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December 29, 2004

Catherine A. Novelli
Assistant United States Trade Representative
for Europe and the Mediterranean
Office of the U.S. Trade Representative
600 17th Street, N.W.
Washington, DC 20508

RE: Public Dialogue on Enhancing the Transatlantic Economic Relationship

Dear Ms. Novelli:

On behalf of United States Steel Corporation ("U.S. Steel"), we hereby submit U.S. Steel's comments on ways to enhance the transatlantic economic relationship between the United States and the European Union. Please contact us if you have any questions regarding this submission.

Respectfully submitted,

Robert E. Lighthizer
John J. Mangan
James C. Hecht

Comments of United States Steel Corporation Re: Strengthening the EU-US Economic Partnership

On behalf of United States Steel Corporation ("U.S. Steel"),[1] we are pleased to provide the following comments for consideration in connection with the request from the Office of the U.S. Trade Representative ("USTR") for ideas and proposals to further strengthen the EU-U.S. economic partnership.[2]

U.S. Steel is fully supportive of efforts as part of the Transatlantic Economic Partnership to improve business and trade relations between the United States and Europe. Given the many similarities in the economies and regulatory environments in the U.S. and the EU, as well as the many common challenges faced by businesses (and particularly the manufacturing sector) in these respective markets, there are obvious and important ways in which the economic interests of the EU and U.S. overlap. We would urge consideration of the following issues to enhance the U.S.-EU relationship.

- **Border Adjustability of Taxes.** The fundamental disparity under international rules in the treatment of so-called "direct" (e.g., income) taxes and "indirect" (e.g. value-added, or VAT) taxes is a major impediment and irritant to U.S. and many European businesses. These rules allow VAT-type taxes to be "adjusted" at the border – i.e., imposed on imports and rebated on exports – while denying similar treatment to income taxes, such as those relied upon in the United States. This disparity has served as a serious competitive handicap to U.S. businesses, while burdening EU manufacturers sourcing inputs from the United States. The United States and the EU should work together to find a fair and equitable resolution to this problem -- which will likely require a cooperative approach to alter existing World Trade Organization ("WTO") rules.

- **European Regulation and Tax Harmonization Efforts.** It is well-documented that economic operators in Europe are burdened by excessive state interference in the economy. Rather than complementing market forces, too many government initiatives impose burdens on European economic operators that their competitors in other parts of the world do not face – affecting the competitiveness of European businesses and impacting their economic relationship with their major trading partner, the United States. U.S. Steel's Slovakian subsidiary, U.S. Steel Kosice ("USSK"), competes not only at the Slovak or even the EU level, but rather worldwide. U.S. Steel and USSK have noted with increasing concern various

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1 U.S. Steel is a global steel maker with 26.8 million tons of steelmaking capacity in the United States, Slovakia, and Serbia.

2 *See* USTR, "Public Dialogue on Enhancing the Transatlantic Economic Relationship," 69 Fed. Reg. 51139 (Aug. 17, 2004); USTR, "Update on Public Dialogue on Enhancing the Transatlantic Economic Relationship," 69 Fed. Reg. 65018 (Nov. 9, 2004).

initiatives emanating from the European Communities that adversely affect USSK in relation to its competitors. Two of these recent initiatives are illustrative of the problem. First, the recent European Commission action with respect to Slovakia's National Allocation Plan for CO2 emissions could critically impact USSK's future business prospects and, on a national scale, critically impact overall economic development in the country of Slovakia. Unless this EC action is corrected through negotiation or as a result of legal proceedings, the likely adverse consequences to businesses operating in Slovakia are plain to see. Second, we would note with concern the on-going calls in certain parts of the European Community for tax harmonization. The development and growth of the Slovak economy is one of the few success stories in Europe in recent years, based in no small part on the Slovak Government's pro-growth agenda, as witnessed, among other things, by a relatively business-favorable tax regime. Political leaders of stagnant European economies, however, continue to call for European-wide tax harmonization in an apparent effort to export their economic malaise. As with over-regulation, the adverse effects of misguided tax harmonization would hinder economic development and reduce the overall level of the general public welfare in the European Community – something that can only detract from the vitality and strength of the EU-U.S. economic relationship.

- **WTO Dispute Settlement.** A third priority issue for the U.S.-EU relationship is to deal with the increasingly severe and litigious nature of their trade disputes with each other. A strong argument can be made that the very combative and litigious approach fostered by "binding" WTO dispute settlement has not served either party well – bringing all the negatives of litigiousness, cost, and resentment, without any of the promised benefits in terms of certain and timely resolution of disputes. Returning to a more "diplomatic" model for resolving disputes (at least between the U.S. and the EU) would properly reflect the give-and-take compromise necessary for solving basic economic differences – while enhancing respect and support for the world trading system and the WTO, as WTO officials and bodies would no longer be called upon to resolve fundamental economic disputes between sovereign nations. The United States and the EU should consider a mutual commitment to refrain from WTO litigation against one another, or even a more formal moratorium.

