Attached is a draft note on the seventh meeting of the Working Party held from 23 to 25 April 1969, which has been prepared by the secretariat for the convenience of delegations.

Members of the Working Party are invited to submit any comments they might have as soon as possible and in any case not later than 25 June 1969.
1. The Working Party held its seventh meeting from 23 to 25 April 1969 and welcomed the participation of Finland and Norway as full members.

2. The Working Party had before it the consolidated document (Spec(69)49/Add.1) prepared by the secretariat summarizing the information acquired during the examination of practices of contracting parties in relation to border tax adjustments under point 1(b) of its Terms of Reference. Also before the Working Party, for its internal use, were copies of the OECD reports on the consultations with the Netherlands and Belgium (TC(68)21 and 22).

3. Members of the Working Party who were to complete their own submissions or to reply to specific questions put to them during the discussions of point 1(b) were requested to transmit such information to the secretariat for incorporation in the relevant parts of the final version of document Spec(69)49. It was understood that the Working Party would return to points 1(a) and 1(b) at a later stage.

4. The Working Party noted that information concerning taxes levied on products of interest to developing countries had been circulated in Spec(68)134 and Addenda 1-8. Members who had not yet submitted such information were asked to do so as soon as possible. It was agreed that it would be helpful if delegations could provide information on revenues derived from consumption taxes imposed on products of interest to the developing countries so as to permit a useful discussion of this issue at the next meeting. It would also be useful if the information contained in Spec(69)49 regarding border tax adjustments on products of interest to less-developed countries which were not produced by importing countries could be completed. The representation of the less-developed countries at the next meeting would help to conduct a meaningful discussion of this question.
5. It was agreed that it would be useful if delegations could provide a bibliography of recent literature on border tax adjustments in addition to that which appeared in the OECD publication "Border Tax Adjustments and Tax Structures in OECD Member Countries" 1968. A bibliography of recent literature on the subject, so far received, is listed in the Annex to this draft note.

6. The Working Party conducted a preliminary examination of possible effects of border tax adjustments on international trade as called for in point 1(c) of its Terms of Reference. This examination concentrated on trade effects of changes in border tax adjustments, tax shifting and structural differences in taxation. The Working Party also discussed the effects of taxes occultes and the trade effects of selective excise taxes.

7. A summary of the main trends of the discussion follows below. The full texts of the general statements which were made in connexion with the examination of point 1(c) have been circulated in Spec(69)53-59 and Spec(69)67.

I. TRADE EFFECTS OF CHANGES IN BORDER TAX ADJUSTMENTS

8. It was generally recognized that changes in border tax adjustments could have an effect on the trade and the balance-of-payments position of the implementing country. Any change in a country's fiscal structure would influence its principal macro-economic factors and thereby would also affect its foreign trade at least temporarily.

9. It was recognized that to quantify in precise terms the trade effects of border tax adjustments was a very complex matter. Neither the information nor the analytical techniques necessary to measure in any meaningful way these effects was available. Furthermore, it was not possible to determine what the trade figures would have been if border tax adjustments had not been made. However, although trade effects were difficult to quantify, it did follow that further discussion on the basis of estimates and tendencies could be productive.
10. A distinction was made between changes that occurred simultaneously with domestic tax changes of an equal amount, and changes that occurred without a change in the domestic tax level. It was pointed out that those countries that altered their border tax adjustments without corresponding changes in their domestic taxes could improve their balance of payments significantly. Even changes in the range of 1 to 3 per cent ad valorem, as was the case for some countries, were worth considering when such apparently small figures involved total trade or even substantial segments of total trade. These changes were also compared with the results of past tariff negotiations where the average rate of duty cut would also appear to be a small figure, but one which was sometimes worth years of negotiation.

