EUROPEAN COAL AND STEEL COMMUNITY

HIGH AUTHORITY

REPORT

on the problems raised

BY THE DIFFERENT TURNOVER TAX SYSTEMS

APPLIED WITHIN THE COMMON MARKET

REPORT PREPARED BY THE COMMITTEE OF EXPERTS SET UP UNDER ORDER No. 1—53 OF THE HIGH AUTHORITY, DATED MARCH 5, 1953

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INTRODUCTION

1.1 APPOINTMENT, COMPOSITION AND TERMS OF REFERENCE OF THE COMMITTEE

The Committee entrusted with the investigation of the incidence of various systems of taxation on the common market was set up under Order No. 1—53 of 5th March 1953 (1) of the High Authority of the European Coal and Steel Community.

This Order defined the composition and terms of reference of the Committee as follows:

"Article 1

"A Committee shall be set up consisting of a chairman and three members. The chairman shall have a casting vote. The Committee will be assisted by six experts selected from among the nationals of the six countries of the Community.

"The chairman and the members of the Committee, together with the six experts who are to assist them, shall be appointed by Order of the Authority.

"Article 2

"The terms of reference of the Committee are defined as follows:

"The Treaty establishing the Community has created a common market for coal and steel among the six member countries, but has allowed different systems of taxation and different taxes to remain extant in these countries.

"In the circumstances thus defined it is deemed desirable to consider means for facilitating the unhampered movement of products on the common market, whilst obviating the superposing of taxes of the same type levied by different states.

"Consequently, the High Authority requests the Committee of experts to examine the following questions, as they arise under existing circumstances in respect of coal and steel:

"*1.* Having regard to the dissimilarities in the turnover taxes levied in the various countries of the Community ("Umsatzsteuer" in Germany, "Taxe de transmission" in Belgium, "Taxès à la production et sur les transactions" in France, "I.G.E." in Italy, "Impôt sur le chiffre d'affaires" in Luxembourg, "Omzetbelasting" in the Netherlands), what would be the economic effects on the operation of the common market:

"*a)* of a system which, by exemptions for exports and compensating duties on imports, would result in the products being liable to turnover tax only in the country of destination;

"*b)* of a system under which the products, wherever they might be delivered within the common market would be liable only to the turnover taxes of the country of origin?

"2. What are the turnover taxes (these should be shown in the form of a comparative table) and the systems of exemptions on exports and of compensating duties on imports which are in force in the various countries of the Community?

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(1) *Official Gazette of the Community* of 7th March 1953.

"*3.* What are the effects on the prices both of the home-produced products and the products imported from the other countries of the Community, of the practices now being followed with regard to turnover taxes?
(The effects should be illustrated by examples drawn from the practice in the various countries.)

"*4.* Are there any cases where a product benefits by exemptions or refunds, when exported from its country of origin, which are greater or lesser in amount than the turnover taxes to which the same product is liable when sold on the home market?

"*5.* Are there any cases where a product originating in another country of the Community is liable to compensating duties which are greater or lesser in amount than the turnover taxes to which the corresponding national product is liable?

"*6.* To examine, by means of a table indicating the designation, the basis of assessment and the rate of various indirect taxes in the various countries of the Community, to what extent present practices with regard to exemption and compensating duties are applied to taxes other than turnover taxes.

"Article 3

"The Committee shall assemble such information as it may deem necessary for carrying out its work.

"It must consult the views of the Governments of the six member countries, if requested by them to do so.

"Article 4

"The final report of the Committee must be drawn up by the four experts on their own responsibility.

"The report must be submitted to the High Authority not later than 10th April 1953.

"The report will be published."

The following experts were designated as chairman, members, and assistants of the Committee:

Chairman (1):

Monsieur J. TINBERGEN, Professor at the "Nederlandse Economische Hogeschool", Rotterdam;

Members (2):

Mr. Léon DUPRIEZ, Professor at the University of Louvain;
Mr. Ferdinando DI FENIZIO, Professor at the University of Pavia;
Mr. Brian REDDAWAY, Fellow of Clare College, Cambridge.

Experts assisting the Committee (2):

Mr. G. SCHMÖLDERS, Professor at the University of Cologne;
Mr. Paul COART-FRESART, Professor at the University of Louvain;
Mr. Paul REUTER, Professor at the University of Aix-en-Provence;
Mr. Bruno VISENTINI, Professor at the University of Urbino;
Mr. Ferdinand WIRTGEN, Director of the "Administration de l'Enregistrement et des Domaines du Luxembourg";
Mr. M. J. H. SMEETS, Professor at the "Katholieke Economische Hogeschool", Tilburg.