- **Currency Manipulation.** Currency manipulation is another area where U.S. and EU interests should be largely in harmony and where cooperative action could go a long way toward resolving the problem. Massive intervention by China, Japan, and other East Asian economies has acted to keep foreign currencies at artificially high levels vis-à-vis the dollar and the euro – making U.S. and EU exports to these countries significantly more expensive (in local currencies), while imports into the U.S. and EU are far less expensive (again in local currencies) than would be the market would dictate. Government officials should consider concrete steps to address this issue. Joint representations intended to discourage currency manipulation abroad should be a minimum. U.S. and EU officials should also consider whether there may be existing legal avenues to address persistent currency manipulation – e.g., whether such manipulation may constitute an illegal export subsidy under WTO rules. To the extent current rules are deemed inadequate to deter this activity, consideration should be given to changes that would allow an effective and timely remedy.

- **Common Challenges from the Developing World and Non-Market Economies.** As advanced, market-based industrial economies – with high labor rates, high wages, and strong regulatory regimes – the United States and the EU clearly have common interests and concerns in terms of the sustainability of manufacturing and core businesses in the face of competition from less developed economies and non-market economies (such as China). Too often, areas of mutual interest in trade negotiations and other fora have been overlooked as the U.S. and the EU tried to "isolate" each other as a means to gain leverage in U.S.-EU disputes. Given the increasingly fundamental challenges facing core manufacturers in *both* the U.S. and the EU, greater cooperation in defending industries in high-wage, advanced Western economies is a necessity. U.S. and EU officials should consider the creation of a working group, with input from industries and other core constituencies, to focus the transatlantic partnership on common challenges to basic manufacturing in Europe and the United States. Topics to consider should include: (i) establishing, where possible, a common approach to the demands of developing countries for "special and differential treatment" in the context of WTO and other international trade negotiations; (ii) reexamining means to address the lack of basic regulatory standards (including labor, environmental, intellectual property, etc.) in many areas of the world outside the U.S. and the EU; and (iii) working to identify and address foreign trade-distorting practices affecting U.S. and EU manufacturing (e.g., closed markets, subsidies, anti-trust issues, etc.).

- **Defense and Enforcement of Fair Trade Laws.** Ensuring that strong and effective laws against unfair trade – particularly antidumping and countervailing duty ("AD/CVD") laws – remain available to U.S. and EU producers and workers should be a key component of the transatlantic partnership. Given their relatively open markets, the United States and the EU have relied on WTO-sanctioned AD/CVD remedies to ensure that trade in their countries is characterized by market forces. Proposals to weaken or eliminate existing disciplines against such practices is literally the top priority of a number of countries in ongoing international negotiations – including those countries that have most often been found guilty of unfair trade. U.S. and EU officials should work together to ensure that unfair trade disciplines are not undermined or weakened in ongoing international talks – including the WTO Doha Round talks, OECD steel negotiations, and other negotiations.

- **Labor Mobility.** Visa backlogs and other issues relating to labor mobility are causing material impact on businesses on both sides of the Atlantic – resulting in increased costs and lost revenue, slowing transactions, and hampering opportunities for economic expansion and growth. The overwhelming flow of persons in the transatlantic partnership necessitates the consideration of special visa consideration for business travelers, either through expedited processing or specialized visas. Governments should recognize that establishing clear, expected (and preferably expedited) procedures for business travelers – consistent with security concerns and requirements – is critical in allowing businesses to assess time and cost burdens, and manage expectations regarding time needed for visa processing for their staffs.

- **Improving Government/Business Communications.** While existing government-to-government dialogues are critical to efforts to strengthen the transatlantic relationship, a primary goal going forward should be greater integration of private sector participants and resources into the dialogue. To date, private sector participation and cooperation in the transatlantic dialogue has been ad hoc and intermittent. Lacking clear involvement with governmental channels, these efforts have been hindered by difficulty in obtaining commitments of resources, attention, and time needed to develop clear, actionable proposals. A clear expression of the need for greater private sector participation should be a priority in Washington and Brussels – along with a commitment to reach out to private sector groups and incorporate proposals in the ongoing transatlantic initiative. Through this dialogue, meeting regularly and constructively, governments can become attuned to growing obstacles before they develop into large-scale conflicts.

U.S. Steel appreciates the opportunity to provide these comments regarding ways to strengthen the U.S.-EU economic relationship and would be pleased to provide additional materials, as needed, with regard to the issues discussed above.