

As a consequence of our failure to take into account border taxes in the Kennedy Round negotiations, we are now faced with the fact that in most of the Common Market countries the barrier to our exports will actually be higher after the full Kennedy Round reductions than they were before the agreement. Moreover, their increased export rebates, when combined with our tariff reductions, will result in a situation in which their rebates will completely offset the total amount of our remaining tariff.

What's happening in Germany?

Let me demonstrate by showing what is happening in Germany, our principal trading partner in the Common Market. Until December 31, 1967, the Germans had a "cascade" type turnover tax under which goods were taxed 4% each time they changed hands. Because of the taxes already included in material which went into a product and because the goods might change hands several times in the distribution process, the total level of tax borne by the product was considerably higher. A border tax of 4% was applied to most imports, and exports received a rebate or exoneration of a similar amount.

On January 1 of this year the Germans switched to a "value added" type turnover tax of 10%, and the border tax and export rebate were increased to 10%. Both of these taxes will be increased to 11% on July 1, 1968. The German Government claims that the over-all tax burden within Germany was not increased as a result of its change. The Germans maintain that an 11% tax on the "value added" basis yields the same amount of revenue as a 4% turnover tax on a "cascade" basis—the average burden on German products is the same. But the border tax and export rebate have in fact more than doubled.

Whether or not the adjustment in German border taxes and export rebates is in accord with the unjustifiable distinction currently made in the GATT, the fact of the matter is that U.S. exports to Germany will have to pay more than twice as much border tax in order to enter the German market as before. German exports with which we will have to compete, both in the U.S. and in third country markets, will have the benefit of twice as large a tax rebate.

If we accept—as we should—the German premise that the over-all tax burden within Germany remains the same, two conclusions follow: (1) the competitive position of U.S. goods entering Germany is disadvantaged by 7% and (2) the competitive position of German exports to the U.S. and to third countries is enhanced by 7%, the amount of the additional rebate.

Effect of German Border-Tax Increase. The result of this border tax increase is shown on Chart I on the facing page. [Chart I appears in Mr. Barnard's oral testimony; Table I in support of that chart is as follows:]

TABLE I.—GERMAN BARRIERS TO U.S. CHEMICAL EXPORTS
[Percent of c.i.f. value]

	Tariff ¹	Border tax ²	Total trade barrier ³
Dec. 31, 1967.....	11.5	4	15.5
Before Kennedy round reduction and border tax increase.			
Jan. 1, 1968.....	13.5	10	21.5
After border tax increase.			
July 3, 1968.....	11.7	11	22.7
After full EEC Kennedy round reduction.			
Jan. 1, 1972.....	7.1	15	22.1
Under separate package reductions and tax harmonization at 15 percent.			

¹ "CCH Common Market Reporter," par. 9227 (April 1968), from data released by the EEC.

² Before Jan. 1, 1968, the normal German border tax was 4 percent of the duty paid landed value, with a higher rate permitted for some products. Effective Jan. 1, 1968, the German border tax was raised to 10 percent of the duty paid landed value and a 11-percent rate became effective July 1, 1968. By the early 1970's, the EEC countries plan to harmonize their turnover taxes, border taxes, and export rebates at approximately 15 percent. No adjustment has been made in the border taxes to reflect the fact that they are based upon the duty paid landed value rather than the c.i.f. value. In each case it would result in a border tax about 1-percent higher than shown on this table.

³ Tariff plus border tax equal total barrier.

On December 31, 1967, the average German chemical tariff was 11.5%, and a border tax of 4% was assessed on the duty-paid landed value of the import: the total barrier—tariff plus border tax—was 15.5%. Actually this understates the barrier slightly because the 4% border tax was applied to the duty-paid landed value and, consequently, on the basis of c.i.f. value, was approximately 1% higher; but for the purposes of simplicity we have not reflected this on our chart.