(1) Order No. 2—53 of 5th March 1953, *Official Gazette of the Community* of 7th March 1953.
(2) Order No. 3—53 of 12th March 1953, *Official Gazette of the Community* of 15th March 1953.

1.2 MEETINGS AND HEARINGS

In order to carry out the task assigned to it, the Committee held meetings on 17th, 26th, 27th, 28th and 31st March, and on 1st, 2nd, 3rd, and 8th April, 1953.

At its first meeting, the Committee settled the procedure to be followed for obtaining the information necessary for completing its work. In particular, it requested the six assistant experts to provide it with all relevant data, for the six member countries of the Community, on the questions raised by the High Authority in its Order No. 1—53. It then informed the Governments of the member countries that, in accordance with paragraph 2, article 3 of Order No. 1—53, it was prepared to hear any of them who might wish to make known their views to the Committee.

In addition, the Committee issued a statement to the press, and in the *Official Gazette of the Community,* to the effect that:

a) it would hear such persons as it might deem to be useful;

b) statements in writing might be submitted to it by any interested party;

c) producers', workers' and consumers' associations would be heard, if they so requested, provided that:

- such organizations were included in the lists submitted by the Governments in connection with the formation of the Consultative Committee;
- the entire area of a national territory came within their scope;
- they had previously submitted a memorandum on matters related to the questions with which the Committee had to deal.

Four Governments sent delegations to present their views to the Committee, which received them, on 27th March 1953, in the following order:

- delegation from the Netherlands Government, consisting of Messrs. KARMELK, MAAS and HIJZEN;
- delegation from the French Government, consisting of Messrs. ALLIX, BLOT, THIERRY, and a number of experts;
- delegation from the German Government, consisting of Messrs. MEERSMAN, EHRING, MICHAELIS, and a number of experts;
- delegation from the Italian Government, consisting of Messrs. STAMMATI, COSCIANI, CAMBELLI, CECCARELLI, and a number of experts.

The Committee also received memoranda from the French and German Governments.

The Belgian and Luxembourg Governments intimated that they did not intend to submit to the Committee any statements on their point of view.

As regards the professional associations, the following organizations submitted documents to the Committee:

Germany:

- a memorandum from the "Wirtschaftsvereinigung Eisen und Stahl", Düsseldorf;
- a memorandum from the "Unternehmensverband Ruhrbergbau", Essen;
- a note from the "Bundesverband der Deutschen Industrie", Cologne;
- a note from the "Industriegewerkschaft Bergbau", Frankfort on Main;
- a teleprinted message from the "Industriegewerkschaft Bergbau", Bochum;
- a note from the "D.G.B.-Bundesvorstand".

Belgium:

- a memorandum from the "Fédération des Associations Charbonnières de Belgique";
- a memorandum from the "Comité de la Sidérurgie Belge".

France:

- a memorandum from the "Chambre Syndicale de la Sidérurgie Française";
- a memorandum from the "Charbonnages de France";
- a note from M. MÉTRAL, as President of the "Syndicat National des Industries Mécaniques et Transformatrices des Métaux", Paris;
- a note from the "Conseil National du Patronat Français";
- a note from the "Association Technique de l'Importation Charbonnière".

In addition, the Committee received a note and several documents from Senator ARMENGAUD, Paris. Later, the Committee invited M. ARMENGAUD, and such of the above mentioned organizations as had notified their wish to do so, to appear before it on 31st March 1953. They were heard in the following order:

a) delegation from the "Chambre Syndicale de la Sidérurgie Française", consisting of Messrs. FERRY, PAYEN, HENRY;

b) delegation from the "Charbonnages de France", consisting of Messrs. BRET, GARDENT, BAYLE;

c) delegation from the "Syndicat National des Industries Mécaniques et Transformatrices de Métaux", consisting of Messrs. MÉTRAL and JOLY;

d) Senator ARMENGAUD;

e) Mr. GANSER, delegate of the "Bundesverband der Deutschen Industrie";

– delegation from the "Wirtschaftsvereinigung der Eisen- und Stahlindustrie", consisting of Messrs. MOMMSEN, SCHUBERT, WILLE, FLUME, and a number of experts;

– Mr. STRÄTER, delegate of the "Industriegewerkschaft Metall";

f) Mr. PLATTE, delegate of the "Industriegewerkschaft Bergbau";

– delegation of the "Unternehmensverband Ruhrbergbau", consisting of Messrs. GROSSE, VAN DER FELDE, MÜLLER.

1.3 GENERAL OBSERVATIONS

In spite of the limited time at its disposal, the Committee believes that the data with which it was furnished by the six experts who assisted it, together with the additional information obtained during the hearings and from the study of the numerous documents which it received, have provided sufficient information to enable answers to be given to the questions raised by the High Authority in its Order No. 1—53.

