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Discussion

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Discussion After the Speeches of Richard O. Cunningham and Richard S. Gottlieb

QUESTION, Professor King: I have a couple questions for Richard Cunningham.

In terms of the reaction of other nations to our exchange rate changes. It was said that in each case the foreign countries tried to maintain a position in the market. In terms of this experience can we learn anything for future reference? Are some of these tied into the financing of national plans? Do we need a national plan, in terms of a national economic blueprint of our future, and if so, is it feasible?

ANSWER, Mr. Cunningham: The conclusion that I draw from it is that, first, you cannot blindly rely on exchange rates to do the work that has been traditionally expected of them unless you are prepared either to wait much longer for them to be effective, accepting much more uncertainty as their effectiveness, or you are very serious about combating responses by foreign governments and businesses. There have been proposals knocked about in the United States to try to use the anti-dumping law more effectively, or as I would say, more belligerently. Japan is the most clear example of that as when the U.S. Secretary of Commerce hopped on a plane, flew over to Japan and said, "You're all dumping, and you better get your prices up or we're going to lower the boom on you." This statement lost some of its effect when he was reprimanded by others in the administration and the rest of its effect when the "boom" was not in fact lowered.

You have to think about whether you want to use your anti-dumping law more aggressively or you want to talk with foreign countries about persuading their exporters to behave in a certain way. You also have to consider how you want to deal with that sort of situation if you are going to rely on exchange rates to try to change your trade deficit situation. My own view is that also you need to, from time to time, think in terms of fighting fire with fire. But you have to be very judicious about that. By fire with fire, I mean that sometimes counter subsidization may be a better alternative than imposing barriers to the foreign countries' subsidization.

A lot of times that may not be true, but you ought to think about the choices and you ought to be flexible rather than doctrinal.

COMMENT, Ms. Dallmeyer: I have a comment on the macro/micro dichotomy here. I am not sure that you really want to encourage the microeconomic aspect because sometimes those do not turn out as expected. The example that comes to mind is the semicon-

ductor pact, which originally started out as an anti-dumping movement, inspired by American companies, a section 301 complaint initiated by Commerce, which then got subsumed into negotiation, resulting in a pact. In this pact the Japanese were to stop selling at less than fair value and to increase market access, so the immediate effect was to raise prices, which damaged users in the United States. It stimulated the growth of dumping into third markets. When the United States put pressure on the Japanese to end the dumping into third markets, they instituted floor prices in Japan, they instituted production quotas in Japan, and then they instituted the more extensive and time consuming export licensing regime which overwhelmed their ability to handle all of this paperwork.

That also happened to coincide with an upturn in the computer market, so it benefited the Japanese producers immediately because they were no longer involved in cutting each other's throats in Japan because they had floor prices. The American producers could not get what they needed to meet the user demand and did not increase their production capacity to meet this need. Thus, there was no stimulus to go abroad when they could meet all of their needs here in the United States, so maybe microeconomic management is not the answer either. It also serves as a caveat to companies that pursue an anti-dumping complaint, to show them that it might not get them what they started out after and it might not have the benefit that they thought it would have when they initiated it.

COMMENT, Mr. Cunningham: There are dangers to microeconomic responses to trade problems, and an example of that is the attempt to deal with a trade problem in semiconductors in a microeconomic way.

Those points are well taken. Far be it for me to say that all micro responses are good responses. One does have to be very careful about it, and a stupid micro response can be one of the stupidest things you can do in trade. There might have been other micro ways to go after our goal. Pushing access to the Japanese market was fine, but we might have been better off to subsidize our chip makers than to have tried to limit Japanese pricing of chips. I will not yield my point that micro responses are worth considering, but I would say that response in particular was a dumb one that did not work out well.

COMMENT, Dr. McNiven: I did not have too much trouble with some of the trends that Mr. Cunningham was going through, but there seemed to be an assumption behind a lot of what you said, that somehow America companies do not get subsidies and those dirty, rotten foreigners do.

The first thing I would like to mention is the late and unlamented industrial revenue bond. It has a continuing subsidiary effect as of last year of only \$13.2 billion per year until the last bond runs out some twenty years from now. That is a lot of money to subsidize industries.

Second, I started poking around about tax expenditures, which is an ideological thing in the United States. In Canada, we can find our tax expenditures by asking the Federal Government, and they have to cough up the numbers. If you go around to the State Governments in the United States, you will find that six of them report tax expenditures. The other forty-four do not.

Now, this does not mean they do not give them; it means they do not report them. So therefore, there is no subsidy because it is not counted. That is a very interesting way of not subsidizing industry.

When you start poking around in this what you find is that the U.S. system is just rife with dollars being shifted under tables to industry. We should not pretend that it is only the French or the Japanese that are doing this. We are doing it in the United States, and doing it with buckets and front-end loaders and God knows what all, but it is all kept very quiet.

