1. In accordance with its terms of reference (L/3569) the Working Party held an 
exchange of views on "other measures in the United States programme of a non-monetary 
nature which have a direct impact on international trade". The views expressed are 
summarized in the following sections.

I. JOB DEVELOPMENT TAX CREDIT

2. The representative of the United States made the following statement:

"Taxpayers who place certain depreciable property in service during a year 
will be allowed a credit against their income tax for that year.

"The credit will be 10 per cent from 15 August 1971 and 5 per cent from 
15 August 1972.

"No credit will be allowed for used equipment or for that with a life of 
four years or less. The credit will be for one third the amount otherwise 
allowable for four to six year life; two thirds for six to eight year life.

"Credit is limited to taxpayers' tax liability up to $25,000 plus 50 per 
cent of tax liability in excess of $25,000.

"No credit would be allowed in the case of foreign-produced property 
ordered by the taxpayer while the import surcharge is in effect. When the 
surcharge is removed, however, the full credit would be allowed for foreign-
produced property purchased after the date of removal of the surcharge."
"For these purposes "foreign-produced property" would mean any property manufactured outside the United States and any property manufactured in the United States if less than 50 per cent of its value is attributable to articles imported into the United States. Thus the full credit will apply, notwithstanding the surcharge, on United States manufactured goods with up to 49 per cent foreign components.

"Only one half of the cost of public utility property would qualify for the credit resulting in an effective rate of 5 per cent or 2.5 per cent depending upon the period during which the property is acquired or constructed.

"The Job Development Credit is part of an overall programme to stimulate non-inflationary growth in the United States economy. The import surcharge is designed to improve the balance of payments during an emergency period. During the initial balance-of-payments adjustment period, it is intended that the effect of the import surcharge not be dissipated by allowing capital goods imports to be stimulated not only by the desire to invest in capital goods to produce replacements for goods subject to surcharge but also by the tax credit. Therefore, the tax credit is to be applicable only to domestically produced capital goods during the period that the surcharge is in effect. As soon as possible the import surcharge will be removed. At that time, tax credit will be applicable on imported capital goods as well as domestically manufactured capital goods.

"During the 1960-70 period, capital goods imports grew at a compound annual rate of over 20 per cent a year, while total imports were growing at about 10 per cent a year, and the gross national product at roughly 6.8 per cent a year. Thus, to include foreign capital goods in the full tax credit while the surcharge is in effect would be to add further stimulus to a sector of our imports which is already growing at an alarming rate, and which has increased from less than 4 per cent of total United States merchandise imports in 1960 to more than 9 per cent in 1970. Capital goods imports accounted for over 17 per cent of total dutiable imports in 1970.
"It should be noted that the exemption of imported goods from the tax credit while the surcharge is in effect will, to some extent, be offset by the presently contemplated structure of the credit. Thus, any capital goods which are composed of less than 50 per cent foreign manufacture will receive full tax credit. Therefore, those imports of capital goods and other intermediary goods which become components in the production of final capital goods in the United States containing less than 50 per cent foreign components will receive the total benefit of the tax credit. To this extent, United States imports of capital equipment will be stimulated by the presently proposed tax credit, somewhat offsetting the positive effect of the surcharge in achieving an improvement in the United States balance of payments during the adjustment period. While the proportion of imports used in the manufacture of such United States capital goods is not known with any degree of accuracy, it is believed to be substantial.

"A further feature of the tax credit is that it will apply initially at only half the basic rate for capital equipment purchased by utilities. Large United States utilities make substantial purchases of foreign electrical machinery and components. Thus, the incentive to the purchase of United States source capital goods as compared with foreign goods by utilities during the initial adjustment period is greatly reduced."

3. The representative of Switzerland drew attention to the protective effect of the proposed measure. He noted that if one added (a) the effects of revaluation, (b) the import surcharge, and (c) the protective incidence in the planned Job Development Tax Credit to (d) the existing import duties, the cumulative protection afforded for the products affected might easily reach levels substantially above 35 per cent ad valorem. This would amount to an increase by four or five fold in the protection hitherto afforded to United States machinery products.
4. The representative of the Community said that the EEC was very concerned over the discriminatory aspects of the tax credit provided for the purchase of equipment goods. The provision under which only goods of United States origin were eligible for this exemption from a direct tax was inconsistent with the provisions of Article III of the General Agreement.

5. The cumulative effect of this measure, the surcharge, and the revaluation of certain currencies would in practice inhibit certain trade flows, because the aggregate incidence of these effects taken together might reach 30 per cent or more. The mere fact that the United States authorities had proposed this system to Congress was already having certain restrictive effects on exports of third countries because industrialists were hesitant about ordering from abroad.

6. The Community viewed this as a further reflection of the disquieting protectionist trend that was emerging in the United States in the form of increasingly numerous provisions in favour of domestic products. The discriminatory provision was moreover in contradiction with the desire to improve the competitiveness of United States industries.

7. The EEC representative stated that unless the discriminatory modalities of the tax exemption envisaged were removed, its implementation would very rapidly create a reaction by other countries for the adoption of measures likely to safeguard their legitimate interests.