The following chapters contain the answers to these questions and an analysis of the two systems of taxation, *a* and *b*, described on page 7, which were submitted to the Committee. Although the entire responsibility for this report falls on the Committee, it submitted drafts of its report to the six assistant experts, in order to benefit by their comments. The Committee's final conclusions were unanimous.

In the course of its work the Committee met with questions which proved to be of importance for the problems under investigation, particularly the difference between the type of turnover tax in France and in the other countries of the Community. The French system is based on a different principle from that of the other systems, in the sense that it is a tax on the value added and not a multi-stage tax. Furthermore, attention should be drawn to the effects which result from the method of levying the tax that is employed in France. Although the order setting up the Committee makes no direct reference to such questions, the Committee considered that it should carry out an analysis, as this would help to throw further light on the problems which it was its function to clarify.

In the final chapter of its report, which summarizes its conclusions, the Committee has included some observations on problems of a more general character which it has encountered in the course of its investigations.

The answers to the questions have been set out in the following manner:

Chapter II contains some definitions of the basic concepts connected with the problems raised. In Chapter III, some facts and calculations on the incidence of turnover taxes are outlined. From these figures it is possible to determine what the Committee prefers to describe as the *primary consequences* of any particular change in the taxation system, that is to say the change in the fiscal charges due to a modification of the taxes under consideration.

The primary consequences are followed by two groups of adaptations:

- a partial adaptation, that is to say, an adaptation to the new conditions in the market under consideration. This question is also discussed in chapter III;
- adaptations of a more general nature, arising in the industries using coal and steel as well as in the national economy as a whole, and even in the international economy. The importance of these adaptations lies in the fact that they involve changes in the use of productive resources, which must be examined. These problems are dealt with in chapter IV, which also contains an examination of the methods of assessment.

Here and now, the Committee desires to lay particular emphasis on the fact that there is a marked difference between the final changes, resulting, for example, from the introduction of system *a* or of system *b*, and its immediate effects, which can be mitigated, if necessary, by temporary measures.

CHAPTER II

BASIC CONCEPTIONS

2.1 INTERNATIONAL MARKET; TAXATION AT THE FRONTIERS; THE DIFFERENT CONCEPTS OF PRICE

An international market for any given commodity may be described in terms of the various sellers and buyers, who are situated in different localities, so that transport charges are involved; of the taxes imposed, particularly turnover taxes; and of differences in prices. A somewhat closer examination of these various characteristics would appear to be desirable.

The mechanism of international transactions is made clear by the diagram on the following page. Two countries are considered and are indicated by numbers, country no. 1 being that of the seller, and country no. 2 that of the buyer. The seller fixes the selling price the amount of which (exclusive of the above-mentioned taxes) we shall call net producer's price, and which is indicated by p_1. The gross selling price is obtained by adding the amount of these taxes to p_1. Should a refund, r, be made at the frontier, the price, p, at the frontier will be correspondingly reduced. (A tax exemption can be regarded in every case as a combination of a tax and a refund.)

On entry into country 2, the goods will be liable to certain duties, c, and this raises the prices. Finally, there will be transport charges, $v_{1.2}$, and when these are added, we obtain the price, p^2, paid by the purchaser.

