

We are confident that the Committee will consider their recommendations carefully.

International trade among the free nations of the world should be promoted in a manner that benefits the economics of, and promotes private enterprise in, the countries involved. There are various factors which have a direct bearing on the successful conduct of international trade. We urge that the Ways and Means Committee consider these factors carefully while deliberating and reaching decisions on the proposed legislation and related matters.

We urge further that, in formulating policy, Congress give due regard to the increasing role which intellectual property plays in overseas operations. Intellectual property, in a broad sense, includes the uses of managerial, technical, scientific, and other skills often referred to as "know how." One of the probable reasons for the acceleration of concern in this area is the newly imposed restriction on direct investment. Another reason is that previous direct investment in a foreign environment produces an immediate market for "know how" in many of the components of the overseas operation. The main inhibiting element of marketing "know how" is the question of the protection of patents and other intellectual property. The NAM, through its Patents Committee, has worked closely with the U.S. Patent Office and the President's Patent Commission in order to achieve a uniform and efficient world patent system. We hope that the United States will endorse a world patents system, and take all appropriate steps for its development through international negotiation.

In the view of a preponderance of experienced U.S. international traders, an important problem blocking the orderly growth of international trade is the imposition of non-tariff barriers by trading countries. The elimination of these impediments to international trade should be a primary objective of U.S. policy. Each year the list grows larger and the solutions become more complex. Such artificial manipulations of the trade environment by governments can only invite pressure for countervailing actions by other trading nations and inhibit orderly expansion of trade. The negotiations already started by the Office of Foreign Trade Representative through the General Agreement on Tariffs and Trade to reduce and eliminate these non-tariff barriers should be supported to the fullest extent.

The tax aspects of trade policy are of the highest importance to the members of the NAM and to the country generally. In the remainder of this statement, we will present our views on this subject.

TAX ASPECTS OF TRADE POLICIES

The NAM believes that there are some basic inconsistencies between the tax treatment of foreign business activities and the objective of maintaining and fostering international trade. For the purposes of this discussion, these can be divided into two categories: one involving international border taxation, and the other involving domestic income tax policy on foreign source income.

We do not think that action should be taken in either area solely on the grounds that it might improve our immediate balance-of-payments deficit. In the recent past, that deficit has been used to justify a series of controls on private investment abroad—some of which have aggravated tax-trade policy inconsistencies. We do not want to see any precipitous changes in tax policy without regard for their long-term implications.

The NAM would like to see a change in the present system of international border taxation and a change in our own tax laws affecting export trade. Both can serve the long-term objective of providing a more equitable international marketing environment and help to improve our balance-of-payments position at the same time.

Border taxation

Under the General Agreement on Tariffs and Trade (GATT), indirect taxes are eliminated from exports and imposed on imports. These indirect taxes include value-added taxes as in France and Germany, turn-over taxes as in other EEC countries, and the United States' excise taxes. The adjustment for taxes at the border treats all indirect taxes as identical assuming these taxes increase product prices but direct taxes (income, payroll) do not.

These assumptions are not supported by economic evidence. The real effect of indirect taxes on price is controversial but it is clearly not consistent with the maximum allowance given under GATT to countries with high indirect taxation