We are, however, strongly opposed to the enactment of H.R. 10178, H.R. 10686 and related oil import quota bills. In their present form, these bills would tighten th noose of higher raw material costs firmly around the neck of the domestic petrochemical industry.

A healthy, vigorous chemical industry is essential to our national security.

A competitive chemical industry is essential to a favorable balance of trade.

Access to foreign petroleum raw materials is essential in both cases.

Appendix No. 1

Effect of European Tax Harmonization

1. Under the so-called turnover or "cascade" tax system effective through 1967 in all of the EEC countries except France, from a given total invoice price to the ultimate buyer the domestic producers and suppliers who contributed directly or indirectly to manufacture of the product were required in effect to pay to their government the sum total of all the turnover taxes levied upon each exchange of goods and services required for its production, and pyramided upon each other including the 4% tax on the ultimate sale. Under these conditions total accruing tax burden carried by a product through final sale ranged upward from a theoretical minimum of 4% (for a product produced by a completely integrated industry requiring no outside purchases and only one final sales transaction), up to 20% or more for products involving several purchase and sale transactions prior to final sale.

2. In the case of Germany the government has estimated that for industry as a whole the accrual or "cascade" effect produced an average total tax burden of 12% of value of final product. (See Surrey speech before NICB 2/15/68.) However, because the petrochemical industry is relatively highly integrated, the total turnover tax on such products was considerably less than the industrial average.

With regard to Germany we were advised through the German government that this average was only 7.2% of final sales value, which under the accounting methods used included the "cascaded" value of all turnover taxes paid. As a percentage of *sales value net of tax*, this 7.2% becomes 7.8%.

3. With the change to the so-called value-added tax system (TVA) there is to be a harmonization for the entire EEC which will result by 1972 in a uniform single tax of approximately 15% *on sales value net of tax* paid by the ultimate buyer and in theory shifted entirely to him. It should be recognized that philosophically the German government evidently looks upon the previous "cascaded" turnover tax as having in effect been passed on to the ultimate consumer in the selling price, even though from the accounting standpoint it actually went into the operating cost of the producer. Therefore, it is not expected that producers will profit significantly long term by the change in system but will follow a pricing policy which eventually will result in only the *increase* in overall tax burden being shifted to the consumer under the new TVA approach. Another way of saying this is that the netback to the producer after TVA has been paid by the ultimate buyer should be no more than the producer's netback after the turnover taxes which he previously paid. This in turn requires under TVA that selling price to which TVA is added must be lower by 7.2% than selling price under the old system which included tax.

4. In the case of the German petrochemical industry the average increase in total tax burden on domestically produced product under the first stage of TVA now in effect would theoretically be 2.2 percentage points—the difference between the 10% added to selling price (before tax) and the 7.8% average formerly paid (on selling price net of tax). Price trends in the industry beginning immediately after January 1, 1968, actually show that the net selling price to which TVA is now added averages only about 5% below the former selling price including tax, which means that the netback has been temporarily increased in the order of 2%. Since prices are still deteriorating, we expect that when the second TVA change to 11% takes place they will be down by about the full 7.2% to the level where the netback position of the producer after all indirect taxes have been paid *would be the same* as under the previous system. Thereafter, even when the final increase in TVA to 15% is made in 1972, it is not