

[In cents per pound]

|                                                     | Domestic<br>product | Imported<br>product |
|-----------------------------------------------------|---------------------|---------------------|
| Under cascade turnover system:                      |                     |                     |
| Selling Price to Customer (Total Invoice Cost)..... | 100.0               | 100.0               |
| Less: Tax paid by seller.....                       | <sup>1</sup> 7.2    | <sup>4</sup> 4.0    |
| Netback after indirect taxes.....                   | 92.8                | 96.0                |
| Under TVA:                                          |                     |                     |
| Selling price (netback).....                        | 92.8                | 92.8                |
| Plus: Tax paid by buyer.....                        | <sup>2</sup> 13.9   | <sup>2</sup> 13.9   |
| Total invoice cost to buyer.....                    | <sup>3</sup> 106.7  | 106.7               |
| Loss in netback.....                                |                     | <sup>5</sup> 3.2    |

<sup>1</sup> 7.8 percent of 92.8.<sup>2</sup> 15 percent of 92.8.<sup>3</sup> 6.7 percent higher than previous selling price (or 7.2 percent of TVA selling price).<sup>4</sup> 4.3 of 92.8.<sup>5</sup> 3.5 percent of 92.8.<sup>5</sup> 3.33 percent of 96.0.

As shown in the foregoing table, the importer must by 1972 reduce his selling price at the border (before tax) by about 3.3%, and a reduction of this order of magnitude will indeed be significant. Because of the many additional costs inherent in export business, profit margins are low. In fact, a 3.3% reduction in net price can mean 50%-70% reduction in profit. This is more than enough to seriously impair effective marketing export programs and the ability to be competitive. In the case of some products it can mean the difference between profit and loss, and depending upon tariff level, it can more than offset the potential benefit from the 20% tariff reductions called for by the KR negotiations.

8. As far as UCC is concerned, the disadvantaging effect of the change to TVA can be approximately quantified overall in terms of dollar loss on exports to EEC countries by determining for each country the approximate percentage reduction in netback, and then applying this percentage to total export value at the border of each country. In our study, because our sales figures at the border include tax, we have used the lower percentages, such as 3.2% in the case of Germany, which apply to the gross sales value. In total, it is estimated that the harmonization of EEC tax systems into a uniform TVA system of 15% will produce by 1972 an adverse effect on UCC export profit amounting to approximately \$580,000 annually.

Another important feature of the change in EEC tax systems which can have a significant effect competitively on American exporters in third countries, and into the United States as well, is the fact that under TVA the EEC competitive producer can export completely free of indirect taxes. Under the previous cascaded turnover tax system, it was the intention to exempt exports from indirect taxes as well. It was, therefore, the procedure to forgive the final turnover tax on the last transaction—that is, 4% in the case of Germany, but the remainder of the cascaded effect had to be estimated.

In the case of Germany the government estimated that this remainder would amount to an average of 2% for the chemical industry which of course was an underestimation of 1.2% because the total tax burden on the German producer was 7.2%. In other words, the German producer actually paid 1.2% indirect tax on his exports—namely, 7.2% minus 4% minus the 2% balancing rebate allowed by the government.

Therefore, when the domestic producer became completely free of tax on exports with the change to TVA, his netback on exports was improved by this 1.2%. This of course can be used, in whole or in part, to cut prices either in export or domestic in order to gain competitive advantage without overall loss of profit.

Hence, the new TVA system can provide incentive to the domestic producer with a proportionately large export business even to reduce his domestic profit through price cutting without necessarily reducing his overall global profit.