QUESTION, Professor King: Did you have any comments on the references made to industrial revenue bonds?

ANSWER, Mr. Cunningham: It was a rank accusation that the purest nation in the world sometimes, indeed, frequently and pervasively engages in subsidization. The defense pleads guilty.

I certainly would not take the position that the United States is pure and everybody else is impure. What I am saying is the United States should not pretend that we are going to be pure and play everything macro when we in fact do a lot of micro stuff. The United States should think about each individual trade issue, think about what is a good response to it and not always say that we cannot subsidize in response to other subsidies. We need to work out the proper response, negotiate it with the adverse trading partner and get it worked out.

COMMENT, Mr. Bertrand: You are talking about micro versus macro responses, but hearing you and looking at it from the outside, I wonder what else there is to do for the United States but to react in this way. It seems like the United States is reacting on all fronts at the same time, whereas the Japanese are trying to fine tune what they have established over the past twenty years. Consequently, it is very easy for them to go and help the aluminum industries where it is probably one of the five topics they have on their priority list, whereas the United States is really caught shorthanded, and the only way to go about it is to try to make the best of it.

COMMENT, Mr. Cunningham: Well, I have to grant some of that. In some ways one looks at Japan with admiration. In some ways, obviously, the Japanese have not done everything right either. The Japanese government a long time ago decided the automobile industry was not one that had a lot of prospects and they tried to downplay the U.S. car market, but that that did not turn out to be right. Nobody is perfect. What I would say in response to you is that we have not been as sophisticated as

we could be. The past does not lead to the response that the problem has to be dealt with in broad sweeping macro terms now because it is too late to start the micro. You have got to start to work and to deal with the problems as best you can.

One of the things that we have to learn to do is use microeconomic tools to support macroeconomic policy. The United States, in my view, should have made two things known if it was going to use the dollar decline as a way of getting the trade deficit down.

First, it should have been very aggressive in getting a broader spectrum of countries to let their currencies flow against the dollar, including the Asian NIPs. Second, it should have, as to the developed countries, adopted some means, whether it would be anti-dumping monitoring or something like that, to try to force a more rapid price change in response to the dollar decline. It may well be that the dollar decline was not the way to do it, and the way to do it would have been more managed trade flows, which was what a lot of the European countries have done.

COMMENT, Mr. Magnus: I would like to bring things around to a Canadian policy issue if I could for a moment.

Rationalization presents a very serious problem from a Canadian perspective, which either will have to be dealt with legislatively or through adjustment. It also has significant ramifications for U.S. investors in Canada.

If you rationalize an industry that makes widgets, where you made three sizes of widgets in Canada, small, medium and large, and now you only make medium widgets after you rationalize, and you then get a third country dumping or subsidization of small widgets, you effectively lose your remedy in Canada against that third country dumping. It becomes peculiarly a Canadian problem because when you rationalize, in all likelihood, as in the auto industry, you rationalize to make in Canada approximately what you will sell in Canada, and you make in the United States approximately what will sell in the United States. The susceptibility of the Canadian market to injurious dumping after you have rationalized is exceedingly high. At the present time, particularly in light of the tribunal decisions in the Honda case, there is going to be a fundamental problem which I suspect the drafters of the FTA really did not recognize.

I further suggest that from a bilateral standpoint, neither the Canadian policymakers nor the U.S. policymakers would be against some sort of policy tinkering with a Special Import Measures Act in order to deal with this problem. Otherwise what we are going to see is a need in Canada for significant adjustment payments as there is displacement from third country dumping.

QUESTION, Mr. Fried: A question for both Mr. Gottlieb and Mr. Cunningham. It is really a question of theory versus practice. In a bilateral context we have two markets of substantially different size. The United States has been traditionally almost purely a domestic market. It

is not at all as dependent on exports as Canada and will not be even with an export push. Canada, of course, is an export-oriented market. The trade laws themselves in the GATT are an American based system. United States brought it to the GATT and the GATT disseminated the system to the rest of the world.

The United States, therefore, through not only serving its own domestic market, but also by taking in exports of other countries and helping to fuel their growths, has tremendous leverage through the application of its trade laws because they are geared to target exports from other countries.

Canada, on the other hand, might be injured by virtue of import substitution. Unfair practices from other countries which deny Canadians export opportunities and which provide for domestic replacement of what was once an exported product could be very harmful.

In that light, if the direction of trade laws continues to be export-oriented, and if the rationalization of production and the multinational sourcing of manufactured goods does continue, does there not have to be a fundamental change in the discipline applied to governments and private parties in their pricing practices? A change which would come to grips not only with the export effects, but the import substitution or the investment and production distorting effects, whether or not exports are involved. Is that a practical possibility?

