

Note: On February 27, 2004, the EU published sanctions estimates based on a computational model much more conservative than the one used here. According to those estimates, maximum FSC sanctions will be \$315 million in 2004 and \$666 million in 2005. See [Foreign Sales Corporation \(FSC\): Questions and Answers](#).

The European Commission's Proposed FSC-ETI Sanctions

© Martin B. Tittle 2003

The European Commission has recommended that the EU apply 5% of its authorized FSC-ETI sanctions beginning March 2004, and that it increase the percentage by 1% per month until a ceiling of 17% is reached in March 2005. These fractional sanctions should be calculated in US dollars because the WTO's authorization for sanctions is stated in US dollars. The table below calculates the applicable sanctions for each month using a formula that, like the Commission's proposal, takes into account the number of days in each month.

The Commission's proposal includes revenue estimates of € 290 million for 2004 and € 614 million for 2005. An exchange rate of just over US\$ 1.11 per Euro would be necessary for these Euro amounts to correspond with the U.S. dollar calculations in the table. To the extent the applicable exchange rates in 2004-2005 are higher than US\$ 1.11 per Euro and the revenue estimates are accurate, the sanctions collected will exceed the Commission's proposed percentages.

For example, between May 20 and November 7 of this year, the US dollar-Euro exchange rate in New York fluctuated in the range US\$ 1.08 - 1.18. At US\$ 1.18, € 290 million equals US\$ 342.2 million, or about 6% more than the amount that should be collected under the Commission's fractional schedule. Because the 2004 sanctions will be collected over a 10-month period, this would be equivalent to an additional 0.6% per month. Applying the US\$ 1.18 rate to € 614 million yields an effective increase of 0.55% per month.

Month	EU Sanctions %	Sanctions award	Monthly sanctions*
Mar-04	5%	\$ 4,043,000,000	\$ 17,121,995
Apr-04	6%	4,043,000,000	19,883,607
May-04	7%	4,043,000,000	23,970,792
Jun-04	8%	4,043,000,000	26,511,475
Jul-04	9%	4,043,000,000	30,819,590
Aug-04	10%	4,043,000,000	34,243,989
Sep-04	11%	4,043,000,000	36,453,279
Oct-04	12%	4,043,000,000	41,092,787
Nov-04	13%	4,043,000,000	44,517,186
Dec-04	14%	4,043,000,000	47,941,585
		Calendar 2004 total	\$ 322,556,284
Jan-05	15%	\$ 4,043,000,000	\$ 51,506,712
Feb-05	16%	4,043,000,000	49,623,671
Mar-05	17%	4,043,000,000	58,374,274
Apr-05	17%	4,043,000,000	56,491,233
May-05	17%	4,043,000,000	58,374,274
Jun-05	17%	4,043,000,000	56,491,233
Jul-05	17%	4,043,000,000	58,374,274
Aug-05	17%	4,043,000,000	58,374,274
Sep-05	17%	4,043,000,000	56,491,233
Oct-05	17%	4,043,000,000	58,374,274
Nov-05	17%	4,043,000,000	58,374,274
Dec-05	17%	4,043,000,000	58,374,274
		Calendar 2005 total	\$ 679,224,000
		2004-2005 total	\$ 1,001,780,284

*Formula for monthly sanctions: ((EU Sanctions % * Sanctions award)/days in year)*days in month

Note: 2004 is a leap year and therefore has 366 days.