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PRESS STATEMENT

Industry Supports Border Tax Equity Act

Legislation Would Negate Disadvantage to U.S. Producers Caused by Foreign Border-Adjusted Taxes

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WASHINGTON, DC – Congressmen Bill Pascrell (D-NJ), Duncan Hunter (R-CA), Mike Michaud (D-ME), and Walter Jones (R-NC) introduced the Border Tax Equity Act (H.R. 2600) today. The legislation would negate the estimated \$379 billion disadvantage to U.S. producers and service providers caused by foreign border-adjusted taxes, including value-added (VAT) taxes.

“AMTAC thanks the sponsors and supporters of this critically important bill. It represents a crucial attempt to rectify one of the largest inequities facing American manufacturers as they attempt to compete globally,” said George Shuster, CEO of the Cranston Print Works of Cranston, RI and Co-Chair 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 stand out one of the very worst offenders,” continued Shuster.

In 2005, for trade in goods alone, the estimated disadvantage to U.S. producers caused by foreign border-adjusted taxes was \$89 billion for the European Union 25, \$48 billion for China, \$41 billion for Mexico, \$33 billion for Canada, and \$9.5 billion for Japan.

Background

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 tariffs and export subsidies.

Over the years the use of border-adjusted taxes assessed on imports and rebated on exports has grown into a major violation of that core purpose. From one nation, France, with a relatively small level of such import taxes and export rebates, the system has grown to the point that as of 2006, 150 nations now are using such schemes to evade the GATT's original intent and inflict trade deficits on the United States. The Border Tax Equity Act, however, would stop the charade and force countries to abandon these distortions.

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 fell from 17.3 million to 14.1 million between January 2000 and May 2007 – a loss of 3.2 million jobs.
- The U.S. government also reported that the U.S. trade deficit reached an all-time high of \$763.6 billion in 2006, smashing the previous record of \$717 billion in 2005.
- With China, the U.S. trade deficit jumped from \$202 billion in 2005 to \$232.5 billion in 2006.
- With the European Union 25, the U.S. trade deficit has jumped from \$17 billion in 1997 to \$117 billion in 2006.
- For manufactured goods in 2006, the U.S. trade deficit jumped to \$525.8 billion, up from \$504 billion in 2005.
- Since 1993, U.S. demand for Durable Goods and Non-Durable Goods has risen by 135 and 47 percent, respectively. Despite the healthy growth in demand, imports (often heavily subsidized) have cut heavily into domestic market share as U.S. production of Durable Goods only grew by 68 percent and Non-Durable Goods grew by just 18 percent. Consequently, U.S. domestic manufacturing only has captured 51 percent of growth in demand for Durable Goods and a paltry 39 percent of growth in demand for Non-Durable Goods since 1993.

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Border Tax Equity Act:

Leveling the Tax Playing Field for U.S. Producers Against Foreign Competition

- Congressmen Bill Pascrell (D-NJ), Duncan Hunter (R-CA), Mike Michaud (D-ME), and Walter Jones (R-NC) have introduced the Border Tax Equity Act (H.R. 2600), legislation to negate the estimated \$379 billion disadvantage to U.S. producers and service providers caused by foreign border-adjusted tax schemes. (As nearly all of the foreign taxes covered by the Border Tax Equity Act would be in the form of value-added (VAT) taxes, “VAT” is used in place of the term “border-adjusted tax” for brevity.)

How the Border Tax Equity Act Works

- H.R. 2600 would direct the United States Trade Representative (USTR) to negotiate a remedy for the VAT inequity on goods and services within the World Trade Organization (WTO) by January 1, 2009; and,
- If there is no negotiated solution by that specified date, the United States then (1) would charge an offsetting assessment at the U.S. border on imports of goods and services equal to the amount of VAT rebated to the exporters by the country with a VAT. In addition, (2) the United States would issue rebates equal to the amount of VAT taxes paid by U.S. exporters on goods slapped with VAT taxes by countries that impose them.
- As an early incentive to produce a negotiated remedy within the WTO, if USTR fails to certify that VAT disadvantage has been eliminated by January 1, 2008, the United States would issue rebates equal to the amount of VAT taxes paid by U.S. exporters on services slapped with VAT taxes when they reach the border of a country imposing VAT taxes. Because such export rebates on services are not prohibited under current WTO rules, imposition of this offsetting measure should not await revision of WTO rules.

Foreign VAT Taxes Tilt Playing Field Against U.S. Producers:

- In 2005, countries accounting for 94 percent of all trade with the United States (137 nations) employed some type of national border-adjusted indirect taxes (mostly VAT taxes) on services and manufactured goods.
- In 2005 alone, the estimated VAT disadvantage to U.S. goods producers was \$294 billion and to U.S. services providers \$85 billion – for a combined estimated disadvantage of \$379 billion. Those numbers have only grown since then, as even more countries have adopted a VAT system and as U.S. trade with VAT countries has increased.
- Countries levying national VAT taxes impose them on imports and generally rebate them on exports. The average national VAT tax rate worldwide in 2005 was 15.7 percent.

- The United States, however, levies no similar taxes at the border on imports. Foreign manufacturers selling in the United States, pay neither U.S. income/payroll taxes nor their own consumption/VAT taxes as the VAT is rebated by their government on exports.
- This severely tilted playing field places U.S. domestic manufacturing at a great competitive disadvantage.

How VAT Taxes Tilt the Playing Field

- The rebate of any national taxes, whether VAT, income or corporate, on exported manufactured goods normally would be viewed as an impermissible subsidy under the GATT/WTO trading regime (rebates on services, however, are permissible). But in the 1950's the United States agreed to a loophole that allowed the assessment and rebates of VAT taxes to be permissible within the GATT/WTO system.
- Congress has instructed U.S. trade negotiators to make rules changes to first the GATT and then the WTO to eliminate distortions inimical to U.S. producers caused by foreign VAT taxes as a part of granting fast track authorization for trade negotiations in 1974, 1988, and 2002.
- Despite the three-time insistence of Congress, the Executive Branch has been unable negotiate a solution to the VAT disadvantage.
- As global trade negotiations over the last half-century have lowered tariffs on imports, new global trade rules have not regulated the rates of VAT taxes that countries may apply to imports. As a result, countries that imposed VAT rates decades ago have been free to increase those rates without any oversight by the WTO or effective remedy by the United States. Consequently, as countries have lowered tariff rates in accordance with commitments under international trade agreements, they have often raised VAT rates, thus denying U.S exporters any additional market access. As a result, foreign exports to the United States encounter a low average tariff and no VAT taxes while U.S. exports face relatively high tariffs plus an additional VAT averaging 15.7 percent.

The Results of a Tilted Playing Field

- The tilted playing field against U.S. producers, caused in significant part by foreign VAT taxes, has had a significant impact on the United States since 2000 in the form of:
 - 3.2 million lost U.S. manufacturing jobs, and;
 - \$4.1 trillion in accumulated trade deficits.

Business and Labor Supports Leveling the VAT Playing Field:

- Groups representing both business and labor support the Border Tax Equity Act.