value change-in-ownership negotiated at arm's length, since the existence of "injurious trade distortions" is not relevant to a proper determination of the existence of "benefit" within the meaning of Article 1.1(b) of the SCM Agreement. The existence of "benefit" is determined simply by reference to the terms on which a "financial contribution" could be obtained by the recipient on the market.

privatized company. Privatized companies (and their assets) are now owned and controlled by private parties who are profit-maximizers. Unlike the former company, which did not need to earn a return on capital when owned and controlled by the government (i.e., when the government is 100 percent owner there is no necessity of paying dividends to itself), the privatized firm now faces the same capital market as its competitors. ... Put another way, the privatized company now has an obligation to provide to its private owners a market return on the company's full value. The owners will seek to extract a rate of return from their company at least equal to that of alternative investments of similar risk. There is, then, no appreciable difference, as reflected in the marketplace, between the profit-making ability of the company and the owners' realization of a profitable return on their investment in that firm.

To adopt the petitioners' rationale that only a full repayment by the new company can extinguish past subsidies would create a test that would elevate form over substance and produce incentives for foreign governments merely to alter the form of the privatization to satisfy this artificial distinction. If the Department were to ratify such a test, owners could simply lend the company the money to repay at least some portion of the past subsidies, taking the capital out as loan payments, rather than dividends. ... Therefore, a private party purchasing all or part of a government-owned company (e.g., a productive unit) can repay prior subsidies on behalf of the company as part or all of the sales price. Therefore, to the extent that a portion of the price paid for a privatized company can reasonably be attributed to prior subsidies, that portion of those subsidies will be extinguished."⁹⁶

6.84 In commenting on the above statements by the USDOC, the United States has not offered any reason why a similar approach to the "non-distinction" between a company and its owners should not be taken in the present case. Whereas the United States indicated that "there are still other contexts where the distinction [between a company and its owners] is relevant", in doing so it only referred to the treatment of tax credits on dividends (which were apparently found by the USDOC to "benefit owners but not the company or the merchandise produced, manufactured, or exported by the company")⁹⁷. The treatment of tax credits on dividends is manifestly not relevant to the present dispute.

(v) *Summary and conclusion*

6.85 In light of the above, we do not consider that the USDOC applied a correct interpretation of the Article 1.1(b) term "benefit" when finding that the "benefit" conferred on BSC by pre-1985/86 "financial contributions" by the United Kingdom Government to BSC passed through to, and continued to "benefit", UES and BSplc/BSES. For this reason, the USDOC effectively failed to establish "benefit" to UES and BSplc/BSES. Accordingly, the USDOC failed to demonstrate that any subsidy was bestowed directly or indirectly on the production, by UES and BSplc/BSES respectively, of leaded bars imported into the United States during 1994, 1995 and 1996.

6.86 We recall that, consistent with Articles 19.1, 19.4 and 21.2 of the SCM Agreement, Article VI:3 of the GATT 1994, and the object and purpose of countervailing duties as expressed in footnote 36 to Article 10, no countervailing duty may be imposed on an imported product if no (countervailable) subsidy has been bestowed directly or indirectly on *inter alia* the production of that imported product. As a result of the three administrative reviews at issue, the United States imposed countervailing duties on 1994, 1995 and 1996 imports of leaded bars, without showing that any

⁹⁶ Sections of the *General Issues Appendix*, appended to *Final Affirmative Countervailing Duty Determination; Certain Steel Products from Austria*, 58 Fed. Reg. 37217, at 37262.

⁹⁷ See Attachment 2.8, para. 23.

subsidy had been bestowed directly or indirectly on the production of those imports. In principle, therefore, the countervailing duties imposed as a result of the USDOC's 1995, 1996 and 1997 administrative reviews are not in accordance with the premise underlying Articles 19.1, 19.4 and 21.2 of the SCM Agreement, Article VI:3 of the GATT 1994, and the object and purpose of countervailing duties as expressed in footnote 36 to Article 10. For this reason, the imposition of countervailing duties as a result of the USDOC's 1995, 1996 and 1997 administrative reviews constitutes a violation of the US obligation under Article 10 of the SCM Agreement to "take all necessary steps" to ensure that its countervailing duties are "in accordance with" with Article VI:3 of the GATT 1994 and the terms of the SCM Agreement. Accordingly, we conclude that the countervailing duties imposed as a result of the USDOC's 1995, 1996 and 1997 administrative reviews are inconsistent with Article 10 of the SCM Agreement.