Before you answer, if I may answer Mr. Magnus. The problem that you and Mr. Gottlieb have identified was very much on the minds of both countries at the FTA negotiations and will continue to be. The acknowledgment of both sides was basically that adjustment and rationalization will occur, and will occur across the ten years during which tariffs and other barriers will be reduced and eliminated. Thus, there is more than sufficient time to make sure that the necessary protection and the necessary implication for the situation that you described can be addressed.

ANSWER, Mr. Cunningham: I have not yet drafted the explicit clauses of the final agreement dealing with the topics about which you spoke. Some things do come to mind, however. There are some difficult ways to approach the evolution of U.S.-Canada free trade and there are some easier ways to approach it. The way that probably presents the greatest difficulty is getting the trust to make more discretionary or to make inapplicable to Canada the U.S. countervailing, anti-dumping laws. It is very hard. Just looking at it from a U.S. standpoint, it is desirable dumping, but in the United States subsidies and dumping will never be split. You never say "never" in trade, but it is hard for me to see, politically, that they will split. On the other hand, it does strike me that there are two responses to the question that you pose. One is that it should be very much in the interest of both the United States and Canada in the future to think more as a team versus the rest of the world on global and North America market issues, their negotiating positions in coordination

of discretionary acts, and in bilateral talks. The other response that occurs to me is that there is a lot being done in the United States and in the EC with respect to the diversion-related issues of trade restrictions. The focus so far has been to allow a country that imposes anti-dumping duties to deal with the situation where the response of the foreign company is to either bring in the goods from an affiliated facility in another country or to even set up an assembly plant in the country which imposed the duty and thus avoid the duty. There are now in the EC explicit rules on this. It is not too long a conceptual jump to working out diversionary rules going the other way and working out some protection for Canada from the effects of U.S. trade action of the type about which you are talking. How those rules might specifically work, I have not thought through enough but it is not such a radical departure from what is being done in the other areas that it is inconceivable that something could be done there.

QUESTION, Mr. Fried: If I may, even putting aside any third country at all, a U.S. subsidy to a domestic subsidiary gives to that subsidiary a certain niche in the U.S. market. There are no exports to Canada. The Canadian competitor trying to get into the U.S. market cannot compete if the United States has domestically owned subsidies. Does that mean trade laws, whether or not in a free trade area, should take into account that fact rather than just the support?

ANSWER, Mr. Cunningham: The mechanics of solving that problem do not jump to me at the moment, but it is not a problem that has the same degree of political resistance in the United States that the protection of U.S. industries from "unfair" practices has. Some creative thinking on that can come up with some creative solutions.

COMMENT, Mr. Gottlieb: Section 5902 that I referred to earlier, at least on the Canadian side, seems very broad because it would not allow for virtually any type of measures to be taken against a foreign country which resorts to acts, policies or practices that discriminate or otherwise adversely affect or lead directly or indirectly to an adverse affect on trade in Canadian goods or services. That is so broad that I think it could allow us to do anything against anyone who is hasty.

QUESTION, Professor King: I have one question for Richard Gottlieb. In terms of adjustment assistance, would you comment on the Canadian posture in terms of changes that must be made in an operation to get adjustment assistance? Richard Cunningham mentioned the possibility in the United States where instead of just getting the relief, you have got to do something in the way of improving some on the problems which put you out of the ballgame. Did you want to comment on that and the situation there in Canada?

ANSWER, Mr. Gottlieb: Well, traditionally, our Government does impose conditions in the context of restructuring a manufacturer or an industry. That has happened in footwear, for example, where hundreds of millions of dollars have been all implicated. There has to be very defi-

nite commitments made by manufacturers, which are monitored, and payments and other benefits are conditional upon meeting timetables and commitments. Of course, there are a number of avenues for this, but that is the kind of thing that is contemplated.

COMMENT, Mr. Salembier: Just on that point, I was interested to see that Richard Cunningham picked up on the idea that a company might be able to use the need for adjustment to pressure for some reform in U.S. trade policy. There is a good deal of superficial appeal to that.

When I heard that, I was reminded of something that I saw in a walk around here. I saw, in a tree, a woodpecker. It was going to hammer away at that tree for a while, and you can be sure it was going to get the bugs out of it, but the tree was still going to be fine. You are going to try to pressure for changes in U.S. trade policy, but the underlying structure is still there. You still have instruments which are designed, however, to deliver protection. It occurs to me as well that a lot of the things that you were talking about in the way of tripartite agreements to produce some business sounds a lot like the industrial policy ideas that are coming up in the Democratic party. I think we are directed to quite a different purpose.

COMMENT, Mr. Cunningham: I will confess I am not a total foe of industrial policy. I am cautious and skeptical of some full-blown versions of it, but I have some sympathy for it because other countries around the world are doing it.

COMMENT, Professor King: Well, we have had a very fine session this evening. I want to thank both Richard Cunningham, and Richard Gottlieb for their excellent presentations.

