

On January 1, 1968, the border tax was raised 6 percentage points to 10%; the total barrier, therefore, rose by a similar amount to 21.5%. On July 1, the border tax will go up another 1% to 11% and the tariff, as we pointed out earlier, will also increase .2% despite their 20% "reduction". This "reduction"—their total chemical "reduction" in the Kennedy Round deal—will increase their total barrier to 22.7%.

In other words, under the completed Kennedy Round agreement on chemicals, German chemical tariffs will actually be .2% higher than they would have been before the Kennedy Round, and the border tax will be 7% higher. Instead of it costing 15.5% for our products to enter Germany, it would cost 22.7%. And remember, the Germans claim that the over-all tax burden within Germany has not been increased.

But that's not all. Even if we assume that under the "separate package" the Germans reduce their chemical tariffs by 50%, and continue with the present plans of harmonizing turnover taxes at about 15%, our chemical exports will be almost just as bad off—the total barrier will only have been reduced from 22.7% to 22.1%—but that must be compared with the barrier of 15.5% before the Kennedy Round. As Mr. Turchan said earlier, what they have given with one hand, they have more than taken away with the other. This must have been what the U.S. Delegation meant when it recently told GATT that changes in border taxes "may often dwarf recently negotiated trade concessions".

Effect of Increased German Export Rebates. The increased German border taxes are only one-half the story, as Chart II on the facing page demonstrates. Chart II appears in Mr. Barnard's oral testimony; Table II in support of that Chart is as follows:

TABLE II.—U.S. BARRIERS TO GERMAN CHEMICAL EXPORTS

[Percent of export value]

	U.S. tariff ¹	German export rebate ²	Effective U.S. tariff ³
Dec. 31, 1967.....	15.9	4	11.9
Before Kennedy round reduction and export rebate increase.			
Jan. 1, 1968.....	14.4	10	4.4
After 1st U.S. tariff reduction and German export rebate increase.			
July 1, 1968.....	14.4	11	3.4
After further export rebate increase.			
Jan. 1, 1972.....	9.1	15	-5.9
After full U.S. Kennedy round reductions and EEC tax harmonization at 15 percent.			

¹ Weighted average U.S. chemical tariff on dutiable imports before Kennedy round reductions were estimated by the Government to be "almost 16 percent" (Government statement, p. 46). The U.S. tariff after full Kennedy round reduction was obtained by reducing 15.9 percent rate by 43 percent, by the average U.S. reduction in chemical tariffs in the Kennedy round (see Government statement, p. 38).

² Before Jan. 1, 1968, the German export rebate (or tax exoneration) was 4 percent of the price in Germany, with a higher rate permitted for some products. Effective Jan. 1, 1968, the German rebates rose to 10 percent and will move to 11 percent on 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.

³ U.S. tariff minus German export rebate equals effective U.S. tariffs.

The German rebates offset the U.S. tariff. As the rebates increase, the offset becomes progressively greater until by 1972 the entire tariff will be offset and what we have termed the "effective tariff" will actually be a minus.

On December 31, 1967, before we began our Kennedy Round cuts, the average U.S. chemical tariff on dutiable goods was almost 16% (Government Statement, p. 46), about 4% of which was offset by the German export rebate. This left an effective tariff of about 11.9%. On January 1, 1968, after our first Kennedy Round reduction, our average chemical tariff became 14.4% and the Germans increased their export rebate to 10%. This left an effective chemical tariff of only 4.4%.

On July 1, 1968, the German export rebate will increase another 1%, reducing the effective U.S. tariff to 3.4%. After our final Kennedy Round reduction on January 1, 1972, the average chemical tariff would be 9.1%. Assuming EEC harmonization of indirect taxes at 15%, the 15% German export rebate would leave us an effective tariff of *minus* 5.9%.

Invalidity of comparing tariff levels without regard to border taxes

The invalidity of examining tariff rates alone without regard to border taxes is demonstrated on pages 45-6 of the Government testimony and in Table 8