8. The representative of Sweden associated himself with the views expressed by the representative of the EEC. The proposed scheme seemed doubtful, both from an economic point of view and as a matter of trade policy. It clearly constituted a discriminatory measure against non-United States goods. The discriminatory element in the scheme was clearly protective and it was difficult to discern what useful effects the United States could expect to derive from it in regard to the balance of payments.
9. The representative of Japan expressed serious concern over the proposed measure. The combined effect of the various trade and monetary measures adopted and proposed by the United States, even if not supplemented by the effect of any adjustment of par values, would have created a prohibitive disadvantage for foreign exporters of machinery and equipment to the United States. There could be no justification for the inclusion of the national differential element in the scheme, in spite of the anticipated beneficial impact of the expansionary effect of the measure on employment.

10. In the view of the representative from the United Kingdom, one of the significant and concrete contributions made by GATT had been the impetus it gave to the growth in the international trade in machines and other capital goods. This development was now being endangered for the sake of an illusory short-term benefit. The measure would probably cause some United States producers whose plants already contained foreign equipment, to delay investments until they could get foreign machines on more attractive terms, thus offsetting the general aim of the new United States policy. The United Kingdom Government had faced similar problems; yet it had never considered it necessary or appropriate to discriminate against imported machinery in the implementation of its investment grant schemes nor tax relief schemes. He recalled that the national treatment provisions of Article III had never before been called into question and he urged that the United States authorities carefully weigh the danger of further undermining the whole structure of the GATT by an attack of this key provision.

11. The representative of Austria endorsed the views expressed by the previous speakers. In his view, if the proposed measure were put into effect the United States would be clearly acting in contravention of the provisions of Article III of the General Agreement. He hoped that the United States Congress would be informed of the views expressed.
12. The representative of Australia stated that the proposed measure under discussion was clearly inconsistent with a specific provision of the General Agreement. It was also of doubtful value as a measure designed to improve the competitive position of United States producers. On the contrary, it was likely to have inflationary effects which would further undermine the competitive strength of the United States in world markets.

13. The representative of Canada expressed the hope that the United States temporary import surcharge would in fact be removed before the proposed legislation was enacted by United States Congress. He was in full agreement with the views expressed by other representatives on the cumulative effect of the planned scheme and other measures. He shared the doubts expressed by other members of the Working Party on the relevance and usefulness of the proposed measures in relation to the objectives which the United States had set for themselves. For the longer term the scheme also detracted from the international objectives of the United States.

14. The representative of the United States assured the Working Party that his delegation had taken due note of the views expressed. He did not discuss the comments made because it was his delegation's view that the administration representative should not be taking any position on this draft legislation outside the United States at this time. This implied neither agreement nor disagreement with any of the opinions expressed. However, one point raised by the representative of Japan, and which had no direct connexion with the draft legislation, required comment. The Japanese delegate had claimed that revaluation of an exporting country's currency was to be considered as an additional barrier to the exporter. In the United States Government's view, the move of monetary readjustment was quite a different matter; in fact, exporters to the United States had an unfair advantage over domestic United States competitors due to the exchange rate system and the elimination of that unfair advantage could not be equalled with restrictive trade measures.
II. DOMESTIC INTERNATIONAL SALES CORPORATION (DISC)

15. The representative of the Community referred to the proposal by the United States administration to introduce a privileged tax status for a new type of international sales corporation whose undistributed profits would not be subject to normal corporate taxes. The object of the tax system was to afford a tax incentive to exports which, according to United States administration estimates, should in the first year of implementation increase by some 1,500 million. Under the terms of the draft legislation, the tax system provided for a shift of taxes on profits in respect of export activities so long as the profits were retained by the new commercial corporation. In fact, the set of provisions for the benefit of such corporations meant that the tax system implied not merely a shift of taxation, but very substantial exemptions from direct tax on profits. Thus, loans granted by the DISC to the parent producing corporation in the United States or to any American corporation in the United States engaged in export-producing activities were eligible for the privileged system. Furthermore, the parent corporation which had established the DISC to administer export activities was authorized to sell its products intended for export to the DISC at a price which would afford substantial profit margins to the DISC. The impact of such a system on both export prices which would be lowered and profit margins which would increase for export firms, would result in the foreseeable increase in exports.

16. If the system was effectively introduced, it would be contrary to the United States commitments under the General Agreement, as it would amount to exemption from direct tax that would, by bringing down prices, be likely to promote exports.

17. Furthermore, the representative of the Community questioned the contention by the United States Government that such legislation was required to place its exports on an equal footing from a fiscal point of view with those of its foreign competitors. Such tax privileges or similar treatment in favour of exports certainly did not exist within the Community. If the system was brought into effect, there would assuredly be reactions for the adoption of similar measures by other countries.
18. The representative of Canada reiterated the concern which his delegation had previously voiced in the Council with respect to the DISC proposal. He noted the United States attitude regarding discussion of this subject in a GATT forum and stated that his delegation generally shared the views expressed by the EEC representative. The Canadian Government was concerned not only by the nature of the proposed measure, but also its political impact over the long term and its possible repercussions on business decisions. The proposed measure, being in the nature of an export subsidy, was not compatible with the General Agreement. If implemented by the United States, his Government would reserve its right to pursue it in GATT.

19. The representative of Switzerland also expressed concern at the revised proposal for DISC. He stated that the measure would have adverse effects on competition and would be very difficult to eliminate once it was adopted. He considered that the scheme was contrary to the GATT.

20. The representative of the United States recalled that for the purpose of the Working Party, the United States programme to be included within the terms of reference consisted of those items which the United States representative had described at the last Council meeting. Since no reference had been made to the DISC in the United States representative's statement, the discussion of the DISC fell outside the terms of reference of this Working Party. The United States objected to any discussion of the DISC and did not intend to participate in it.