

which are not rebatable, for turnover taxes which are rebatable under the GATT rules. It is possible that the taxes under Italian Law No. 639 could be incorporated into the VAT system. The new value-added tax will raise the existing rates in all countries except France. Although it is not certain what the tax rate will be, it is generally considered that it will be about 15% as compared to Italy's present rebate of 7.8% on these transmission tower components. Germany has already gone to the value-added tax this year with a 10% rate which will increase to 11% on July 1, 1968, and presumably to around 15% by 1970. The proposed rates under the VAT systems will be higher by virtue of a shift in the incidence of taxation between different tax sources. Consequently, the border tax will be higher for imports, and the tax remission on exports will be greater. Furthermore, the border tax is imposed on the CIF value of the steel products we send into EEC countries plus the tariff duties added to the CIF price. And in Germany the cost of freight from the port to the first inland point of destination is added into the base upon which the value-added tax rate is imposed. In effect this will likely more than offset any reductions of tariffs recently made by EEC countries during the Kennedy Round Negotiations. It will be more costly for us to export to these countries, and foreign manufacturers will be given greater incentive to export to the United States.

Another objective of the tax harmonization program is to eliminate tax frontiers between EEC countries. Taxes would not be refunded on exports or imposed on imports when the sales transaction takes place between these EEC countries. Tax harmonization was brought about in the EEC because there were complaints within the Community that the system of providing compensation tax on imports and tax rebates on exports did not work fairly. It was alleged that differences in tax structure of member countries lead to inequities. West Germany lodged the most vigorous protest against these inequities.

The Report of the Subcommittee on Foreign Economic Policy of the Joint Economic Committee of the Congress of the United States stated:

"The European Common Market practice of rebating their own indirect taxes on their exports and levying these same taxes on imports—a practice sanctioned, incidentally, by the rules of the GATT—constitutes a conspicuous form of discrimination against U.S. exports. Moreover, similar border adjustments by the United States would be an ineffective weapon, neither mitigating nor offsetting the discriminatory process, because the tax structure of the United States places relatively small emphasis on indirect taxes. This issue is one that the United States will have to resolve." (90th Congress, First Session, 1967)

In an industry closely related to the transmission tower business, Mr. John R. Morrill, of Kearney-National, Inc., commented on the effect of the remission of these turnover taxes on circuit breakers. He cited a striking example to demonstrate the importance of the remission of these taxes on the ability of foreign manufacturers to sell in the United States market:

"In addition to such grants, these governments also give credits or rebates of taxes because of export shipments. They suspend excise, value-added or turnover taxes which would normally be paid on materials these manufacturers use.

"In France, the remission of the value-added tax allows a French circuit-breaker manufacturer to sell a high-voltage breaker in the US at around \$200,000 while the French power system pays around \$350,000 to these same manufacturers for comparable breakers. US suppliers price comparable breakers at \$300,000.

"Furthermore, foreign governments finance development programs. It seems likely that French President Charles deGaulle did this for the French manufacturer, Delle, so that Delle could develop the 735-kv circuit breakers for Hydro Quebec." (Electrical World, March 11, 1968)

TREASURY'S INTERPRETATION OF COUNTERVAILING DUTIES COVERED BY GENERAL AGREEMENT ON TARIFFS AND TRADE

The United States is a contracting party under the General Agreement on Tariffs and Trade (commonly referred to as GATT). The GATT permits signatory nations to impose countervailing duties, but under more stringent requirements than those of our domestic legislation. Article VI of the GATT, the pro-