

Background: Why is the Bill Needed?

FSC-ETI is a tax benefit for U.S. companies that do business worldwide. It provides these companies with an income tax exclusion for their exports. Despite common perceptions, very few manufacturers and businesses benefit from FSC-ETI.

According to the most recent data available:

- ⇒ Only 1,886 companies (0.04 percent of all companies) receive any FSC-ETI benefits.
- ⇒ Only 0.5 percent of U.S. manufacturers benefit from FSC-ETI.
- ⇒ Eighty-seven percent of FSC-ETI benefits go to only 188 U.S. companies.

The World Trade Organization (WTO) has consistently ruled that the FSC-ETI export regime is inconsistent with our trade obligations. As a result, the European Union (EU) threatened to impose sanctions on U.S. businesses and farmers if the FSC-ETI regime was not repealed.

However, many FSC-ETI beneficiaries and Members of Congress did not believe that the EU would ever make good on its threat to retaliate. As a result, Congress did not act to repeal the FSC-ETI regime, despite repeated warnings from the EU.

On March 1, 2004, the EU followed through on its threat and began imposing sanctions. The sanctions are targeted to some of the most sensitive U.S. industries, such as steel, agriculture, livestock, wood, jewelry, appliances, and electronics. Sanctions currently stand at 8 percent and will increase by 1 percentage point each month (up to a maximum of 17 percent) until FSC-ETI is repealed. The EU is authorized to impose up to \$4 billion of sanctions annually against American products.

EU sanctions have increased the price of U.S. exports, making U.S. goods more expensive overseas. The drop in the demand for U.S. goods is hurting U.S. businesses and making it more difficult for employers to retain workers or hire new ones. Many small businesses may have to shut down by the end of the year if sanctions are not removed. They simply cannot stay in business if their European market continues to shrink.

The EU has indicated that it will end sanctions if Congress acts to expeditiously repeal the FSC-ETI regime. The Senate has passed S. 1637, which repeals FSC-ETI over three years. The Administration has indicated that repealing FSC-ETI is a priority.