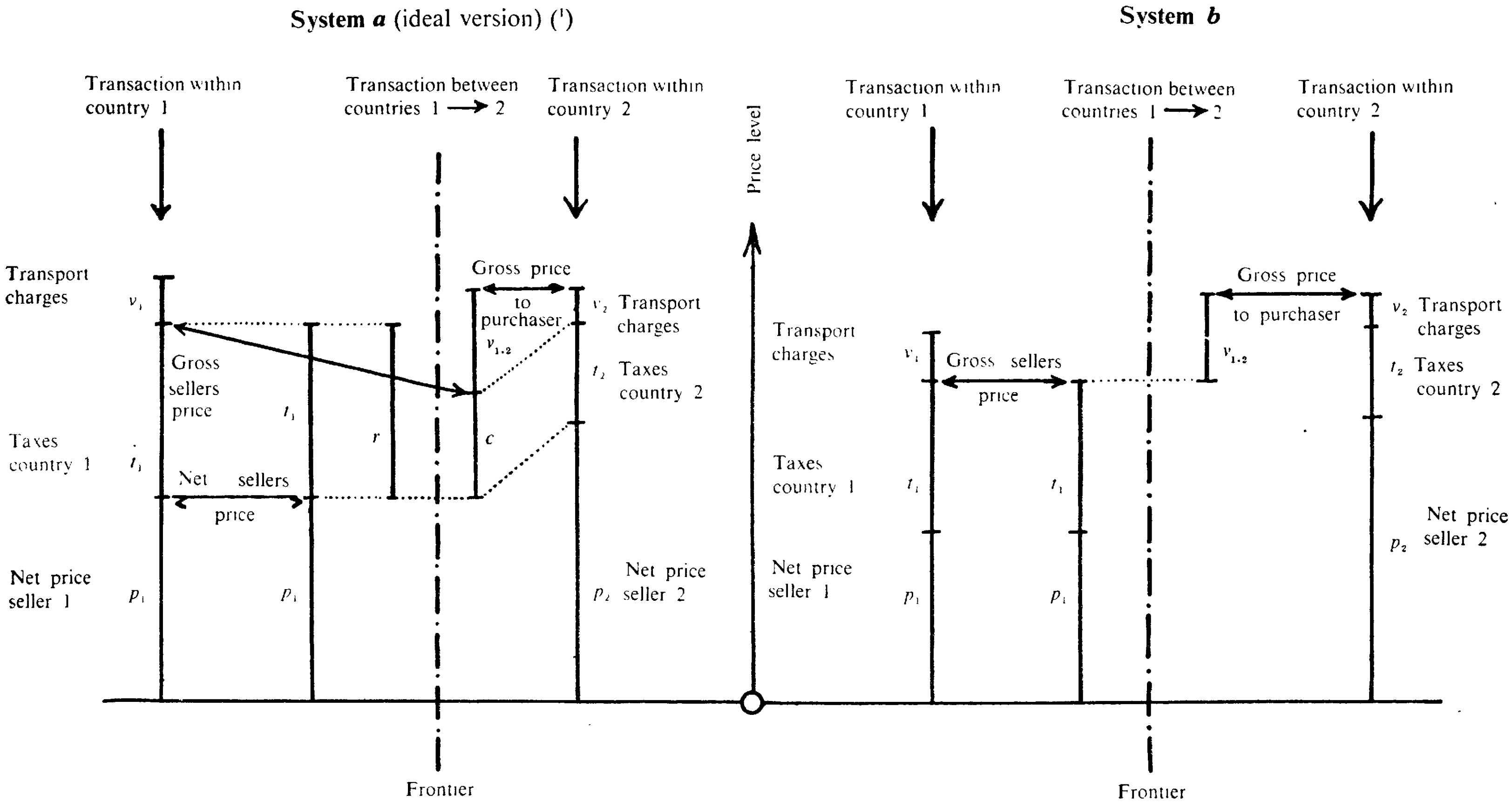
Whereas the seller fixes his price which, after addition and deduction of the above-mentioned sums, results in the selling price, p^2, it is the purchaser who controls his own demand, which means, inter alia, that he has the option of choosing his suppliers from among a number of competing sellers. His choice will be confined to those sellers whose total price p^2 is the lowest price as far as he is concerned. If he also buys in his own country (see diagram, national transaction 2) the total net price, p_2, for that other seller, after the national taxes t_2 and the transport charges v_2 have been added, will also be equal to p^2.

It is difficult to illustrate the inter-acting mechanism of the market by means of a similar diagram, but the table given below does show the way in which this mechanism operates. Sellers are grouped horizontally and buyers vertically. Each division of the table shows the net prices and the total amount, T, of the taxes and transport charges in respect of transactions between one seller and one buyer. All the sales made by one and the same seller (e.g., x_1^1, x_1^2, x_1^3) are included in the column referring to that seller; the purchase made by one and the same buyer are all shown on the same row. The principle of the mechanism is that every buyer only buys along his own row from the cheapest seller or sellers. Since prices are fixed by each of the sellers, the demand develops accordingly. If that demand is not in equilibrium with the supply, price adjustment will take place until equilibrium is established.

A similar price adjustment will be necessary after each change in the prevailing conditions, e.g., when a new system of taxation or a common market is introduced. It is only after the producers' net prices have been adjusted in this way that it will be possible to determine the consequences of such a change in prevailing conditions.

It should be pointed out that every market for a given commodity has numerous contacts with other markets; inter alia, through the existence of a certain wage level, the rate of exchange etc. Every change in the conditions relating to a particular market will result in a change in the general equilibrium, either at once, or after a certain time-interval.