11. Other countries stated that there did not exist sufficient evidence that present border tax adjustments had been the cause of any major trade disruptions. Changes in the level of border tax adjustments did have an incidence on foreign trade, but this incidence was no doubt modest in comparison with that of other more important factors prevailing in various economies. Countries who increased border tax adjustments without increasing internal rates of tax did so only because of previous under-compensation to rectify a competitive disadvantage. Some countries did not find that the comparison between changes in border tax adjustments and negotiated tariff reductions was valid. Border tax adjustments were in accordance with GATT rules, since they were not of a discriminatory character while tariff reductions were the results of concessions legally negotiated within the framework of GATT.

12. The change-over of various countries to the TVA had not been made with the intention of improving their trade balances. It was noted that most of the changes which had taken place were made at a time when the countries involved had no balance of trade difficulties. In practice the reasons for change from a cascade system to a TVA were that the cascade system discriminated against non-integrated firms and it did not permit the calculation of exact border tax adjustments but involved averaging. In some cases the adoption of the TVA system was the result of a directive issued with the purpose of furthering an economic integration process.
13. It was felt that the examination of the recent experience of some countries present at the meeting, with regard to changes and adjustments in their economic policy, would be helpful in understanding and solving the foregoing problems. Consequently, the Working Party first discussed the effects of changes in border tax adjustments as related to special measures taken in the Federal Republic of Germany and France, and then discussed the changes in systems of various other Member countries.

14. When considering the recent policy of the Federal Republic of Germany, the Working Party gave most of its attention to the special measures taken by this country in November 1968. It was recalled that these measures had been introduced with the purpose of substituting for an appreciation of the exchange rate and that they had been publicly announced as a "downward adjustment of the border tax". Regarding the price effects of these special measures it was noted that the index of export prices stood at 103.6 in January 1969, this was up 2.6 per cent since November 1968, thereby suggesting that on the average exporters were now passing on to their customers a significant part of the export tax in effect since November. Moreover, a survey indicated that every other exporting firm in the Federal Republic of Germany had increased its prices as a result of the new taxation measures and there was evidence of differential shifting.

15. In the opinion of the representative of the Federal Republic of Germany the discussion of his country's measures of November 1968 exceeded the Terms of Reference of the Working Party. These measures were not intended to adjust border taxes to internal taxes, nor to affect the border tax adjustments laid down in the existing tax laws. His country's measures were equivalent to a subsidy on imports and a tax on exports and bore no relation to the internal tax.

16. It was stressed that this point deserved further exploration and more information was necessary. Some representatives said they had not been briefed on this point but that they would check with their respective authorities to see if effects of the German measures had been noticed in their countries.
17. The special measures taken by France in November 1968 involved first, the suppression of the wages tax and, secondly, an increase in the rate of the TVA. It was asked whether, given the nature of the suppressed taxes, there was any real price effect resulting from this change, since about the equivalent amount of revenue had been taken by the upward adjustment of the TVA, and if in fact this could not be considered as a border tax adjustment which was not accompanied by an equal increase in the domestic rates. It was asked what had been the effects of these measures on foreign trade.

18. The representative of France explained that the intentions of his country were to ensure a return to equilibrium of the general economy following the May-June events in France. The general wage raise that followed increased the costs of production considerably. It was then necessary to lift some of the burden off the shoulders of industry by suppressing the wages tax. The suppression of this tax was not discriminatory and was compatible with GATT rules: semi-finished imports which still required processing in France before marketing benefited from the suppression. Regarding the effect of the suppressed tax on trade it should have been felt immediately since it reduced costs automatically. However, there was no evidence to support this hypothesis. An analysis of French exports from October until March did not point to any outstanding increase.

19. Referring to the increase of the TVA, he said the reasons for its implementation were purely internal. As a result of the general increase in wages it was necessary to curtail consumption. This tax affected imported and domestic production alike. Balance of trade figures supported the contention that imports had not suffered.

20. Some representatives pointed out that one could not deduce that because there was no improvement in the French balance of trade the measures adopted in November 1968 had not had a favourable effect on France's trading position. The true comparison was with what would have happened had the changes not been made. Up to November 1968 there was an unfavourable trend in the balance of trade of France. Without the changes, a trade deterioration would have been even more manifest.

