

5% sales tax. But we do advocate that purchasers of one U.S. product and, I might add, the suppliers of that product, not be treated discriminatorily vis-a-vis other U.S. products in this regard.

The passenger tax when applied to U.S. ships is a tax not only on domestically produced transportation but also on domestically produced food and accommodations. In a \$2,000.00 round-trip ticket, about \$1,200.00 can be considered transportation and the balance of \$800.00 goes for de luxe hotel-type accommodations comprising three or four sumptuous meals per day, entertainment, services of all kinds and lodging over the forty-two day trip which is involved—all of it comprised of goods and services supplied by U.S. economy. This tax on accommodations presents a further aspect of the discrimination against passengers on U.S.-flag ship operators compared with domestic accommodations on shore.

The power to tax is the power to destroy. If the passenger tax alone does not frustrate a passenger's plans to travel, the graduated tax on per diem expenditures will certainly finish the job. Most certainly these two taxes, when levied on the relatively higher costs of long haul travel such as passenger ships offer in the Pacific, will destroy the already marginal ability of U.S. passenger ships to stay in Pacific Ocean sea lanes. These ships are not a frivolous adjunct to the economy nor are they unimportant politically in the area they are serving. Far from it! They are a hard core element of commercial benefit and prestige in the Far East and, more importantly, of defense capability in time of need. To lose these vessels, whose annual contribution to the balance of payments is in the hundreds of millions of dollars, and whose defense potential is so critical, would be an act of folly unprecedented in the annals of this country.

The crowning blow is the discrimination which the proposed passenger tax introduces competing between U.S. ocean carriers. Those serving foreign routes inside the Western Hemisphere are exempt; while those serving the other foreign destinations are not. It is no solution to suggest that U.S.-flag overseas carriers whose livelihood is threatened can transfer operations to Western Hemisphere areas. There are dozens of reasons why this is not feasible—some based on economy of operations and personnel problems, some on Government obligations to serve one particular route, etc.

In brief, the passenger tax on ship travel and on travel expenditures is not one which hurts "just a little bit"; it hurts the U.S.-flag ship operator in the Pacific a whole lot. Under current rate structures, passenger ships in the Pacific need at least 80% occupancy (some 85% to break even and are barely holding this line now. A tax induced reduction to 65% or even 70% of occupancy could cause losses which could force the layup, or eventually, the disposal by sale of the vessel. Passenger ships do not have a large expense account clientele—(whose employers pay the tax)—to fall back on such as the airlines have.

We wonder how the passenger ship is going to be alive to earn balance of payments revenue from foreign visitors, (which we are promoting both in our own industry as part of the national policy), if he's knocked off his sea lanes by curtailment of U.S. citizen travel through taxation.

Apart from the crushing impact on operators of U.S. passenger ships and, apart from the regressive impact on our balance of payments, there are a host of complexities inherent in these two taxes. There are complexities and legalities as to how the transportation tax will be collected when tickets are sold abroad; there are endless opportunities for evasion. There are complexities as to how a traveler's expenditures will be audited and the tax collected, etc. Others have fully developed these pitfalls in testimony before this Committee.

The Administration's plan is so patently laden with economic destruction for operators of U.S.-flag passenger ships, and with no benefits—indeed diseconomies—for our balance of payments, that the Administration and the Congress should abandon these two taxes and find other less destructive and discriminatory mechanisms to persuade American to keep their dollars at home.

The operators of U.S.-flag passenger vessels earn more than their share of the tourist dollar. We ask that special consideration be given to ways and means to insure they can stay alive to continue earning these important dollars in our international payments account.

STATEMENT OF THE AMERICAN HOTEL & MOTEL ASSOCIATION

SUMMARY

1. The proposed *international air travel tax* has merit if in fact the receipts therefrom are used to encourage foreign travelers to the U.S. Such receipts