3. The EC Article 19.4 claim

(a) Arguments of the parties

6.87 We set forth below our understanding of the principal arguments advanced by the parties.

(ii) The European Communities

6.88 The European Communities submits that no countervailing duties should have been levied on imports of leaded bars produced by UES or BSplc/BSES because those imports were not subsidized. By imposing countervailing duties on imports that were not subsidized, the European Communities asserts that the United States levied countervailing duties "in excess of the amount of the subsidy found to exist" in respect of those imports, contrary to Article 19.4 of the SCM Agreement.

6.89 According to the European Communities, any Article 19.4 determination of the "amount of subsidy" necessarily requires a measurement of the amount of "benefit" conferred. This requires comparing the terms of the financial contribution at issue with those that would have prevailed in the marketplace absent the subsidy. The European Communities argues that, by virtue of Article 14 of the SCM Agreement, this comparison must be made by reference to a market benchmark. Pursuant to the requisite analysis under Article 14 of the SCM Agreement, the European Communities submits that a private purchaser of a company or productive assets thereof at fair market value obtains no benefit from subsidies previously granted to the seller. Any benefit stream established for the purposes of allocating the benefit granted to the previous owner ceases to apply. Consistent with the market benchmark established in Article 14 of the SCM Agreement, the price paid in an arm's-length transaction is equal to the fair market value. Hence, for the purposes of Article 19.4 of the SCM Agreement, the "amount of the subsidy" is zero, and there can be no "subsidization per unit" of the product under investigation.

(iii) The United States

6.90 The United States submits that the USDOC administrative reviews at issue were consistent with Article 19.4 of the SCM Agreement. According to the United States, the SCM Agreement only directs (in Article 1) that the investigating authority identify the existence of a "subsidy," including a subsidy "benefit," as of the time of the subsidy bestowal and (in Article 14) that the investigating authority measure the identified subsidy "benefit" through certain market-rate benchmarks as of the time of the subsidy bestowal.

(b) Evaluation by the Panel

6.91 The European Communities also challenges the consistency of the three administrative reviews at issue with Article 19.4 of the SCM Agreement. The European Communities' Article 19.4 claim repeats many of the arguments advanced in support of its Article 10 claim. We note that a

panel "need only address those claims which must be addressed in order to resolve the matter in issue in the dispute."⁹⁸ Since we have already found that the three administrative reviews at issue, and the countervailing duties to which they gave rise, are inconsistent with Article 10 of the SCM Agreement, we do not consider it necessary to address the European Communities' Article 19.4 claim.

VII. CONCLUSION

7.1 For the above reasons, we conclude that by imposing countervailing duties on 1994, 1995 and 1996 imports of leaded bars produced by UES and BSplc/BSES respectively, the United States violated Article 10 of the SCM Agreement.

7.2 In light of Article 3.8 of the DSU, we therefore conclude that there is nullification or impairment of the benefits accruing to the complainant under the GATT 1994.

VIII. RECOMMENDATION

8.1 Consistent with the first sentence of Article 19.1 of the DSU, we recommend that the United States bring the aforementioned measures into conformity with the SCM Agreement.

8.2 By virtue of the second sentence of Article 19.1 of the DSU, we may "suggest" ways in which the United States could implement our recommendation. The European Communities asked the Panel "to suggest that the United States amend its countervailing duty laws to recognize the principle that a privatization at market price extinguishes subsidies." The European Communities has not identified any provision of US law that **requires** the imposition of countervailing duties in the circumstances of the present dispute. Thus, we are unable to make the suggestion requested by the European Communities. However, we note that the United States has continued to apply its change-in-ownership methodology during the course of the present dispute.⁹⁹ We would suggest that the United States takes all appropriate steps, including a revision of its administrative practices, to prevent the aforementioned violation of Article 10 of the SCM Agreement from arising in the future.

⁹⁸ *United States - Measures Affecting Imports of Woven Wool Shirts and Blouses from India*, WT/DS33/AB/R, adopted 23 May 1997, p. 19.

⁹⁹ The USDOC recently published the results of its 1998 administrative review of the 1992 *Leaded Bars* determination (see 64 Fed. Reg., Number 154).