21. The representative of France answered that in October and November there had been nothing alarming about his country's balance of trade. As a matter of fact there had been a significant improvement in the months of July and August 1968 and in October and November the prospects were very hopeful.
22. The representative of Belgium informed the Working Party that the tax on value added would be adopted by his country on 1 January 1970. The rate of compensation and the rate of alleviation under the actual system covered from 85 to 90 per cent of the real fiscal charge as expressed in terms of the normal rate of the transmission tax which was 7 per cent. One per cent was then the actual amount of under-compensation (15 to 10 per cent of 7 per cent tax = 1.05 to 0.70 per cent). The remaining 15 to 10 per cent of this tax would be compensated when the tax on value added system came into force. The maximum rates that had been proposed for the tax on value added were of 6, 15, 20 and 25 per cent. These rates had not yet been definitely decided upon nor the lists of products they would affect.

23. The representative of Denmark said that on 3 July 1967 the wholesale sales tax had been replaced by a value added tax which was applied to all goods and many services. The rate of the tax on value added was calculated in such a way that the tax incidence on the industrial sector should be the same as the wholesale tax applied before which implied that the amount of the taxe occulte was approximately the same after the change-over to the tax on value added. Therefore the question of adjustment at the border was a simple one. While the tax on products, not formerly subject to tax, had been fully shifted into prices, producers had not in addition taken the opportunity to increase their profit margins. No changes had taken place in the border tax adjustments rules governing selective excise duties. Neither had the new adjustments been made where adjustments had not been made before.

24. The representative of the Netherlands said that before the change-over from a cascade tax system to a value added tax system in his country, it was expected that prices would rise by about 1.3 per cent, but, the actual increase was of about 7 per cent. The reason for this was that merchants and industries had taken the opportunity to increase their profit margins which, consequently, led to a general rise in the cost of living therefore forcing industries to give special cost-of-living allowances. As a consequence the expected favourable effect from full compensation had not taken place.
25. The representative of Norway said that the question of introducing the tax on value added in Norway as from 1 January 1970 was under consideration. The Government was not expecting any significant balance-of-payments effects as a consequence of the introduction of the new system. The increased State revenue that would be due to the increased turnover tax rate would be balanced out by the proposed reduction of direct taxation and the increased expenses of the Government on social security.

26. The representative of Sweden informed the Working Party that the transition from a single-stage tax system to the value added tax system had taken place on 1 January 1969. This change-over was essentially a technical matter based on internal motivation. No problem of under or over compensation was involved. The tax on value added rate was the same as the rate of the old turnover tax. Previously in the turnover tax system there had been a tax on capital goods which was not rebateable. This tax had now been replaced by a payroll tax which was equally not rebateable on export. The total tax burden on consumption and on enterprises was thus planned to be and did in fact remain unchanged.

II. TAX SHIFTING

27. The discussion of this issue was centred on the question of the extent to which indirect and direct taxes might be shifted into the prices of goods.

28. As regards indirect taxes, it was argued that they were not fully shifted forward. If they were not fully shifted, there should be no more adjustments at the border in respect of these taxes than was warranted by their impact on prices. The reverse position was argued that they were fully or more than fully shifted and therefore full adjustments at the border were justified. It was also argued that even if not fully shifted, indirect taxes should be fully compensated.

29. One argument against full shifting of indirect taxes was that an increase in these taxes had macro-economic effects on incomes, employment, consumption, investment and general price levels and that without an increase in the monetary supply, or other offsetting governmental measures, the tax could not be fully shifted. The ability to shift the tax fully in prices would depend, inter alia,
on the monetary authorities' willingness and ability to permit the needed increase in the money supply or the government's willingness to increase expenditure by the amount of new tax takes. The price of goods could not automatically increase by the full amount of the tax; such increase required action to permit the rise. Thus it was pointed out for a large portion of the tax to be shifted, a combination of certain economic conditions and measures would be necessary; the likelihood of these occurring was certainly very slight. This was so particularly when anti-inflationary measures would be undertaken simultaneously with a change in tax level. Certain countries gave particular examples of instances where indirect taxes were not fully shifted.