DIAGRAM SHOWING FORMATION OF PRICES AFTER THE ADJUSTMENT OF PRICES



(1) Ideal version $t_1 = r$ (refund)
$t_2 = c$ (compensation duty)

Table illustrating formation of prices

GENERAL TABLE

Buyers	Seller 1		Seller 2		Seller 3	
	Demand for his products	Prices, taxes and transport charges	Demand for his products	Prices, taxes and transport charges	Demand for his products	Prices, taxes and transport charges
1	x_1^1		x_2^1		x_3^1	
		$p_1 + T_1^1$		$p_2 + T_2^1$		$p_3 + T_3^1$
2	x_1^2		x_2^2		x_3^2	
		$p_1 + T_1^2$		$p_2 + T_2^2$		$p_3 + T_3^2$
3	x_1^3		x_2^3		x_3^3	
	.	$p_1 + T_1^3$		$p_2 + T_2^3$		$p_3 + T_3^3$
Total demand	$x_1^1 + x_1^2 + x_1^3$		$x_2^1 + x_2^2 + x_2^3$		$x_3^1 + x_3^2 + x_3^3$	
Supply	O_1		O_2		O_3	

EXAMPLE

1	—		—		30	
		6 + 1		4 + 3		5 + 1
2	20		10		—	
		6 + 2		4 + 4		5 + 4
3	—		15		—	
		6 + 3		4 + 2		5 + 3
Total demand	20		25		30	
Supply	20		25		30	

2.2 CHARACTERISTIC FEATURES OF A COMMON MARKET

The aim of a common market is to supply requirements as cheaply as possible, that is to say, in such a manner that the quantity demanded is obtained at the lowest possible cost. This aim can be achieved by those very features which are characteristic of a common market where:

1. the net prices quoted by a given seller at any particular point of dispatch are the same for all buyers;
2. every buyer invariably chooses the seller whose price, as far as he is concerned, is the lowest at the point of delivery.

These prerequisites of a common market are laid down in the provisions of the Treaty, particularly in articles 2, 3, 4 and 60. Article 2, paragraph 2 and article 3*c* refer to the establishment of conditions which will ensure by themselves the most rational division of production at the highest possible level of productivity, and the establishment of the lowest possible prices. As the conception of what constitutes the lowest price is not clearly defined in the Treaty, it must be elucidated from the relevant provisions.

Article 4 prohibits measures or practices which hamper the buyer in the free choice of his supplier; this implies that all the sellers must be in a position to reach every buyer. Article 4 also prohibits measures or practices discriminating between producers, between buyers, and between consumers.

Article 60 represents a very important application of these principles. It prohibits discriminatory practices involving the application by a seller of unequal conditions to comparable transactions. It stipulates that the price-lists shall be made public, and makes the choice of the geographical basing-point on which the price-lists are established subject to the control of the High Authority. Article 60 does, however, — within any limits which may be determined by the High Authority — permit the seller to grant rebates from his basic price schedule to an extent which will enable him to quote a price equal to that given in another producer's schedule, related to a different basing-point, which offers the buyer the best terms at the point of delivery. The producer is, however, prohibited from aligning his offer in an upward direction.

By this means, the Treaty guarantees to every buyer access, under equal conditions, to all the sellers who wish to sell to him. On the other hand, it affords the producers, the buyers and the consumers no guarantee against the differences which arise from their geographical location, and more particularly against the differences in factor costs; it only prohibits inequalities arising from discriminatory measures.

We have already pointed out that, if the common market is to function properly, it is essential that every buyer invariably selects the seller who, as far as he is concerned, is the cheapest at the point of delivery. In order that the aim of the common market should not be frustrated, tax considerations must not intervene to induce the buyer to alter his decisions. This question will be further considered in chapter IV.

2.3 METHODS OF APPLYING SYSTEMS *A* AND *B*

In order to ensure an exact comparison of the two systems to which reference is made in the Order of the High Autority setting up the Committee, it should be pointed out, that it is possible for system *a*, which is only defined in general terms in the Order, to be applied in various ways.

In what follows, we shall use the term "ideal version of system *a*" for the case in which there is no difference between:

1. the amount of the exemption or refund and the total turnover tax included in the price, and between
2. the compensating duty at the point of entry and the total turnover tax included in the price of a comparable product in the country of destination.

The other types of system *a* are characterized by differences between the magnitudes compared above: the exemptions and compensating duties are not equal to the total sum of the taxes in question because it is technically impossible to determine their total incidence.

The technical difficulties which prevent the determination of the total incidence are due:

- to the multi-stage nature of the majority of these taxes;
- to the fact that, even where no multi-stage system is in operation, it is difficult to refund all the taxes included in the price.

In view of these unavoidable defects, it is advisable to consider also some other type of system *a* which is more readily workable than the ideal version. For this purpose, the Committee has taken a system *a'* where the tax exemption is applied to the final transaction and the amount of compensating duty corresponds to the normal rate of tax. It must be pointed out, however, that, as far as France is concerned, this system also involves certain difficulties due to the method of levying the tax on production.

