Article III

2. The products of the territory of any contracting party imported into the territory of any other contracting party shall not be subject, directly or indirectly, to internal taxes or other internal charges of any kind in excess of those applied, directly or indirectly, to like domestic products. * * *.

A German manufactured automobile continues to be a product of Germany whether or not delivered to the importer while abroad and whether or not imported by an individual rather than a business entity. It is entitled to receive the same customs and tax treatment as the like product from any other GATT member country, without regard to the status of the importer or the geographical location of the exporting country. The proposed travel expenditure tax, as applied to automobiles, would violate the foregoing provisions of GATT.

FOREIGN AUTOMOBILES PURCHASED IN THE UNITED STATES AND DELIVERED IN EUROPE FOR SUBSEQUENT IMPORTATION SHOULD NOT BE TREATED AS EXPENDITURES IN CONNECTION WITH TRAVEL OUTSIDE THE WESTERN HEMISPHERE

Most automobiles purchased in the United States for delivery in Europe are of German manufacture. Of the 21,144 Mercedes-Benz passenger cars sold in the United States in 1967, 5,314 units or approximately 25% constituted orders of American citizens, placed with and paid to independent franchised Mercedes-Benz dealers in the United States for delivery in Europe and subsequent importation. The total volume of such sales for that year amounted to $24,000,000 which represents about 1.2% of all German exports to the United States. If the sales of other German manufactured cars obtained in this manner are included, it is believed to represent 2.5% of all German exports to the United States or a total of $50,000,000. The aggregate value for all European automobiles, so sold, is estimated to be $70,000,000. Such sales made in the United States should not properly be considered as expenditures in connection with travel since the purchase of the automobile for delivery in Europe does not induce or encourage the businessman or tourist to travel to Europe if he would not do so otherwise. Since the federal excise tax on automobiles became effective in respect to this type of import after January 15, 1968 by reason of Revenue Ruling 68–30, there is only a moderate saving involved to the individual who purchases the vehicle in the United States and takes delivery in Europe when the cost of freight, customs duty and federal excise tax, which are incurred by the traveler in importing the automobile, are taken into consideration. The individual who takes delivery in Europe has the convenience of having his own car while abroad, but this eliminates, at least in part, the need to rely on public transportation or to rent a car while traveling. Thus, the only effect such purchases would have on travel expenditures would be to reduce them to the extent that they permit the individual to save on transportation costs while in Europe.

Upon his return to the United States, the traveler must engage the services of a customs broker to import his automobile at which time he must pay the regular customs duty and federal excise tax in the same manner as with an ordinary commercial importation. There is no valid distinction between sales made in the United States for domestic delivery of German automobiles and sales made in the United States for European delivery and subsequent importation of such vehicles by an individual, insofar as they affect travel expenditures. If, as is proposed, a 30% travel expenditure tax is imposed upon the privately imported automobile, in addition to the customs duty and federal excise tax, the cost would be prohibitive. It is believed that a substantial portion of this $50,000,000 in German automobile exports would be lost if the proposed tax is adopted. The travel expenditure proposals are not intended to discourage the free flow of trade but rather to encourage the reduction of tourist expenditures. This objective would not be assisted if the suggested legislation relating to automobiles purchased in the United States were to be adopted. To a limited extent, at least, the converse would be true and the primary effect would be damaging to U.S. trade relations in one of the few major commodities where the value of imports from Western Europe exceed the value of exports from the United States. Most of the other major commodities in the trade between the United States and Western Europe show a sizable surplus of U.S. exports over imports. (See Exhibit 1). It should be noted, however, that the value of all U.S. exports of automobiles and parts exceeds the value of U.S. imports of such merchandise.