Fair trade for U.S. business the aim of House bill

by Phyllis_Schlafly

The bipartisan Border Tax Equity Act, or H.R. 2600, has just been introduced by Reps. Bill Pascrell Jr., D-N.J., Duncan Hunter, R-Calif., Michael H. Michaud, D-Maine and Walter B. Jones, R-N.C. The purpose is to correct border-tax inequities that cost U.S. producers and service providers $379 billion a year.

The goal of U.S. post-World War II trade agreements, such as the General Agreement on Tariffs and Trade and the World Trade Organization, was to lower tariffs mutually in pursuit of worldwide free trade. The trouble is that it takes two to tango and we trade with at least 137 countries that dance to a different tune.

When other countries reduced their tariffs, they simultaneously imposed border tax schemes, particularly Value Added Taxes, which add up to almost exactly the same amount as the tariffs that were supposedly reduced or eliminated. This sleight-of-hand is achieved by imposing VAT taxes on imports (a de facto tariff) and rebating VAT taxes on exports.

These de facto tariffs in many countries, including the European Union, are now as high or higher than tariffs were at the beginning of the GATT. Today, 94 percent of all U.S. exports and imports of goods are traded with VAT countries.

The scheme started as a historical accident. The VAT, a consumption tax, was labeled an "indirect" tax, while income-payroll-property taxes paid by U.S. businesses were called "direct" taxes.

U.S. negotiators agreed in 1955 that indirect taxes, such as the VAT, "shall not be deemed to be a subsidy." At that time, the rates of VAT taxes were only 2 percent to 4 percent and U.S. negotiators looked upon this concession as no big deal.

However, foreign countries caught on to how to use the VAT to cheat the United States. Over the years, other countries' use of the VAT has grown into a major violation of GATT's primary purpose: the reduction of border barriers.

The average VAT imposed by all our trading partners today is a whopping 15.7 percent of the cost. European Union nations average a VAT of 19.2 percent.

The VAT is one of the major factors causing the loss of 3.2 million manufacturing jobs since 2000 and the dramatic increase in our trade deficit to $763.6 billion in 2006.

The disparate treatment of border taxes is harmful and costly to U.S. agricultural producers, manufacturers, and service providers in two ways. First, the refunds of indirect taxes amount to subsidies to foreign companies that export to the U.S. even though subsidies are supposed to be prohibited by WTO rules.

Second, U.S. exporters are subjected to double taxation. They pay U.S. "direct" taxes, and then they pay a so-called "indirect" tax at the foreign border in order to get their products and services admitted. The VAT import tax is levied on the price of the "landed cost," which includes the costs of the product and transportation.

The Border Tax Equity Act accurately calls this discrimination against U.S. producers "arbitrary," "inequitable," and "a primary obstacle to more balanced trade relations between the United States and its major trading partners."

The Border Tax Equity Act is designed to level the trading field by forcing other countries to eliminate their de facto tariffs. The bill would direct our trade representatives to negotiate a remedy for the VAT inequity on goods and services by Jan. 1, 2009.

Then comes the armored fist in the velvet glove. If the VAT countries refuse to agree to a reasonable negotiated solution by then, the United States would charge an offsetting assessment on imports of goods and services equal to the amount of VAT the foreign government rebates to its exporters.

In addition, the United States would issue rebates equal to the amount of VAT taxes that U.S. exporters are forced to pay on goods they sell to other countries.

U.S. businesses have complained of this border-tax discrimination for 40 years, and Congress has repeatedly tried to resolve it by good-faith negotiations with VAT countries. But other countries continue to say, "No dice," while the WTO turns a deaf ear.

This differential fuels the trade deficit, cripples U.S. competitiveness, and provides a powerful incentive for U.S. companies to shift production and jobs overseas. Thousands of U.S. companies have shifted production to nations that use a VAT where they avoid the double taxation.

To those who say that this bill is not WTO compliant, we reply that it is the WTO's refusal to address this discrimination that proves its anti-American bias. It's time to speak up for American industry and jobs.

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Phyllis Schlafly is a lawyer, conservative political analyst and the author of the newly revised and expanded "Supremacists." She can be contacted by e-mail at phyllis@eagleforum.org.