System *b* does not call for a similar study because, under this system, all the taxes affecting the price in the country of origin are retained.

CHAPTER III

DESCRIPTION OF THE VARIOUS FORMS OF TURNOVER TAX AND THE IMMEDIATE CONSEQUENCES OF THE INTRODUCTION OF SYSTEMS *A* OR *B*

3.1 INTRODUCTION

With the help of its experts, the Committee assembled as much information as possible on the present forms of turnover tax in the six member countries. This tax, under various names, exists in each of the countries. In order to prepare a comparative table, in accordance with the request contained in the Order setting up the Committee, cases which were as concrete as possible had to be selected, and the following products, which are subject to the authority of the E.C.S.C. were chosen: coal, coke, billets (as representative of crude steel), and hot drawn sheet steel of less than 3 mm thickness (as typical of processed steel).

The exact incidence of the tax does not follow immediately from the definition of these products, since that incidence is affected by other factors such as, for example, the number of previous transactions (which depends on the extent to which the producing enterprises are integrated), the type of delivery (for example whether made by a producer or by a dealer), etc. Wherever these details do not interfere with the clearness of the tables, an endeavour has been made to include them.

The Committee regarded it as advisable to include some estimates of the total incidence of the tax, since evaluations of that incidence are often too low, and because somewhat widely diverging opinions exist as to the extent of that incidence.

We are dealing here with the total incidence which consists of:

a) the tax paid at the "final stage" (sale) of the product;

b) the tax paid the "penultimate stage" (for raw materials as well as for any other supplies of goods and/or services which have been taxed), and

c) the tax on all the "previous stages" affecting the price of the products at the "penultimate stage". Basically, we are dealing with an infinite series of taxes the total extent of which can be estimated by means of approximative formulae.

Many estimates made in actual practice take no account of this third component, so that they are not comparable with more accurate estimates. When the calculation stops at the "penultimate stage", indicated under *b*, the answer is certainly nearer to the true value than when the amount of tax in the final stage is alone considered, but it is nevertheless below the true figure.

3.2 COMPARATIVE SUMMARY OF TURNOVER TAXES AND OF EXEMPTIONS, REFUNDS, AND COMPENSATING IMPORT DUTIES

Tables IA, IB, IIA and IIB (1), drawn up for coal, coke, billets and sheets, respectively, comprise the information which has been assembled and are self-explanatory. They reveal

(1) See Appendix.

above all the important difference between France and the other member countries. This difference exists in respect of both the level and the nature of the tax. Whereas the other countries use the multi-stage system, with some more or less important exceptions for certain goods and transactions, the French tax includes a very important component of a non-cumulative character, the normal rate of which amounts to 15,35 % and is applied to the "price including tax". It corresponds to a rate of more than 18% if applied to the "price before tax". The method of levying the tax is also different from that employed in the other countries, in the sense that, at every stage, the tax is calculated on the basis of the value of the product, but the tax paid on the raw materials and on certain other classes of ancillary supplies delivered at previous stages is refunded. This is the most important of the complications; but there are others, as will be evident from the tables. The taxation systems in Italy and Luxembourg are the simplest; but these are also the countries where the rates under the main schedule are the lowest. The German, Belgian and Netherlands systems, which all apply roughly the same rates, occupy an intermediate position, but they embody a large number of minor differences which are shown in the tables.

In order to calculate the total incidence of the turnover taxes for the four products under review, we had to work on the basis of certain assumptions, namely:

1. assumptions concerning the proportion of the cost price represented by taxable materials and services in the "penultimate stage" and in the "previous stages";
2. assumptions concerning the extent to which the industries in question are integrated.

As regards the first group of assumptions, the Committee assumed the percentages of taxable materials and services included in the cost price to be the same in each country.

For the second group of assumptions the Committee did not wish to confine itself, in respect of coke and sheet steel, to the case of a non-integrated industry; the results of calculations for an integrated industry have, therefore, been added at the foot of each of these tables.

Some general remarks must also be made on the total incidences shown in the tables which, for the "previous stages", have been calculated by means of an infinite geometrical series (1). From its very nature, the infinite series gives results which are a little too high. Moreover, the rates of multi-stage taxes are hardly ever absolutely uniform — certain transactions are sometimes liable to a lower rate of tax, or are not taxed at all —, whereas the infinite series presupposes absolute uniformity, and also assumes that the "previous stages" were completed in the same country. The result of the calculation is, therefore, somewhat too high on this account, but the proportion of 50 % for the taxable materials and services in the "previous stages", which has been used in making the calculations, is a conservative estimate and thus tends to give a low figure. Since these tendencies act in opposite directions, the Committee considers that the figures which have been calculated present a realistic picture, and that they are reasonably comparable for the five countries which employ a multi-stage system.

