

THE GERMAN GOVERNMENT HAS COOPERATED WITH THE UNITED STATES IN MEASURES DESIGNED TO REDUCE THE U.S. BALANCE OF PAYMENTS DEFICITS. PROPOSALS THAT WOULD PRIMARILY IMPAIR GERMAN AUTOMOBILE EXPORTS TO THE UNITED STATES SHOULD NOT BE ADOPTED

The German Government has undertaken various measures designed to assist in the solution of the United States balance of payments deficits. In this connection, Germany has for a six-year period participated in the military offset agreements under which that Government agreed to procure U.S. military equipment and services. The major part of U.S. defense expenditures in Germany have been offset by these means.

German expenditures for defense materials in the United States have been at a rate of about \$600 million annually or more. In 1966 Germany transferred \$750 million for such purposes. At present, approximately \$500 million is still uncommitted because basically Germany does not require additional defense materials at this time.

Although the military offset agreements terminated in the latter half of 1967, the German Government has indicated that it intends to continue major purchases of military equipment in the United States. Additionally, the German Federal Bank has agreed to invest \$500 million in non-marketable U.S. Treasury securities which represents a long-term capital inflow thereby reducing U.S. payments deficits. Of this amount \$250 million worth of Treasury securities were purchased in 1967 and an additional purchase of \$250 million is to be made in June 1968.

The German Government has also cooperated with the United States by providing material assistance in the area of foreign aid. In this connection, Germany contributed \$3.36 billion in foreign aid during the period 1960-1965 which represented 7% of the total foreign aid given by Western nations. Germany's favorable balance of payments has not been large because large amounts have been returned to the world economies through investments, foreign aid and transfers such as the procurement of U.S. defense materials and U.S. Treasury securities. Furthermore, that Government has assisted the United States, rather than hindered it, in attempting to stem the outward flow of U.S. gold reserves.

The recent enactment of the German added-value tax should not be construed as evidence of German non-cooperation in reducing the balance of payments deficits. The German added-value tax imposes on all transactions a 10% sales tax with full credit for the sales taxes paid by all suppliers, sub-suppliers and importers in the chain of trade.

Thus all prices, both for domestic and imported goods, include a uniform 10% sales tax when sold to the end user with no different treatment applied with respect to imported goods.

Quite clearly, the impact of the Administrations' proposals in regard to the U.S. purchase of automobiles for delivery in Europe has not been fully understood. The objective sought, i.e. the reduction in travel expenditures, would not be accomplished. The unintended result would be the impairment of a substantial portion of German export trade to the United States. This would be particularly undesirable in view of the cooperation that has been demonstrated by the German Government in the solution of U.S. balance of payments deficits.

CONCLUSION

For all of the foregoing reasons, it is requested that the Administration proposals relating to an import tax upon automobiles purchased in the United States for delivery in Europe and subsequent importation, not be adopted and that this category of imports be specifically exempted from the provisions of any tax that may be enacted on expenditures in connection with travel outside the Western Hemisphere.

Respectfully submitted.

BARNES, RICHARDSON & COLBURN,
Attorneys for Mercedes-Benz of North America, Inc.