STATEMENT BY REPRESENTATIVE OF THE FEDERAL REPUBLIC OF GERMANY
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Item 1(c) of the terms of reference concerns a very complicated problem. This problem has many sides. But when we penetrate into this problem step by step — and in the European Economic Community we have some experience with it since the creation of the Common Market for Coal and Steel — we come to four general remarks:

1. The first is that the tax structure theory cannot be expected to contribute to the solution of the question raised under item 1(c) of the terms of reference. Differing shares of non-adjustable and adjustable taxes in the tax revenue of the individual country do not permit to draw conclusions as to the effects of the presently implemented border tax adjustments on international trade and the countries' balances of trade. In particular, they allow of no conclusions on the question whether countries with a relatively high share of non-adjustable taxes in their tax revenue are handicapped in international trade, and countries with a high rate of adjustable taxes benefit from competitive advantages. The figures of relation between direct and indirect taxes are of a too global nature. A solution to this problem must be found in some other way.

2. What has to be examined are the conditions which are created by the national taxation of individual enterprises and goods when they are exposed to international competition. Only through this approach would it be possible to penetrate to the centre of the problem in an attempt to find a satisfactory answer to the question raised under item 1(c) of the terms of reference.

It should be added that this view of the problems in international trade does not rest on recently acquired knowledge. It has already been laid down in the GATT that, for purposes of border tax adjustments in international trade, the tax conditions existing with respect to the individual product are exclusively relevant. Pursuant to Articles III and XVI of the GATT, prohibition of discrimination of imports and the prohibition of tax subsidy of exports are clearly designed to affect the individual product and thus are based on micro-economic considerations.
3. If we go this way we find differences in the taxation of products and enterprises between countries. Saying this we start from what we have learned from our industries, i.e. that normally the direct and indirect taxes have an incidence in the classical sense. The great differences in the field of indirect taxation are very largely compensated by border tax adjustment. The effects on international competition and trade which might result from the remaining differences in indirect taxation and the differences resulting from direct taxation of enterprises should, however, in my opinion not be over-estimated. From a purely economic point of view the imbalance in the field of taxes between countries may be regrettable because it prevents international trade from reaching its optimum volume. On the other hand - apart from some exceptional cases - tax differences can hardly be believed to actually disturb international competition. In this connexion it should be recalled that the economic ideal of absolutely equal competitive conditions as regards taxes has not even been fully attained on the national markets. In most of these markets there are differences in the taxation of products and enterprises on account of regional and local tax arrangements. These fiscal differences do as a rule not stand in the way of an orderly competition in the national markets because the differences are not very big. This experience should also hold good for international competition. Minor differences existing between the countries will hardly impair international competition. In our view, it is precisely this difference in degree which is of particular importance for the assessment of the effects of differences in national taxation.

4. On the basis of the above considerations on the question raised under item 1(c) of the terms of reference we come to the following general opinion:

Border tax adjustment implemented by the countries for product-oriented taxes under the provisions of the GATT is not always complete. Non-adjusted tax differences in international goods traffic will however - leaving aside the question of occult taxes - not be so important as to prevent international trade from developing on the basis of generally fair competitive conditions. In the case of taxes on profits and properties which the different countries impose on enterprises and for which no adjustment measures may be taken according to GATT provisions, certain international differences may exist. But they are likewise not so important as to have negative effects on international competition and trade. We feel therefore, that it is justified to draw the conclusion that - in spite of some tax differences between countries - taxation as a whole does not result in considerable disturbances of international trade, and thus does not have adverse effects on the development of the trade balances of the individual countries.