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Trade Briefs

GM Enters Bankruptcy

On June 1, General Motors Corp. (GM) announced that it would enter bankruptcy and the U.S. government would take a majority stake in the company as it reorganized. The restructuring of GM—currently the country's largest automaker—is likely to have significant political consequences that could affect GM's operations and could affect the way the government regulates the auto industry. Specifically, a government-owned GM may get different treatment than a privately-owned GM. Politicians naturally favor U.S.-based manufacturing, and with taxpayers having a stake in a single company, this tendency may be enhanced. This has the potential to be a problem for Japanese carmakers as they continue to operate in the U.S. market.

The Obama Administration has been working with GM to help it avoid liquidation, an outcome that would result in the immediate loss of over 60,000 GM employees and further devastate some economically decaying regions that rely on industrial labor. Since facing the possibility of insolvency at the end of 2008, GM has been supported by billions in government loans. In order to continue to receive government assistance, the Administration asked for the company to restructure in such a way that the company can be viable for the long-term. Obama's Auto Task Force rejected the company's plans for restructuring in order to secure further financial support. The Task Force finally settled on a number of requirements for continued assistance and held out June 1 as the date upon which these requirements must be met if the company were to avoid bankruptcy.

Over the past few days, GM reached an agreement with the United Auto Workers labor union (UAW). It was unable to come to terms with its bondholders, though, and GM filed for bankruptcy this morning at 8 A.M. The framework of the announced bankruptcy will result in the following:

- The U.S. will invest an additional \$30 billion into the company, making its total stake in GM roughly \$50 billion. In exchange for this investment, the U.S. will be the majority shareholder of the company, holding an equity stake worth about 60%.
- The Canadian government will also contribute and become a major shareholder.
- The UAW will hold 20% of the new GM.
- GM will lay off 21,000 union workers and close as many as 20 factories.
- GM will close 40% of its dealerships.
- Union workers will finance half of its health care fund, worth about \$20 billion, with stock.

- Bondholders will be forced to accept stock worth pennies on the dollar.

Also, Obama laid out a set of principles for how the government should behave as a major shareholder. These can be found in the attached press release from the White House. The principles call for the government's active role to be limited to the start of the bankruptcy and to eventually recede. It says that the government will eventually handle the ownership in a "hands-off, commercial manner" and will not "exert day-to-day company operations."

At the same time, the government assistance is predicated on GM's commitment to build a "new small car" in the U.S. It is possible that other strategic concerns will be addressed by the government, and it is not clear how exactly to distinguish between strategic choices and day-to-day operations resides.

With GM's competitor Chrysler just now emerging from a quick bankruptcy, fears of a similar restructuring for GM had somewhat abated. Chrysler showed that a bankruptcy for such a large complex corporation could be done quickly and that it may not significantly exacerbate the current economic downturn. However, much is still unknown.

There are fears about the precedents this government intrusion in the private sector. With these equity shares, both the U.S. and Canadian governments will be able to appoint board members. In theory, the U.S. could use its majority share to make virtually any decision for the company. Of course, this brings up a number of conflicts of interest. For example, will GM be given advantages over its domestic and foreign competition—including Japanese automakers like Toyota and Nissan—in the name of the interests of U.S. taxpayers? Will GM now make decisions with regard to mileage standards that reflect the interests of the U.S. Environmental Protection Agency (EPA) as well as the interests of its private stockholders?

Also, the UAW will hold roughly one fifth of the equity in the company, and the union will be able to name board members. This could lead to corporate decisions that are further weighted in favor of the UAW's membership rather than in favor of profit and GM's overall health.

By virtue of the nature of the U.S. stake in the new GM, the Obama Administration will likely face pressure to advantage GM over other automakers. President Obama says that he does not want to manage the automaker and would rather the U.S. become a passive stockholder and sell its shares as soon as possible. However, it has been reported that Administration officials concede that it will be a "challenge" to keep political arguments out of the management of the automaker and regulation of the domestic industry. While promising to limit the use of its rights as a majority shareholder, the Administration will be weighing political costs against the interests of GM and its value to the U.S. taxpayer. This fact means that government ownership of GM could conceivably make it more difficult for foreign carmakers—including those from Japan—to operate in the U.S. market.