30. The view was also expressed that there might never be full shifting of indirect taxes even in the long run, after macro-economic adjustments had been fully played out.

31. It was argued that, if the tax was not fully shifted into the prices of goods sold on the domestic market, the full exemption of exports from the domestic indirect tax burden would permit the exporter to export below the domestic sales price without having export profits less than the profits on domestic sales, thus improving his competitive position on world markets. Alternatively, the exporter could receive export profits which were greater than the profits on domestic sales thus having an incentive to export.

32. On the other hand, the view was expressed that indirect taxes were always fully shifted. It was pointed out that these taxes were normally increased by the government in inflationary conditions to offset a budgetary deficit and to act as a stabilizer of the economy. The money supply would be likely to increase at such time and any increase in the tax would be fully or more than fully shifted into commodity prices. The point was also made that even in the absence of an increase in money supply, the general price level could increase somewhat owing to a rise in the velocity of circulation which would permit full shifting.

33. The point was made that any price change which was related to a change in indirect taxes was the result of the inter-action of the tax change and the market situation previously existing, and that the forward shifting could be either greater or, on the other hand, less than the mechanical incidence of the
tax change, depending on whether the economy as a whole, and the economic sector or the undertaking concerned in particular was expanding or contracting. Moreover, business circles tended to confirm that full shifting was the general rule, despite exceptional cases and temporary situations where it would not appear that the full amount was shifted.

34. With respect to the argument that indirect taxes should be fully compensated even if they were not fully shifted, the point was made that the amount to forward shifting in relation to the retail and wholesale taxes, depended on the degree of competition in a particular sector. In cases where there might be some backward shifting of wholesale or retail tax to the manufacturer, the latter might be prepared to take a lower profit than previously. But this should not be a reason for suggesting that the tax on the imported product should be abated by the amount of the reduction in the profit of the home manufacturer, since the foreign supplier should be expected to take an equivalent cut in his profit. Another important consideration would be the extent to which a given firm's production was exported. Moreover, it seems difficult to accept that if the national producer had to bear part of the tax burden, the legislator would relieve a third supplying country from this same burden. Sound competitive policy required that the basic conditions at the outset should be identical.

35. It was, however, argued that if the business absorbed a consumption tax it must then be considered a tax on business and indeed a tax on profits and such taxes were not normally eligible for border adjustments.

36. Doubt was expressed also as to the feasibility of limiting the scope of border tax adjustments to the degree of shifting since from the technical point of view it would be extremely difficult to determine either globally or for groups or individual products what proportion of the indirect tax burden that was not shifted. Thus the abandonment of the destination principle for indirect taxes would result in major changes and distortion in international trade.

37. It was also argued that in the tax on value added system, the shifting into prices was of a special character. The tax did not constitute an element of the price at stages preceding the retail level. This, however, was equally true of a retail sales tax and under both systems falling demand caused by tax increases might compel producers and retailers to reduce their set of tax prices.
38. As regards *direct* taxes, it was argued that corporation income taxes were, to a certain extent, shifted into the prices of goods. To the extent that they were shifted, these taxes should likewise be eligible for border adjustments.

39. In supporting this view, it was pointed out that the arguments for the non-shifting of direct taxes were based on a number of assumptions on how firms behaved in the case of perfect competition. In practice, however, industry generally did not operate under conditions of perfect competition and firms used administered pricing and profit mark-up techniques. Firms often followed average cost pricing which would generally include a factor of net profits; the profits tax thus became a cost factor shifted into prices. A corporate income tax altered adversely the return to capital in the corporate sector and tended to drive some capital to the non-corporate sector until the rates of return were equalized. The higher price for capital must ultimately be reflected in higher prices for the output of the corporate sector.

