

keep U.S. chemical production healthy and not just to provide a means of transition to production of other products. It is equitable and reasonable from an economic viewpoint to apply the same adjustment assistance tests to industries as those applied to employees.

Now, there are other issues to which our attention has been directed for these hearings. The one to which I direct your attention next is that relating to balance of trade and proposals for increasing our exports. The spotlight must, of necessity, fall upon the indirect taxation system used by many European countries to excellent advantage both in domestic and foreign markets.

In 1963, this industry described European border taxes to the Department of Commerce as nontariff barriers affecting trade. In February 1966, after a year of survey and study, the industry provided the Office of the Special Trade Representative a detailed study on the effect of the European indirect tax system on U.S. chemical exports. Before the conclusion of the Kennedy round in February 1967, the chemical industry provided another updated report to emphasize the expected impact of rising border taxes in the EEC. It was, Mr. Chairman, unfortunate and a mistake, we believe, that border taxes were not dealt with in the Kennedy round.

Our studies show that the charges, tariffs, and border taxes combined, on U.S. products shipped to the Common Market countries will actually go up as a result of higher border taxes, that will more than offset the tariff cuts generated in the Kennedy round. Further, we must meet in both the United States and third markets exports from these countries which have received tax rebates as an export incentive.

The most striking demonstration of the effect of a change in the indirect tax system is that made by Germany on January 1, 1968. That country changed from a cascade turnover tax system to a value-added system. The rate applied changed from 4 percent on chemicals to 10 percent; and will further increase to 11 percent this year. The price changes in Germany occasioned by this switchover are complex but we are convinced that imports of chemicals into Germany have been disadvantaged in comparison with the domestic producer of the same product in Germany. The net trade effect, therefore, has been negative to the United States. Further, the domestic producer in Germany will gain an additional advantage when he sells in foreign markets including the United States, and his tax rebate increases from 4 percent to 10 percent and to 11 percent.

These internal tax changes have been unilateral, they have reduced the competitive position of U.S. exporters, and there has been no reciprocity through compensating changes in tariff rates. Accordingly, the chemical industry believes that the United States needs to adopt measures affecting both U.S. imports and exports that will tend to restore the balance. As a first step, the United States could impose a border tax equivalent to the sum of indirect taxes imposed on U.S. manufacturers (both Federal and State) and rebate such taxes on exports. Secondly, an attempt should be made to have the GATT rules amended to allow for rebates to U.S. exporters on direct taxes, as well as indirect taxes. The National Expansion Council of the Commerce Department has recommended measures to increase U.S. exports including tax incentives, and I urge you to study these reports.