

The commercial consequences of this one-way street in government procurement are set forth in detail in a technical brief and supplementary letter which General Electric recently submitted to the Trade Information Committee (TIC) in connection with the TIC's current study of U.S. trade policy. We are attaching the brief and supplementary letter to this statement for inclusion in the record of hearings on H.R. 17551, should the Committee consider it appropriate.* Suffice it here to summarize briefly the trade consequences of these exclusionary procurement practices of foreign governments in heavy electrical equipment:

(a) U.S.-made equipment is denied access to large and potentially profitable markets, to the detriment of the U.S. industry, its employees and the national trade account.

(b) Because their home markets are totally insulated from the discipline of outside competition, European manufacturers, in close cooperation with their customers, the nationalized power authorities, obtain all domestic orders at high profitable prices—prices which are generally higher than U.S. manufacturers obtain from U.S. utilities.

(c) With the assurance of steady home market orders at high prices, European manufacturers sell into this country, to both public and private utilities, at prices substantially below what they charge at home—20 to 50 per cent lower. Sometimes the foreign price in the U.S. market is at or below cost, as shown in our brief to the TIC. This is more than sporadic "incremental" pricing to get rid of excess capacity. It is a calculated long-term strategy of dual-pricing to capture, hold and enlarge the largest single market in the world for high-voltage electrical equipment which is at the very forefront of today's technology.

(d) An artificial competitive imbalance has fastened itself on the international trade of this equipment to the point that such international trade is a one-way street. Let us continue the U.S. commitment to open markets in this country. Let us also realize that the competitive imbalance, inequitable on its face and commercially disadvantageous to U.S. trade, will continue as long as the one-way street is permitted.

Second, the tax structures of most of the European trading nations, which impose equalization charges on imports (border taxes) and provide for remission of internal taxes on exports, confer a major trade advantage on those nations. Their indirect border tax system is not trade-neutral in its effect on the U.S. competitor who is operating under a direct tax structure.

The attached General Electric brief and supplementary letter to the Trade Information Committee, referred to earlier, also contain specific detail with respect to some of the trade consequences of the so-called border tax system. In this statement we would only emphasize our belief that the theory of tax shifting, direct taxes versus indirect taxes, which underlies the GATT rules with respect to imposition of equalization charges and remission of internal taxes for exports, should be re-examined and empirically tested for soundness, particularly the relationship of tax shifting to elasticity of demand. Until this is done, U.S. trade cannot be expected willingly to accept the trade disadvantages which flow from a theoretical rationale which has been allowed to stand untested for too many years.

Here, then, in bare outline, are the dimensions of two non-tariff barriers which have significant impact on U.S. trade and our competitive position in world markets.

We suggest that U.S. trade policy, as enunciated by statute, regulation and administrative practice, can and should seek to eliminate or at least reduce these barriers in two ways: (1) by international negotiation, and (2) by review and amendment of those U.S. laws and regulations which are intended to protect against unfair foreign competition.

First, continuing international negotiations to remove these barriers must be given priority. This is why we specifically support the provisions of H.R. 17551 which would extend the President's tariff negotiating authority and authorize funds for U.S. participation in the GATT. Such participation, on the strongest and most enduring basis possible, is an essential element of U.S. trade policy because it is in this international forum, as supplemented by

*The General Electric brief submitted to the Trade Information Committee included, as a separate attachment, a number of confidential exhibits which set forth cost and price information about foreign-made equipment. Should the Committee or the Committee staff wish to examine these exhibits they can be made available on a confidential basis.