40. It was also pointed out that direct taxes on certain utilities were fully shifted; the rates were set generally by reference to the after-tax return to the capital employed. It was, however argued against this that in case of utilities the market structure was a complete monopoly and this situation should not be equated to the general experience of corporations which operated in a different environment.

41. If direct taxes were so shifted, it was argued that if countries had different levels of effective direct taxation and/or direct taxes were shifted unequally, additional trade effects could result. The relative increase in prices for the country with the higher direct taxes or greater direct tax shifting would place that country at a competitive disadvantage in both its own domestic market and in export markets.

42. On the other hand, the point was made that in view of the market conditions and the short-term economic outlook, it would be a mistake to refer in very general terms to the possibility of shifting into prices of direct taxes without taking into account the technical characteristics in every instance of this tax.
Obviously the only direct taxes that could be considered relevant to border adjustments would be those actually borne by the product and not those borne by business undertakings, i.e. taxes on profits and assets. In view of the fact that the object of these latter taxes was not the delivery, still less the consumption of products, the legislator was not interested in the price of the products sold, but solely in the net profit achieved by the producer or trader, whether the latter operated at national or international level. The territorial factor came into the picture only in the context of international law on double taxation. Thus, it was argued there was no correlation between the field of application of the profits tax and the conditions of taxation of products entering into international trade. Having regard to the character of these taxes, it seemed logical that the rules of international law in force did not, as a matter of principle, afford any right to offset the burden of these taxes in the field of international trade. Market factors generally imposed tight margins on undertakings which by no means made it always possible for them to incorporate these taxes in production costs and prices.

43. Apart from this, there were other reasons which justified the existing ineligibility of direct taxes for border adjustments. In the first place, any adjustment of such taxes at the border would encounter virtually insuperable obstacles from the technical point of view. Secondly, because of the very nature of these taxes, their incidence differed from one undertaking to another, and might even become nil in the event of loss. Thirdly, the profits tax base was established only subsequently to the operations which would give rise to compensation. It seemed, therefore, impossible to effect such compensation in a satisfactory manner. Finally, it was to be feared that the introduction of such adjustments might distort competition and international trade, because they could not be carried out adequately. It was therefore questioned whether, in matters of direct taxation, the problem of incidence was of notable importance.

44. It was observed that business circles tended to confirm that full shifting was the general rule, despite exceptional cases and temporary situations where it would not appear that the full amount was shifted. In particular, reference was made to the work of the Richardson Committee1 and more specifically to the passage

where it was stated that: "It was overwhelmingly clear from the replies of the British Business Organization that they would regard a value-added tax and the profits tax as very different types of tax and would react differently to them. None of the witnesses had any doubt that liability to a value-added tax would be regarded as a charge or cost and that businesses would aim to recover it in prices, either immediately or in their next review of costs and prices. On the other hand, almost all our witnesses said that they did not, or did not directly, take the profits tax (and income tax) into account in prices. Most of them said, without reservation, that profits taxation had no effect at all, either on their home market or on their export prices: and most of the others who expressed reservations about some possible indirect effect did not take their reservations very far."

45. It was, however, observed that since the Richardson Study was concerned with the intentions of business organizations, it could be argued that these intentions might not in reality be fully realized when those organizations operated in a given market environment. Therefore, contrary to what they had intended, corporate taxes might be shifted in practice. In this connexion it was pointed out by the representative of a country which was about to introduce a tax on insurance companies that had previously not been taxed - the insurance companies had indicated that they would pass the corporate tax on.

