

POLICY POSITION

5. Illegally Subsidized Petrochemical Imports

Background

The United States petrochemical industry is facing declining production, fewer jobs for American workers, declining capital investment, and loss of market share both in America and abroad. The root of the problem is a new and specific kind of unfair trade practice. The governments of Mexico and the Soviet Union are manipulating the cost of energy in order to subsidize the production of petrochemicals for export.

Existing United States' trade law has proven insufficient to deal with this subtle but potentially devastating unfair subsidy. United States trade laws need to be modernized to effectively prohibit such practices.

The 1984 omnibus trade bill recently signed by President Reagan contained a provision to deal with this problem. The Natural Resource Subsidies Provision of the trade bill identified as an illegal subsidy, the practice whereby governments set a low price on energy sold to their own producers, but export energy only at a much higher price to the users. This practice was labelled "two-tier pricing."

The Natural Resources Subsidies Provision would have imposed a countervailing duty on subsidized imports entering the United States' market, equal to the difference between the low domestic price and the higher export price. Due to Administration opposition, this provision was dropped from the omnibus trade bill by the conference committee.

The United States ammonia industry has been particularly hard hit by the two-tier pricing. The penetration of subsidized imports from Mexico and the Soviet Union, the major users of the two-tier pricing scheme, caused an oversupply in the United States' market during a period of reduced demand. This depressed the price of ammonia below what it cost most American producers to make ammonia, driving many American producers out of business.

Unlike American producers, subsidized ammonia producers can create and withstand low prices because their governments subsidize the cost of natural gas, which is seventy percent of ammonia's production input and cost. Between 1981 and 1983, United States' ammonia production plummeted thirty percent. Thirteen percent of overall production capacity was permanently closed down. Exports of ammonia and its derivatives fell by thirty-three percent, while imports increased by ten percent.

Government subsidization of energy inputs in petrochemical products poses a severe threat to the economic health of the states of the Gulf Coast and Southwest. The majority of the American petrochemical industry is located in the Southwest. Almost all of the natural gas utilized by the ammonia industry is produced in the Southwest. In addition to supplying labor and resources for the production of ammonia, the Southwestern states are dependent on a strong domestic ammonia industry for fertilizer for farming and ammonia nitrate explosive used in coal mining.

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Recommendation

Petrochemical production, like energy production, is rapidly shifting from private to state ownership in many countries. The damage to the American ammonia industry illustrates the potentially devastating effects of unfair government subsidies of energy resources in petrochemical manufacturing. The decline of the United States ammonia industry demonstrates that our trade laws are inadequate to cope with state ownership and trade practices.

Therefore, the Southern Legislative Conference urges Congress to amend the trade laws to recognize two-tier energy pricing as an illegal trade subsidy, thereby providing a legal mechanism for relief.

The Southern Legislative Conference concurs with the findings of the above policy statement and joins the Southwest Regional Energy Council in supporting federal legislation that will allow domestic refiners of natural resources to compete fairly with imported petrochemical products.

Adopted by the Southern Legislative Conference on July 24, 1985.

SO-85-RR12