that have discouraged sales of imported U.S. automobiles. For example, increased automobile production in Europe and Japan and higher gas consumption of larger-engined U.S. automobiles, coupled with high taxes on gasoline, have also been very important. Nevertheless, the basis for the assessment of these European road taxes and the Japanese commodity tax has a discriminatory effect on imports of U.S. automobiles.

The method of assessment acts as a nontariff restriction in the case of United States internal revenue taxes and import duties on distilled spirits. Both the excise tax and import duty are assessed on a proof-gallon basis when the distilled spirits are 100 proof (50 per cent alcohol) or more but on a wine-gallon basis when less than 100 proof. This distinction means that the excise tax and duty on distilled spirits of 100 proof or more vary proportionately with the alcoholic strength of the spirits but that distilled spirits of less than 100 proof are treated for tax and duty purposes as if they were 100 proof.

Most distilled spirits imported into the United States are bottled abroad at less than 100 proof, and consequently, they pay excise tax and duty on a wine-gallon basis. Almost all spirits produced domestically are taxed on a proof-gallon basis when they are withdrawn from bond at 100 proof or above before dilution and bottling. This results in a tax differential in favor of the domestic product. For example, a gallon of imported Scotch whiskey bottled at 86 proof pays an excise tax of $10.50 (based on wine-gallon assessment). A gallon of Bourbon whiskey bottled after dilution to 86 proof bears a tax of $9.03 (based on proof-gallon assessment). In addition, the imported whiskey pays a duty of $1.02 (based on wine-gallon assessment) that is $ .14 higher than if the duty were based on proof-gallon assessment. In effect, the wine-gallon basis of assessment for the excise tax and duty results in a levy on the water contained in the imported product of $1.61. It is estimated on the basis of 1965 imports that the additional revenue to the U.S. Treasury resulting from the wine-gallon basis of assessment is around $70 million.

The tax and duty differential resulting from wine-gallon assessment can be avoided by importing distilled spirits in bulk at 100 proof or above, paying the tax and duty at the proof-gallon rate, and bottling the spirits in the United States at whatever proof desired. In recent years, there has been a