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## Added value tax: New export boom?

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# COMMENTS

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20 Years GATT

## Not only a Jubilee

The 24th GATT session, lasting from November 9 to 24 in Geneva, coincided with the 20th birthday of this organisation. On October 30, 1947, the General Agreement on Tariffs and Trade was signed. Since that day, GATT has made a considerable contribution towards regarding national trade policy problems no longer from a purely nationalist view, but from that of the common interest of the member nations to abolish tariff barriers to world trade. GATT's activities concerning trade policy have, however, by no means been terminated, and the 24th session was not only a jubilee. Above all the developing countries pointed to the fact that from 1953-66 world trade with industrial goods rose by 240 per cent; however, world trade with farm products, being vital for their exports, only by 86 per cent. No doubt, the Kennedy Round could not comply with all wishes of the developing countries. But it had more advantageous results for them than their spokesmen admit. In future, there will be considerable possibilities for them, as some industrial products, for which tariff reductions were agreed upon in the Kennedy Round, can soon be exported by the young nations, too. In addition, GATT declared its willingness to employ its trade centre even more for the promotion of exports of developing countries.

It would have been unrealistic to anticipate new initiatives for further tariff reduction rounds from the GATT session just finished. In Geneva, merely preparatory works could be introduced, in order to enable new trade policy negotiations. It must, however, be avoided, as some delegates emphasised, that for sheer preparatory investigations and studies the liberalisation of world trade is neglected. kr.

EEC

## The "Right Price" for Farm Products

The Ministers of Agriculture of the six EEC member states have agreed, late in October, 1967, on increased common prices for farm products to be charged in 1968. They decided to raise the prices for beef cattle, calves, rye, barley, maize, rice, and olive oil by between 2.4 and 4.75 per cent. This price lift poses afresh the question which price may be the "right price". The rules and regulations governing the market for farm products in the EEC serve the purpose to keep EEC prices on a level above the prices in the world markets. EEC countries im-

pose varying equalisation levies upon imported foodstuffs as a counter-balance vis-à-vis the world market prices that are "unreasonably low", and these are also intended to eliminate the disturbances created by dumping exports designed to get rid of foreign farm surpluses.

Nobody will deny that government support of exports has contributed to the decline in world market prices. However, conservative estimates of experts assess the extent of these artificial price cuts at between five and ten per cent, and not at between thirty and fifty per cent, as the rates at which equalisation levies are raised might lead one to believe.

In foodstuffs, the European Economic Community has largely become self-sufficient and, of some commodities, it has even started to accumulate exportable surpluses. This means, however, that agreed marked regulations will be thrown out of gear because, as soon as imports cease, it will be impossible to support the internal price level through making imports (through equalisation levies) more expensive. It remains to be seen whether the EEC will not be compelled, in the long term, to follow world market prices that are "unreasonably low", under pressure of its own farm production "explosion". re.

*Added Value Tax*

## New Export Boom?

From January 1, 1968, the German turnover tax, hitherto levied on gross trade prices, will be replaced by the Added Value Tax. The change is highly significant in terms of trade policy, as it will not only affect the entire economic process inside the Federal Republic of Germany but also its foreign trade.

In most countries, it is usual to waive national turnover taxes on goods intended for export, because the country importing these goods levies a corresponding tax on its imports. Up to now the waiving of such taxes was carried out by simply not subjecting the individual export to turnover tax, and in addition by paying a subsidy to the exporter, graded according to global assumptions about the amount of turnover tax contained in the product manufactured for export purposes, through the taxed raw materials and intermediate products entering its production. Under the new system of Added Value Tax, goods earmarked for export remain tax-free, and tax contained in the goods and services that have entered its manufacture can be precisely assessed and refunded. This means that the product in question will

be made exempt of the entire tax automatically, completely, and exactly. Export will thus probably be made much easier in all cases in which overall tax refund rates had hitherto been lower than the actual tax burden,—mainly in the case of goods which are not the products of big concerns but have passed by a large number of purchases and sales through the hands of a number of companies independent of each other.

