low-priced imports and further impair its ability to withstand import price pressures.

By the time these hearings are concluded, this Committee will have heard extensive and detailed testimony from representatives of the domestic benzenoid chemical industry describing the import problems faced by that industry and its importance to the national economy. We in Du Pont subscribe to the views expressed by the Manufacturing Chemists' Association and the Synthetic Organic Chemical Manufacturers Association.

BORDER TAXES

There has been a great deal of discussion recently about the impact of taxes imposed at foreign borders on goods exported from the U.S., particularly with respect to the switch which Germany made the first of this year from a cascade-type turnover tax to a value-added-type tax which France has had for many years and which most of the other countries in Europe have indicated they will adopt.

The nature of the competitive disadvantages to American chemical manufacturers because our trading partners use different tax systems and the reasons for them are fully analyzed in the statement submitted to this Committee by the Manufacturing Chemists' Association (MCA). Our own independent studies corroborate MCA's report.

MCA reported two principal disadvantages to American chemical manufacturers: first, the switch by our trading partners from one indirect tax system to another, and second, the fact that the economic realities of the market place often do not permit indirect taxes including value-added taxes to be shifted forward completely to the consumer. Both disadvantages in many cases decrease the profitability of American chemical export sales and increase the profitability of export sales by foreign competitors, including the profitability of their export sales to the U.S.

We have had several discussions with the Office of the Special Representative for Trade Negotiations concerning these competitive disadvantages, particularly that resulting from the German switch to the value-added tax. What has emerged from these discussions is, we believe, general agreement that American chemical manufacturers have been disadvantaged by the switch to a value-added tax system and may be further disadvantaged by the fact that value-added taxes often cannot be shifted forward completely. There is an increasing awareness in commercial and financial circles of these disadvantages and their significance to many American exports. In a recent speech,[6] Walter B. Wriston, President of the First National City Bank of New York, describes them as "Gattmanship" which he defines as "lowering tariffs but hindering imports from the United States." He frankly acknowledges that up to this point their significance has not been widely understood because the tax structure is so complex and because the interaction of the border taxes and rebates is so difficult to trace.

The Office of the Special Representative has indicated that it would like industry to supply it with specific product examples quantifying the impact of these disadvantages and we expect to do so. However, from the work already done, the disadvantage caused by the switch is clear although its magnitude differs depending on the tax burden borne by the product prior to the switch and may never reach a market-place equilibrium. The trouble is that the key information to enable a product-by-product analysis to be made is not available to domestic industry or to the U.S. Government. It is held by the domestic industry of the foreign country and the government of that country.

We believe the present situation is that the Office of the Special Representative has had sufficient reliable information furnished it by industry to establish the fact of the competitive disadvantage to U.S. manufacturers resulting from a switch to the value-added tax to warrant that Office's taking up the subject with those countries who have switched and those who are contemplating the switch and insisting that immediate steps be taken to compensate for or remove the disadvantage. We understand that at a recent meeting of representatives of the member countries of the General Agreement on Tariffs and Trade (GATT) a representative of the Office of the Special Representative for Trade Negotiations raised the border tax problem. However, we do not know how strong a position has been taken on behalf of the United States.

---

[6] Apr. 23, 1968.