In the course of the six rounds of discussions in this Working Party, the background of the current GATT rules and practices of various countries on the border tax adjustments have been clarified. Our past discussions, I believe, will contribute a great deal to our future works in this group.

During the past twelve months, we have witnessed a series of trade-affecting measures taken by some countries in their attempt to cope with difficulties in the balance of payments. This Working Party might as well take note of these measures. Although these measures were applied under special circumstances, they bear certain apprehensive implications, in that they may have repercussions for other countries to resort to similar measures with a trade-distorting or trade-contracting effect. With this background in mind, I cannot but express my earnest hope that the GATT, as declared during the twenty-fifth session of the CONTRACTING PARTIES, will continue to keep in review the relation of trade measures with the international monetary problem, with a view to intensifying its efforts for the expansion of world commerce in the principle of free trade.

As the Working Party is about to embark upon the possible effects which the border tax adjustments may have on trade, I wish to make, at this stage, following comments.

Mr. Chairman,

As you are aware, the question of quantifying or assessing the effects of BTA on trade has been discussed on their various aspects in the OECD. These discussions appear to have produced a general consensus that BTA, as accompanied by modification of domestic tax system or alteration of rates of tax, may involve trade effects. At the same time, it was also generally recognized that it is difficult to measure such effects and that their assessment will necessarily have to take a number of complex factors into consideration.
As was pointed out on many occasions in the past the adjustment of indirect taxes at the border, which is generally accepted to be compatible with the present GATT rules on the ground of trade neutrality, may affect international trade, to the extent that the burden of such indirect taxes cannot be shifted to the price of goods in the domestic market.

However, it is also recognized that the amount of tax levied on the goods subject to BTA is generally evident in the case of indirect taxes, while it is extremely difficult to determine the rate of BTA in the case of direct taxes, even if a certain portion of taxes borne by industries should actually be passed forward. In other words, connection or correspondence between direct taxes and commodities eligible for adjustment is not clear-cut, and objective criteria cannot be found for determining the rate of adjustment. If therefore, the rate is somehow to be determined, it is bound to be arbitrary. For this reason, we believe that an inclusion of direct taxes in BTA is prone to engender serious distorting effects on international trade.

In this connexion, we believe that BTA on the so-called hidden tax or tax occulte should be avoided, since it may involve similar problems on the criteria of assessment as in the case of direct taxes.

In passing, I should like to mention that, in dealing with indirect taxes in relation to BTA, we consider it important, as one of the problems to be tackled in the future, to establish clearer definition and scope of the indirect tax under the GATT rules.

In conjunction with our discussions to be held on trade effects of BTA, I would like to refer to certain measures taken by the Governments of France and Germany at the time of the so-called European monetary crisis at the end of the last year.

We do not consider that these measures would pose problems with regard to the letters of the current GATT rules. It is at the same time conceivable that those or similar measures may in practice give no small impact to international trade, despite the fact that BTA has essentially as its objectives maintenance of neutrality of domestic taxation vis-à-vis international trade. It may in this sense be worthwhile for this Working Party to have opportunities to study possible trade effects of these measures.

In any case, the issue of trade effects of BTA is extremely complex. I hope in earnest that this Working Party will have a careful examination of this problem, with a view to furthering international co-operation and steady expansion of world trade.