1. EEC Border tax harmonization on a value-added tax system will have a significant effect on trade. The harmonized value-added tax at about 15 percent will mean further substantial tax remissions for EEC exporters. The impact on imports will be equally great. Altogether producers in the EEC are likely to have a substantial competitive cost advantage in comparison with non-TVA tax country producers (USA). The advantage is great enough to have a substantial effect on the ability of U.S. producers to compete in world markets.

2. Anticipating that EEC will harmonize on a value-added tax at about

15 percent, a similar system of border tax adjustments may become essential

for the U.S. in oder to be equivalently competitive.

3. The remission of TVA taxes will provide producers in TVA tax countries with a large cost advtange in comparison to U.S. producers on exports to third country markets which are the major growth areas for exports for the future. This competitive disadvantage for U.S. exports will have a limiting effect on exports and, therefore, adversely affect the U.S. balance of payments. The effect on third country markets will also apply to LDC's which will increasingly be deprived of the products of U.S. industry.

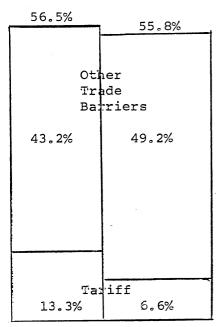
4. The substantial and differential cost effect of c.i.f. vs. f.a.s. valuation and border tax adjustments calls for a continuing international discussion to identify

and manage dislocations of trade.

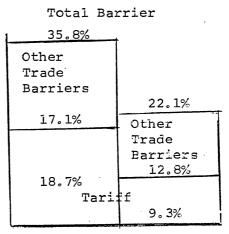
The significance of border taxes and their effect on costs-of-entry is shown by an examination of the effect of the implementation of the Kennedly Round Agreement on tariff rates plus the planned EEC TVA tax harmonization, assuming 14.7% as the harmonized rate. The chart below shows costs-of-entry for EEC and for the U.S. before and after full Kennedy Round implementation and border tax harmonization,⁸ for the same 14 chemical products under discussion:

Comparative Costs-of-Entry 14 Chemical Products

Total Barrier



Pre Kennedy Kennedy Round Round +Separate Package +Harmonized TVA



Kennedy Round Pre Kennedy +Separate Package Round +Harmonized TVA

⁸ Data based on Comparative Cost-of-Entry into United States and European Chemical Markets, Horace J. DePodwin Associates, Inc., February 1966. Further updated information derived from Chemical Tariffs and Cost-of-Entry, William F. Christopher, April 20, 1967 and Updated Cost-of-Entry Study, SOCMA, 1968.