STATEMENT BY REPRESENTATIVE OF CANADA ON 23 APRIL 1969

While we are not in a position to put forward formal Canadian views on the trade effects of border tax adjustments, we would like to offer the following preliminary remarks by way of introduction.

Notwithstanding the extended discussions we have had and the extensive information we have collected in previous meetings; it is probably not an exaggeration to suggest that we are not well equipped to deal with the question of trade effects of border tax adjustments. It seems a regrettable fact that we simply have neither the information nor the analytical techniques necessary to measure in any meaningful way the actual trade effects of such adjustments.

It does not follow, however, that because trade effects cannot be quantified, our further deliberations cannot be productive. But it is important to recognize that our examination of trade effects will rest perhaps as much on conjecture and intuition as on verifiable fact.

It is important also to recognize that the border tax issue is not simply an international trade issue. It is inextricably spliced with broader fiscal and monetary implications whose significance may vary considerably from one country to another.

These preliminary observations may seem obvious and perhaps trite. But they are important.

We have been exposed to a considerable amount of theorizing on the subject. And conceptually it may be tempting to conclude that, in trade terms, border tax adjustments should ideally be restricted to taxes, direct and indirect alike, to the extent that they are shifted forward in price. But how could this ideal be translated into a workable formula when the extent of shifting varies from product to product, from market to market, from time to time, from one type of tax to another and from one economist to another?
If the extent of shifting could be quantified in any meaningful way, the conclusion would be persuasive - at least it is persuasive when divorced from any consideration of the trade implications of international monetary arrangements, exchange rates and currency restrictions, international tariff and commodity agreements, government subsidies and expenditures, investment restrictions and guidelines and a host of other public-sector influences on price.

There is, of course, no simple answer to the question of where this leads us. We conclude only that the problem of border tax adjustments is but one aspect - admittedly an important one - of a much broader issue and must be recognized as such.

We have no fixed views on how the discussion on these basic issues might best proceed.

We believe, however, that attention might usefully be focused on at least three specific issues and we would hope that the discussion on trade effects might assist the Working Party to answer the following questions.

1. Is it appropriate for GATT signatories to seek deliberately to influence international trade by granting corporate tax incentives designed specifically to curtail imports or to expand exports? (In recent years a growing number of countries have introduced and extended special tax incentives for the express purpose of stimulating exports and of encouraging investment in import-competitive and export-promoting industries. The proliferation of such schemes is, we believe, a valid concern of this Working Party.)

2. Is there any practical way to discourage the improper use of selective excise taxes to discriminate against imports? (It is apparent that selective excise taxes are particularly susceptible to abuse.)

3. Is it possible to reach a generally acceptable definition of "taxes occultes" and, assuming it is, would it be appropriate to place restrictions on the extent to which such taxes may qualify for adjustment at the border? (In many countries, for example, fairly onerous indirect taxes are reflected in transportation costs. Some countries allow exports to be relieved of such taxes occultes. Other countries do not. In many countries the tax system does not permit an accurate calculation of the transportation tax occulte, and any border adjustment in respect thereof must necessarily be arbitrary.)

This listing of questions is not intended to be complete. Other countries may well have other questions. But we believe that they direct attention to three particular problems which are widely regarded as important and which might be susceptible to resolution.