Mr. BYRNES. Let us take the German situation. Explain, if you would, the new change that they made earlier this year in the application of their added value tax.

Didn't they generalize the tax and apply a 10-percent rate, whereas before it had been a lower rate?

Ambassador ROTH. They had before.

Mr. BYRNES. This is what they did with respect to exports, where they gave a rebate, and imports, where they imposed the tax.

Ambassador ROTH. Previously they had a turnover tax, under which each time a product changed hands, a tax was paid. Now, with that, it is very hard to calculate the tax paid in terms of the end product because in a vertically——

Mr. BYRNES. What was the net effect of it, so far as it related to exports and imports?

Ambassador ROTH. I am coming to that, but I have to state this: one item, say an automobile, in a vertical industrial situation might only go through one hand and might have a single tax while another item might change hands in the manufacturing process many times, so when you got to the end of that process, it was very hard on a product basis to calculate what the tax was.

So, in effect, at the border, using the border-tax rationale, they undercompensated for what they thought the total tax was, and they come up with 4 percent.

Mr. BYRNES. With how much?

Ambassador ROTH. With 4 percent.

So, to the extent that these taxes were passed through into price and the border tax and export rebate were undercompensated on both the import and the export side, there was perhaps even an advantage to our exports.

Then on January 1 they went to an added-value tax, 10 percent, and this very clearly indicated what the tax was at the end of the line—it was 10 percent.

So this became the border-tax adjustment.

Now, we feel that in the short run there could be—the extent we don't know—some harm to our trade in going from undercompensation at 4 percent to full compensation at 10 percent. But it is wrong to say that we are now disadvantaged as much as 6 percent, because the theory and the evidence in the long run is that a major part of the tax is passed on through into price, and there is not much of a disadvantage.

Now, having said this merely to indicate the complexity of the problem, we are nevertheless pushing very hard to try to find a better understanding of this problem, and a better way of getting at this relationship between fiscal policy and trade.

Mr. BYRNES. The net effect, though, of this whole thing has been a considerable increase in both the subsidy on their exports and the imposition of duty on imports, hasn't it?

Ambassador ROTH. The net effect has been an extra charge for the American exporter to that market, and also for the domestic producer.

Mr. BYRNES. The domestic producer within the market in Germany is what you are talking about?

Ambassador ROTH. That is right.