Up to now, it has been usual to impose a similar tax burden on imported goods as on the corresponding products of the German industry by levying a so-called equalisation tax in varying global rates. As the new tax imposes a rate of exactly ten or five per cent impost on the added value at every stage of production and distribution, imported goods will now be subject to precisely the same "Turnover Tax on Imports". Under the old dispensation, equalisation tax rates usually amounted to only 60 to 70 per cent of the accumulated turnover tax borne by goods produced at home, so the new system may make imports correspondingly more difficult. On the other hand, it is most unlikely that this braking effect on imports will in any way equal the export promotion impact of the new tax. The new tax on the value added will thus have the effect of a slight devaluation of the DM currency, and it will tend to increase the volume of German exports. ha.

### *The Algiers Charter*

## **Cooperation Better than Accusations**

Ministers of the "Group of 77 States" have been in conference in Algiers from the 10th to the 25th of October, 1967, trying to hammer out a joint basis for the stand to be taken by the developing countries during the Second World Trade Conference, and for the demands to be raised by them. During the Algiers meeting, Colonel Boumedienne, the Algerian Head of State, attempted to blame mainly the Western Powers as those responsible for the poverty and mass misery prevailing in the underdeveloped areas.

It is certainly true that the industrial nations have, in the past, committed grievous errors, in their approach to developing countries, but they now show the utmost good will to make up for these mistakes. However, the demands made by Colonel Boumedienne that the developing countries retain full overlordship over their own raw material resources and that the former exploiters now pay in full for exploitation suffered by their victims in the past will scarcely form a suitable guideline for overcoming the economic difficulties in which most developing countries find themselves. On the contrary, it would be much better for the developing countries if they themselves also did everything in order to secure reinforced economic aid from the industrial countries. If they improve the climate in which investments can be made on their territories, they will, for example, be able to attract much foreign capital for building up their national economies, their export

industries, and their indispensable infrastructure. In addition, they must increase their own economic efforts, e.g. by fostering inter-state trade with other developing countries, to agree upon coordinated national planning, and to set up jointly manufacturing industries that can only become economical through large-scale production.

If the developing countries show willingness to recognise the true causes of their economic difficulties and to participate actively in developing their own economies, then it will be possible for them to persuade the industrial nations, during the debates at the World Trade Conference, to agree to carefully planned and efficient aid. sc.

### *British Exports*

## **Support for the Underdog**

In 1968, the Overseas Marketing Corporation, a mixed public and private sector enterprise which, however, is to be registered as a private venture will provide financial support for the exports of small and medium-sized British businesses. This new initiative emulates the practice of promoting the foreign business activities of small and medium-scale companies adopted by other important exporting countries. Hitherto, the export volume originating from this category of business had been small. Successes achieved by the export promotion agencies of other countries, however, have conclusively shown that this lack of success of smaller enterprises was not due to a genuine lack of sales chances for their products in foreign countries. But small and medium-sized companies, in most cases, lack the experience acquired by big business in modern marketing and merchandising techniques. Small companies spend little on advertising and market research, as their capital resources are sparse. This again prevents them from adapting production planning of their plants to the requirements of foreign customers. If and when they sell products abroad, this is usually due to occasional deals or to hit-and-miss efforts to compensate for declining home demand, which are usually given up as soon as business at home picks up again, as exports require special efforts.

When a state-supported institution now takes over the work of general exploration of foreign markets, systematic market research, and advertising, this will create, for the first time, the basis for a continuous export activity of the smaller and medium-sized companies, and an increase in exports, which Britain needs so urgently in its present plight, will thus be made possible. If this new venture should succeed in leading small and medium-sized enterprises to making a stronger and lasting contribution to foreign trade, and in keeping them competitive in the process, this might even enable the Government to save a part of the subsidies hitherto required by the same companies. ke.