

Since the EEC competitive producers have as much as 3 or 4 times the export business outside of the EEC as do American producers outside of the United States, this increased export tax rebate is an important consideration in international competition, not only from the standpoint of exports into the United States from the EEC but also into third countries.

9. It seems evident that increasing EEC border taxes from 4% to the same relatively high level of 15% eventually applicable to domestic production under TVA is inequitable and in effect discriminates against imported product from countries where no border tax is applied to imports and indirect taxes exist but are not applicable to imports. In other words, German product comes into the United States free of U.S. sales and other indirect taxes, whereas U.S. product going into Germany must pay an indirect tax eventually increased from 4% to 15%.

APPENDIX No. 2

This Appendix presents a detailed analysis of the potential gains and losses to Union Carbide from KR duty changes and revisions of the EEC tax systems in the environment of European petrochemical overcapacity. The basic principles and assumptions used were as follows:

1. 91 products were analyzed individually for the potential import effect into the U.S. of KR duty reductions and export rebate advantage to foreign competition. The domestic sales of UCC for these products in 1967 were \$579,000,000, or 62.5% of the total UCC chemical sales of \$926,000,000. For various business reasons such as price level, capacity, service requirements, etc., it was felt it would not be possible for foreign competition to reduce prices into the U.S. by the full amount of the KR duty reductions. Accordingly, each of the 91 products covered in the study was carefully considered individually from the standpoint of all pertinent marketing and competitive considerations. This resulted in assumed price reductions on the part of importing competitors, all met by UCC, varying from zero (48 products) to 100% of the full theoretical advantage from KR duty reduction plus improved export tax exemption effect (22 products). In addition, we assumed a further loss of profit which would result owing to some inevitable loss of business—taken at 5% of domestic sales. The total estimated loss of profit for these 91 products was then extrapolated to be applicable to total sales. (As mentioned in the main body of the report, the specific result for our domestic business is not disclosed here because of its confidential nature.)

2. Approximately 25 products representing about 70% of total UCC chemical product exports into the EEC countries were analyzed individually and by countries for probable effect on UCC of KR duty reductions and disadvantaging from change in tax systems. In all EEC cases it was assumed that 100% of the duty cuts would accrue to UCC in terms of increased netback because margins on these products are so relatively low and the percentage reductions so comparatively small as to render price reductions unsound from the marketing standpoint for the purpose of attempting to increase volume. Furthermore, detailed individual consideration of all products not now being exported to EEC owing to insufficient netback in the U.S., did not reveal any significant new export opportunities resulting from duty reduction.

After obtaining netback changes in this manner on 23 products, these were then extrapolated to reflect the probable effect on total UCC export sales volume to the EEC. Examples of the method in which these netback changes were developed, both on exports into EEC and imports into the U.S., are set forth in detail on computer models for six major products as attached hereto on Schedules 1-6.

3. As explained in Appendix No. 1, the total turnover tax burden was 7.2% on the selling price (including tax) for an integrated German chemical producer. Using this figure for the domestic German producer and 4% for the Border Tax paid by the importer, the comparative potential change in netback after tax for each was calculated for Germany as illustrated in the appended examples, Schedules 1-6. Similarly, by adjusting the various turnover tax rates for the other countries to put them into the same integrated relationships as the German 4.0% compared with 7.2%, estimated tax relationships on a comparative basis were arrived at for other EEC countries as set forth in the following tabulation (percentages being based on selling price including tax).