

[In percent]

Country	Basic turnover tax rate	Cascaded turnover tax on domestic producer	Border tax	Relative loss in netback to importer under TVA ¹
Germany.....	4.0	7.2	4.0	-3.2
France ²				0
Italy.....	4.0	7.2	8.2	+1.0
Belgium.....	7.0	12.6	7.0	-5.6
Holland.....	6.4	11.5	6.4	-5.1
Luxembourg.....	3.0	5.4	3.0	-2.4

¹ See app. 1 on tax harmonization for method of determination.² Since France was already using the TVA system, no additional relative disadvantage was assumed for the importer.

These relative loss-in-netback percentages were then applied to total export sales value (including tax) into each EEC country individually in order to quantify the disadvantaging caused to UCC by the change in tax system.

Conversely, with respect to exports to third countries made by competitive producers of chemical-type products in countries formerly utilizing the cascaded turnover system of taxes, the change to the TVA system will in effect result in an improvement to their netback on exports from increased rebate, to the extent of about 1.2% as explained in Appendix #1 on European Tax Harmonization. This increase of 1.2% can and probably will be utilized to some degree as a competitive advantage in third countries by enabling competitive producers to translate it either partially or wholly into export price reductions.

5. (a) Although there are indications that the EFTA countries will also undertake indirect tax harmonization along the same lines as the EEC, only Denmark has so far switched to TVA, and here the export sales of UCC are not large enough to expose UCC to significant disadvantaging from change in tax system in comparison with domestic producers. Having insufficient information with respect to other countries, we are not in a position to attempt to quantify, but it seems likely that tax disadvantaging similar to that being experienced in the EEC will eventually take place.

(b) Since the EFTA countries are in effect "Third Countries" as far as the large EEC and U.S. chemical producers are concerned, and because of the 1.2% rebate advantage on exports that the EEC producers will obtain from the change to TVA, it cannot be assumed that the KR duty reductions will translate 100% into increased netback to UCC. Particularly in view of the large excess capacity building up in the EEC, it must be conservatively assumed that under these conditions the EEC competitors will take advantage of the EFTA duty reductions in terms of price cutting, at least to the extent of half the duty reduction, plus utilization of the 1.2% rebate improvement, in an attempt to expand export volume thereto.

(c) As far as new volume opportunities from KR duty reductions are concerned, we believe that this would be significant in terms of additional UCC exports only in the case of the UK, where the reductions in tariff barriers are relatively large. After detailed individual consideration of all major UCC products, and taking into account our UK producing facilities, an increase of 10% in export sales volume to the UK is the most that could be expected with 50% duty reduction assuming ASP repealed. Otherwise, the increase is estimated at 5%.

(d) Applying the above criteria individually to products again representing about 70% of total UCC exports to the EFTA countries, the results with respect to improvement in netback to UCC thereby obtained were extrapolated to the total sales volume to EFTA.

6. Criteria used in arriving at effect on UCC export business to all countries other than EEC and EFTA (30% were accounted for by sales to Canada and Japan) were as follows:

(a) In all of these countries an American producer such as UCC could be subject to adverse competitive effect through price cutting resulting from the 1.2% rebate advantage of the EEC producers. Also, it has been assumed that additionally this adverse effect will result in an estimated 3% loss of export volume in all countries except Canada and Japan.