This is merely the beginning of a long bankruptcy process, one that is expected to take months. U.S. bankruptcy judges have broad powers in reorganizing

businesses that have entered Chapter 11 bankruptcy. Therefore, in theory, they could completely ignore any plans or agreements that the company has reached with stakeholders such as labor unions or bondholders and chart another course. However, the majority government holding in GM will probably be part of the final deal, and this could have effects on Japanese interests.

Dumping Watch

AD, CVD Petitions Filed Against Chinese Steel Grating

On Friday, May 29, antidumping (AD) and countervailing duty (CVD) petitions were filed against imports of certain steel grating from China.

The petitions were filed by Alabama Metal Industries Corp. (AMICO) and Fisher & Ludlow and allege that the import of this Chinese steel grating materially injured the domestic industry through dumping and unfair subsidization. The petitioners claim that Chinese imports of steel grating have risen more than 500% in the past two years.

The International Trade Commission (ITC) and the Department of Commerce (DOC) are expected to initiate AD and CVD investigations very soon.

Federal Register Notices

International Trade Administration

[A-549-822] Certain Frozen Warmwater Shrimp from Thailand: Notice of Extension of Time Limit for the Final Results of the Third Administrative Review *74 FR 25705*, May 29, 2009.

[A-122-853, A-570-937] Citric Acid and Certain Citrate Salts from Canada and the People's Republic of China: Antidumping Duty Orders *74 FR 25703-25705*, May 29, 2009.

[C-570-938] Citric Acid and Certain Citrate Salts From the People's Republic of China: Notice of Countervailing Duty Order *74 FR 25705-25706*, May 29, 2009.

Initiation of Antidumping and Countervailing Duty Administrative Reviews *74 FR 25711-25715*, May 29, 2009.

Meeting on Energy Issues in the Asia Pacific Economic Cooperation *74 FR 25716*, May 29, 2009.

[C-475-819] Certain Pasta from Italy: Preliminary Results of the 12th (2007) Countervailing Duty Administrative Review *74 FR 25489-25497*, May 28, 2009.

[A-469-814] Chlorinated Isocyanurates from Spain: Preliminary Results and Rescission, in Part, of Antidumping Duty Administrative Review *74 FR 25215-25220*, May 27, 2009.

[A-552-802] Certain Frozen Warmwater Shrimp from the Socialist Republic of Vietnam: Final Results of the Second New Shipper Review *74 FR 24796-24798*, May 26, 2009.

[A-421-811] Purified Carboxymethylcellulose from the Netherlands; Preliminary Results of Antidumping Duty Administrative Review *74 FR 24823-24830*, May 26, 2009.

International Trade Commission

[Investigation Nos. 701-TA-456 and 731-TA-1151-1152 (Final)] Citric Acid and Certain Citrate Salts From Canada and China *74 FR 25771*, May 29, 2009.

[Investigation Nos. 701-TA-462 and 731-TA-1156-1158 (Preliminary)] Polyethylene Retail Carrier Bags From Indonesia, Taiwan, and Vietnam; Determinations *74 FR 25771-25772*, May 29, 2009.

[Investigation No. 337-TA-605] In the Matter of Certain Semiconductor Chips With Minimized Chip Package Size and Products Containing Same; Notice of Commission Final Determination of Violation of Section 337; Termination of Investigation; Issuance of Limited Exclusion Order and Cease and Desist Orders *74 FR 25579-25581*, May 28, 2009.

[Investigation No. 731-TA-451 (Second Review)] Gray Portland Cement and Cement Clinker From Mexico *74 FR 25281*, May 27, 2009.

Office of the U.S. Trade Representative

Generalized System of Preferences (GSP): Notice Regarding the Initiation of the 2009 Annual GSP Product and Country Eligibility Practices Review and Deadlines for Filing Petitions *74 FR 25605-25607*, May 28, 2009.

The Week Ahead

- On Tuesday, June 2, the ITC will hold a hearing on the China safeguard investigation into certain passenger vehicle and light truck tires.
- On Friday, June 5, the Senate Finance Committee will hold a hearing to consider the nomination of Miriam Sapiro to be Deputy U.S. Trade Representative.