III. STRUCTURAL DIFFERENCES IN TAXATION

46. The interrelation between trade effects of tax structure differences and that of tax shifting was emphasized.

47. The point was made that the present rules also favoured countries that relied heavily on indirect taxes, when those taxes were used to pay for expenses that might otherwise be borne by the firm and which were borne by firms in other countries. Indirect taxes to provide communication, transportation and training services, accompanied by full border adjustments, meant that export prices, net of the border adjustment, did not include what would otherwise be costs of the firm reflected in export prices.
48. It was also argued that the present rules favoured countries using indirect taxes as fiscal measures for correction of undesirable domestic demand conditions, because their use allowed for neutralization of the adverse trade and payments effects of such a fiscal measure. The current border tax adjustment system meant that what would otherwise be offsetting effects of a fiscal payments measure were not felt with indirect taxes but persisted when direct taxes were employed for this purpose. Thus, the mere composition of fiscal systems had trade effects beyond the shifting question.

49. It was pointed out that the concept of tax structures underlying the aforementioned arguments was based on overall tax revenue figures instead of on a selection and comparison of the tax data relevant to each individual case. Secondly, this concept generalized the economic effects of all types of direct taxes and indirect taxes. Among the various types of direct taxes, there were only a few that, in certain conditions, could have a significant influence on production costs and prices. Thirdly, it did not take account of the fact that it was not only the type of the tax that caused the relation between revenues, from taxes which were offset and from those that were not, to vary from one country to another, but also a large number of other factors. Thus, a given tax system with identical rates and collection modalities would yield revenues, the structure of which would vary widely from one country to another depending on the degree of economic development and the relative importance of the various branches of activity within the national economy. Conversely, if the objective was to achieve identical revenue structures - and such an objective was probably unattainable - the tax systems of the various countries would have to vary greatly.

50. Apart from these considerations, the direct taxation element inherent in social security schemes and the relative importance of external trade differed greatly from one country to another. If it were to be admitted that undertakings located in a country where the burden of direct taxes was relatively heavy were at a disadvantage as compared with undertakings liable to lower direct taxes in other countries, then it was essential to ascertain whether there existed any considerable disparity between the various contracting parties to GATT in the burden of taxes on revenue and capital. Some of the available information
indicated that the burden of taxes which could not be offset was not on the whole very different as far as the major trading nations were concerned. It was, therefore, argued that since there were no essential differences it might be concluded that, whatever one thought about the shifting of such taxes into prices, the absence of border tax adjustments in respect of these taxes would not affect trade or impair international competition although some specific differences might arise from time to time when a government relied on special tax measures in order to attain specific objectives. Even if the differential in rates between two countries was twenty points - and such a difference must be considered exceptional in the rate of taxes on corporate profits - in the event of a net profit of, say 5 per cent, the difference in terms of rebate per exported product as between the two countries would amount to only 1 per cent.

51. It was also stressed that it was important to distinguish between taxes on business organizations and those on private persons. Inflation should not be tackled by increasing a corporation tax but only by increasing the taxes on private persons, either by way of a consumption tax or by way of a personal tax.

52. The question of whether differences in the rates of profits tax in the major countries were significant was also raised. The view was expressed that if account was taken of effective rates and the different tax treatment of distributed profits, the variations in rates between countries were substantial.

53. The point was made that apart from the fact that the tax structure might differ from country to country, different kinds of enterprises were hit differently by the same type of tax. This depended on their economic structure, that is to say if they were capital-intensive or labour-intensive.

IV. SELECTIVE EXCISES

54. It was mentioned that selective excise taxes were particularly susceptible to abuse. In 1947 a certain country had imposed selective excises on goods which were imported in meaningful quantities as well as home-produced goods with imported components to discriminate against imports from a specific country. The possibility was also open to vary excise taxes on imported products according to origin. It was questioned whether GATT rules should be modified to prevent this.
55. In this respect it was pointed out that although this might occur it was normal practice to look at the trade effects when imposing or increasing selective excise duties. It was maintained, however, that any such practice was inconsistent with the GATT rules which prohibited the use of these taxes with a view to affording protection to domestic production.