The method of calculating the incidences of taxation cannot be the same for France as for the other countries, because its taxation system is different. The Committee has studied the numerous data placed at its disposal by the French Government and by French industries

(1) The incidence of the "previous stages" amounts to $ab \frac{t}{1-b}$, where:

a = the percentage of raw materials and services liable to tax, which is included in the final price (exclusive of tax);

b = this percentage in the cost price of these raw materials and services themselves; and

t = the rate of the multi-stage tax.

and believes that it has arrived at results for France which are comparable with the incidences calculated for the other countries.

3.3 OTHER TAXES FOR WHICH THERE ARE EXEMPTIONS OR REFUNDS

A study of the systems in force in the member countries has shown that, as far as the products of the E.C.S.C. are concerned, there is no other tax of any importance for which exemptions or refunds are granted.

3.4 EFFECT OF PRESENT PRACTICES ON PRICES

The effect of current practices on prices can be explained as follows: The selling price in country 2 of products originating in country 1 differs from that current in country 1, leaving transport charges out of account, in two ways: there is a difference between the taxes, and there is also a difference between the refunds and the compensating duties. The tables provide the figures which are necessary for calculating this dual difference for the products under review.

The table below gives some examples:

TABLE III

Incidence of present practices as regards exemption and compensating duty on certain prices

(calculated as a percentage of the producer's net price, assuming that there are no transport charges)

Product	Billets		Coal	
Producer country Consumer country	France Germany	G F	F G	G F
1. Incidence of the taxes (¹) in the producer country	+ 29	9,8	14	7,4
— *2.* Exemption + refunds	— 19,6	— 4,7	— 7,9	— 4,7
+ *3.* Compensating duty	+ 4	20	+ 4	8
1 — 2 + 3	13,4	25,1	10,1	10,7
— *4.* Incidence of the taxes (¹) in the consumer country	9,8	29	7,4	14
Difference *1 — 2 + 3 — 4*	3,6	— 3,9	2,7	— 3,3

(¹) Turnover taxes only.

Table IV, which shows the effect of present practices in regard to exemption and compensating duty on the price of billets (in round figures) was compiled from data for the six countries similar to those given in table III for the French and German products.

TABLE IV

Comparative table showing the current incidence of turnover taxes on billets

(in % of the producer's net price, assuming that there are no transport charges)

Country of destination \ Country of origin	Germany	Belgium	France	Italy	Luxembourg	Netherlands
Germany	10	9	13,5	8	7	9
Belgium	9,5	10	14	8,5	7,5	9,5
France	25	25	29	24	23	25
Italy	8	8	12,5	7	6	8
Luxembourg	7	7	11,5	6	5	7
Netherlands	9	9	13,5	8	7	10

It is of interest to note that, in present circumstances, the indirect charges which cannot be recovered when the goods are exported are heavier in France than in the other countries, in spite of the "value-added" system.

3.5 CONSEQUENCES OF THE INTRODUCTION OF SYSTEMS *A* AND *B* WHEN THE COMMON MARKET IS ESTABLISHED

The introduction of one of the systems under discussion, when the common market is established, is equivalent to superposing two changes almost simultaneously:

1. the establishment of the common market, which means the abolition of customs duties and dual prices, and
2. the change in the amount of the refunds and compensating duties in so far as the new system introduced differs from the existing system.

The Committee was not asked to examine the first of these two changes. The Treaty provides for temporary measures of safeguard in cases where the change would have a harmful effect on the stability of the markets. Any such disturbance of the equilibrium might be increased or counterbalanced by the change in the tax system. It would be wrong, however, to select the system on the basis of the combined effect of changes (1) and (2).

Consequently, the effects of these systems of taxation themselves must also be examined. The introduction of one of these two systems would lead to changes in the prices quoted to buyers to the extent by which it deviates from existing conditions. These changes will be termed primary changes; they will result in changes in the relative positions of different sellers.

The result will be that, for sellers who are favoured, the market will expand, whereas for sellers who are placed at a disadvantage, the market will shrink. The latter would, therefore, endeavour to reduce the net prices of their product, in order to offset the changes which have occurred, thus making a readjustment which we propose to call a secondary readjustment; in so doing, they are restricted by the economic laws which govern the firm's operations.

