

competitors. So even if we were to view the "separate package" as a separate package—which it is not—the domestic chemical industry is clear that it would cause more harm not only to the industry and its workers, but to our country's balance of payments as well. This is not to say that there would be *no* benefits from the additional 30% cut by the foreigners, but only that whatever benefit we might derive in their markets would not be comparable to the benefits which they would obtain in ours.

Thus, no matter how you cut it, there simply is no reciprocity in the "separate" package. Indeed, it is difficult to see where there is really any independent consideration at all. This is the second way in which the United States and its chemical industry were deprived of reciprocity.

#### IV. BORDER TAXES AND EXPORT REBATES DISADVANTAGE U.S. TRADE AND MAKE THE CHEMICAL DEALS MORE UNRECIPROCAL

This brings me to the third way in which the Kennedy Round lacked reciprocity—that is, the border tax-export rebate mechanism employed by our principal trading partners. This mechanism disadvantages not only chemicals, but the entire spectrum of United States trade. I mention chemicals particularly, because since the beginning of the negotiations, the United States chemical industry has been complaining long and hard about these trade barriers, but to not avail.

*Invalidity of GATT ground rules.*—The ground rules set forth in the General Agreement on Tariffs and Trade have been interpreted as distinguishing between indirect taxes, such as turnover taxes, and direct taxes, such as income taxes, on the theory that turnover taxes are passed forward to the consumer, while income taxes are passed back to the producer. On the assumption that turnover taxes are taxes on domestic consumers, many of our principal trading partners apply these taxes to imports at the border and then rebate (or exonerate) such taxes on exports.

The invalidity of this distinction is manifest. We were pleased to see that the Government now accepts the consensus of economic opinion today that both taxes are passed forward to the consumer as much as the law of supply and demand will permit. An assumption that both forms of taxation are passed fully forward is certainly closer to economic reality than the assumption that one is always passed wholly forward while the other is always passed wholly backward.

*Disadvantages to U.S. trade.*—The use of this border tax-export rebate mechanism places the United States at a serious competitive disadvantage in international trade, impairs the value of tariff concessions made to us, and increases the value of tariff concessions we make to other countries. Until January 1 of this year, this mechanism disadvantaged our trade in two ways.

First, it forces our exports to bear not only the entire U.S. tax burden but, via the border tax, approximately half the total tax borne by the similar product in Common Market countries. At the same time, foreign turnover tax rebates subject U.S. industries to unfair competition from imported products which have to bear only about 50% of their domestic tax burden and none of the tax burden borne by similar products in the United States.

*Effect on tariff negotiations.*—Second, the adverse effect of the border tax and export rebate increases markedly as tariffs are reduced. European countries reduce only a part of the over-all barrier to our exports, while we reduce our entire barrier to theirs. Even if one were to accept the dubious negotiating position that equal percentage reductions in over-all trade barriers constituted reciprocity, it is clear that we have not been receiving it. If we reduce our entire trade barrier (tariffs) by 50% while they reduce only half of their trade barrier (tariffs plus border taxes) by 50%, we end up having reduced by twice as much as they have.

It is extremely difficult to understand how we could expect to obtain any semblance of reciprocity in the Kennedy Round, in which we made the largest tariff reductions in our history, without first requiring our trading partners to remove these unfair disadvantages to U.S. trade.

#### *Border Tax Export Rebate Increases*

In fact we did even worse: we negotiated the Kennedy Round agreement knowing full well that the Common Market countries were in the process of "harmonizing" their turnover taxes in such a way that the border taxes and export rebates of most of these countries would be increased drastically. Indeed, on June 2, 1967, almost a month before the deal was finalized, Germany passed a law increasing its border taxes and rebates from 4% to 10%.