

the target of this statute. Unfortunately, more than a year of negotiation has failed to reach agreement on the terms of reference of this Working Party. The European Community has not found it possible to agree to a basic examination of all export subsidies.

Progress in the review of border taxes received a boost from President Johnson's New Year's Day Message in which he called for both short-term and long-term trade measures to improve our trading position:

"American commerce is at a disadvantage because of the tax systems of some of our trading partners. Some nations give across-the-board tax rebates on exports which leave their ports and impose special border tax charges on our goods entering their country.

"International rules govern these special taxes under the General Agreement on Tariffs and Trade. These rules must be adjusted to expand international trade further."

Border Tax Adjustments

In 1968 a new Working Party was established on the question of border taxes.

The rules of the GATT permit goods sold for export to be relieved of the indirect taxes the products would have borne if sold in domestic markets. There is no such privilege pertaining to direct taxes. Imported products are burdened with the domestic indirect tax. These rules were established over twenty years ago, when indirect taxes were low. In the late 1940's they were employed by relatively few countries, and covered only a small portion of the volume of goods traded internationally. With the rapid growth of world trade and the increased revenue needs of the industrial nations, the use of indirect taxes broadened and their levels rose to rates undreamed of in 1946. With regard to the experiences of recent years and the requirements of the future, it is necessary to renegotiate the GATT rules on border tax adjustments in order that they are more neutral or equitable with respect to trade.

The United States undertook this effort when it requested GATT in March 1968 to convene the Working Party agreed to in November, 1967. At the first meeting of the Working Party, last April 30, and in four subsequent meetings, the United States has explored, with its trading partners, the history, the provisions, and the implications of the existing GATT rules on border taxes. We have pointed out that countries which employ primarily a system of direct taxation are disadvantaged by the GATT trading rules, vis-a-vis countries that employ indirect taxes significantly. We have argued that there is absolutely no limitation under the existing rules of GATT on the degree of border tax adjustments permitted for indirect taxes. We