

How do you compensate for this and where does this new element in the world picture that is interfering with our regular trade processes fit in with your pattern of negotiations?

Ambassador ROTH. Mr. Congressman, I think I understand your question more clearly, because, leaving the border-tax problem aside, there have been no recent new European subsidies on industrial products that I know of.

The border-tax problem that we are currently negotiating on in Geneva is, as you know, a terribly complex one.

Mr. ULLMAN. In the border-tax concept are you including the value-added tax approach to this problem?

Ambassador ROTH. That is right. Under the GATT, when it was put together 20 years ago, it was felt at that time by economists that an indirect tax is fully passed on into price. It was therefore considered legitimate to offset that completely at the border and to rebate that amount on any exports. If the indirect tax went into price 100 percent, then the imported product was not at a disadvantage by also having to pay the same tax.

At the same time, it was felt that a direct tax, such as a corporate tax, did not go fully into price and therefore should not be offset. As you said, we have one tax and the Europeans have another.

Over the years people have begun to wonder whether this absolute dichotomy exists, whether perhaps not all the indirect tax goes into price and perhaps some of the direct tax does, but you still cannot find agreed economic opinion on this.

A couple of months ago Stan Surrey had a number of the most prominent tax economists in to discuss this. They still felt that this dichotomy, as it were, was perfectly justified and that although it paid this tax which was also paid by the domestic supplier, over a period of years our trade to Europe was not disadvantaged, and I think this is true.

In the past, our trade has not been disadvantaged partly because the border tax was undercompensated.

Recently, Germany has changed to an added-value tax and has gone to full compensation at the border. It could be that in this interim period of the changeover our trade could be affected, and this is what we are investigating and discussing in Geneva. But the question mark I want to raise around this whole problem is that, while we feel that there is a disadvantage that the system can produce in terms of our trade, it is not easy to define and it is certainly not the loose disadvantage that certain industries describe when they say, "We pay a border tax in Europe of 10 percent."

Some industries and certain companies have made a more detailed analysis of what this might mean to their products, and I hope later they will present their results to this committee, because it is a very difficult problem.

Mr. ULLMAN. Didn't the President express quite a lot of concern about this problem in his message to Congress?

Ambassador ROTH. Absolutely, and this is why, although last year our trading partners refused to enter into negotiations on this matter, they have more recently agreed to do so and, as I said, we have had one meeting.

The GATT secretariat is presently preparing material on the whole issue. We will have another meeting in a few weeks.