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## **PRESS STATEMENT**

### **U.S. Sen. Lindsey Graham (R-SC) Introduces Legislation Directing USTR to Negotiate Equitable Border Tax Treatment for U.S. Goods and Services**

#### **Bill Addresses Need to Negate Disadvantages Inflicted by Foreign VAT Taxes on U.S. Producers**

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WASHINGTON, DC – Late yesterday U.S. Senator Lindsey Graham (R-SC) introduced legislation (S.1043) that would require the United States Trade Representative (USTR) to negotiate fair border tax treatment for U.S. goods and services within the WTO by January 1, 2010. U.S. manufacturers and service providers face severe disadvantages in the global market as a result of foreign border-adjusted taxes such as value-added (VAT) taxes. In 2007, these foreign border-tax schemes acted as a combined \$474 billion trade barrier to U.S. exports and export subsidy for our foreign competitors.

“U.S. manufacturers want to thank Senator Graham for introducing this important bill. It represents a crucial attempt to level the uneven playing field confronting American manufacturers as they attempt to compete globally,” said Auggie Tantillo, Executive Director of the American Manufacturing Trade Action Coalition (AMTAC).

“When identifying the causes of the uneven playing field and its attendant massive U.S. trade deficit and manufacturing job losses, border-adjusted tax schemes like the VAT stand out as the single greatest problem,” continued Tantillo.

The last three Trade Acts passed by Congress in 1974, 1988, and 2002, respectively, each included eliminating the disadvantage caused by foreign VATs as a negotiating objective for USTR. Senator Graham’s bill makes this objective more explicit and sets a firm timetable for resolving the issue.

## **Background**

Because the VAT is a border-adjusted tax, foreign countries rebate it when their manufacturers export to the United States. In addition, these foreign countries also apply a VAT to imports entering their markets. Moreover, the massive VAT disadvantage is compounded by the fact that foreign governments apply their VATs on all costs associated with imports entering their markets. For example, on a product shipped from the United States to China, the Chinese government assesses a VAT on all freight, insurance and tariff costs in addition to the actual value of the U.S.-exported item.

The United States, on the other hand, does not have a VAT or any other border tax system. The United States does not apply any similar federal taxes on goods shipped to our market from a foreign competitor. Nor do U.S. exporters receive any tax rebates when they ship products to foreign markets.

The end result is that the United States has no mechanism to offset foreign border tax subsidies that tilt the playing field. Consequently, foreign competitors enjoy a substantial annual tax advantage when selling to the U.S. market and when competing against U.S. exports in foreign markets. Senator Graham's legislation would stop the charade by requiring USTR to negotiate an end to these distortions.

## **History**

When the predecessor of the World Trade Organization (WTO) was set up in the late 1940s in the form of the General Agreement on Tariffs and Trade (GATT), one of its major policy purposes was to reduce the distortions to free trade flows inherent in import barriers and export subsidies. Today, nearly all major U.S. trading partners use border-tax schemes to evade the GATT's original intent and inflict trade deficits on the United States. From one nation in the late 1940s, France, with a small VAT rate of 2 percent, this tax system has become nearly universal. Today 150 nations have a VAT at an average rate of 15.5 percent. More than 90 percent of U.S. trade is conducted with countries assessing VATs.

## **Quick Facts on U.S. Manufacturing Employment, Deficit, and Markets**

- According to the U.S. Bureau of Labor Statistics, employment in U.S. manufacturing employment has fallen by nearly 5 million since 2001.
- Since 2001, the United States has run a cumulative current account deficit of nearly \$5 trillion. The cumulative trade deficit for manufactured goods exceeds \$3.6 trillion for that same time period.
- The United States also currently is suffering from its first ten-year decline in industrial output since the Great Depression.

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