Doubt was, however, expressed as to the relevance of this problem to the Terms of Reference of the Working Party.7

V. TAXE OCCULTE AND DIRECT TAX INCENTIVES

56. It was suggested that the Working Party should consider the effects of the varying border adjustments made for taxe occulte and the possibility of reaching a generally acceptable definition of "taxe occulte".

57. The view was expressed that consideration of taxe occulte raised more general questions on the ambiguity of the GATT rules. The rules were so unclear that some countries continued practices which others considered illegal. Clarification was needed on what was meant by: a charge equivalent to an internal tax; in respect of a like domestic product; in excess of those applied, directly or indirectly, to like domestic products; and taxes borne by or levied on. Some countries took advantage of these ambiguities to gain trade advantages by making excessive border adjustments.

58. It was also pointed out that the inability to ascribe clearly any portion of distantly related taxes to the production of a particular product meant that it was virtually impossible to ascertain whether the adjustments that were being made were factually and mathematically appropriate. It was not known clearly how countries were constructing these averages. Consequently, the adjustments of such taxes at the border would certainly involve arbitrary factors. It was therefore suggested that these conceptual and averaging problems should be dealt with if countries were to have confidence that the GATT rules were preventing export subsidies and unfair charges on imports.
59. It was also suggested that the Working Party should devote itself to the problem of direct tax incentives. When the issue of these incentives came up in the Industrial Products Committee, the Committee referred it to this Working Party and it had an obligation to consider this problem. It was pointed out that in recent years a growing number of countries had introduced and extended special tax incentives for stimulating exports or encouraging investment in import-competing and export-competing industries.

60. It was agreed to discuss this issue and to come back to the question of tax occulte at the next meeting.

General

61. Several members of the Working Party seemed to consider that border tax adjustments were normally not being applied with a view to solving international balance-of-payments problems, and that likewise they had no significant impact on the balance-of-payments position. They admitted that such effects could make themselves felt, but considered that neither the maintenance of existing systems nor the change-over to new systems involved such a degree of advantage to domestic production that they could have significant adverse trade effects. They felt that the question of stability in any shifting models seemed to indicate that it would be extremely difficult, if not impossible, to translate such varying shifting into practical GATT terms. In this context, it was mentioned that the extent of shifting varied as between products, markets and periods, and from one type to another. No conclusions could be arrived at from the concept of tax structures as to the effect of existing rules and practices on border adjustments on international trade. It was not likely that full fiscal neutrality in international trade could be achieved and that the present GATT rules could be regarded as generally well suited and easy to administer. They maintained that under the present circumstances a change in the rules of the General Agreement was not warranted. On the other hand, GATT could provide a useful forum for study, discussion and consultations with regard to the practical implementation of border tax adjustments.
62. Others felt that the impact of border tax adjustments on the balance-of-payments position as well as on the competitive position of domestic industry was obvious and that GATT should study the monetary implication of all taxes levied at the border. They claimed that recent changes in the taxation system as well as in the level of border taxes continued to create an imbalance. The present GATT rules gave a competitive advantage to countries relying more heavily on indirect taxes. Full forward-shifting into the prices did not always take place. The situation had been aggravated by countries making up for under-compensation. Furthermore, the varying border adjustments made for taxe occulte gave rise to trade effects; acceptable definition was therefore needed. The present GATT rules did not reflect a satisfactory approximation of reality.

Date of next meeting

63. The Working Party agreed to hold its next meeting on Monday, 30 June 1969. At that meeting the Working Party would conclude its discussion on point 1(c). It was agreed that it would be helpful if delegations would come to this meeting prepared to put forward any proposal or suggestions, as called for under point 2 of the Terms of Reference, on which members could reflect during the summer recess. It was suggested that the Working Party should have another meeting in the autumn to draw up a progress report to the Council.
ANNEX

Bibliography of Recent Books and Articles on Border Tax Adjustments in Addition to Those That Appear in Annex I of the OECD Publication "Border Tax Adjustments and Tax Structures in OECD Member Countries" 1968

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