In the case of a true common market, this price adjustment would be the same for all the buyers from the same seller. In a common market as defined by the Treaty, other possibilities arise, owing to the powers conferred by article 60, 2b. The figures in the tables indicate the primary consequences which result from the change in the system, that is to say, the consequences which arise before any adjustment of the producers' net prices has taken place. Some examples, given in round figures, are to be found in the following table:

TABLE V

Primary consequences of introducing system *a* (ideal version) and system *b* for certain prices

(percentage of net price of product, assuming that there are no transport charges)

Product	Billets		Coal	
Producer country Purchasing country	France Germany	G F	F G	G F
Taxes (1), exemptions, refunds and compensation payments at present	13,5	25	10	11
System *a* (ideal version)	10	29	7,5	14
System *b*	29	10	14	7,5

(1) Turnover tax only.

From Table IV all available information on this point may be obtained in respect of billets. Under system *a* all figures in the same *line* (e.g. in the first line: country of destination—Germany) will be replaced by the boxed figure (i.e. the figure which at present applies solely to purchases of German origin). Under system *b*, on the other hand, all figures in the same *column* will be replaced by the boxed figure in this column.

When system a′ is used (see chapter II), the result is that shown in table VI:

TABLE VI

Comparison of the incidences of turnover tax on billets under the present system and under system *a′*

(in percentages of the producer's net price and assuming that there are no transport charges). The first figure in each square gives the present situation, while the second shows the result of adopting system a′ (1)

Country of destination \ Country of origin	Germany	Belgium	France	Italy	Luxembourg	Netherlands
Germany	10 10	9 9	13,5 13,5	8 8	7 7	9 10
Belgium	9,5 10	10 10	14 14	8,5 8,5	7,5 7,5	9,5 10
France	25 25	25 24,5	29 29	24 23,5	23 22,5	25 25
Italy	8 8,5	8 8	12 12	7 7	6 6	8 8,5
Luxembourg	7 7,5	7 7	11,5 11.5	6 6	5 5	7 7,5
Netherlands	9 9,5	9 9	13,5 13,5	8 8	7 7	10 10

(It is assumed that in the case of France the same tax exemption on exports is applied under system *a′* as at present.

CHAPTER IV

BASIC EFFECTS OF SYSTEMS *A* AND *B* ON THE OPERATION OF THE COMMON MARKET

4.1 GENERAL ECONOMIC INTERDEPENDENCE

After the brief description of the existing situation and of the primary effects of introducing a new system of taxation given in the preceding chapter, an analysis of the further consequences of the different systems of taxation will be given in the present chapter, with a view, particularly, to seeing how far these systems will help or hinder the attainment of the fundamental objective of the Community, i.e. the establishment of conditions which will ensure by themselves the most rational division of production. Such an analysis cannot be confined to the consideration of the coal and steel sectors, for the simple reason that the transactions in these commodities between the different members of the Community affect both their balances of payments and the exchange rate, or the cost of the factors of production in the individual countries. All these factors in turn have an effect on the relative competitive power of the various producers in the member States of the Community. The exchange rate is, of course, also affected by transactions in other commodities, and the problem which arises has, therefore, to be considered as an integral part of the overall general problem of establishing a system which will help to produce the best allocation of the productive resources of all kinds throughout the countries belonging to the Community.

More specifically, we want to consider which system of taxation would produce the least distortion of the pattern of production and trade which would be established in the absence of taxes or, more exactly, in the absence of taxes which would introduce on the supply side an element which would distort the assessment of relative real costs of production. In doing so, the Committee has considered it essential to study the full effects of these alternative systems, including the effect on the equilibrium rate of exchange; and it has considered it useful to bring under review all sorts of taxes, direct or indirect.

4.2 TAXES ON SPECIFIC COMMODITIES

It is perhaps easier to start with taxes on specific commodities, such as cigarettes. For these taxes all countries adopt system *a* which provides for a refund (drawback) of the tax if the cigarettes are exported (or an exemption if the tax has not yet been paid), and a compensating duty on imported cigarettes.

The main reasons for adopting a system of this kind would appear to be the following:

a) Selling prices in foreign markets are, in general, "given", whether we measure them before payment of foreign taxes (which is relevant in this examination) or after.

b) The country wants its factors of production to flow into those lines of export production which will give the country the best return.

c) If the exporters of cigarettes had to pay the excise duty to their Government, the factors would clearly avoid this type of export production in favour of others with no excise, even though both gave the same national return. The need for a compensating duty on imports follows for similar reasons.

4.3 INDIRECT TAXES OF A GENERAL NATURE

The adoption of system *a* for the specific taxes mentioned above has led some people to the conclusion that these same arguments would prove that system *a* was also the only correct one for all kinds of indirect taxes. So far, however, as a general tax is concerned, such as the general turnover tax, at a flat rate, these arguments do not apply. If the tax applied to exports, as well as to sales in the home market, the producers of all commodities might appear to be at a "competitive disadvantage" in the foreign markets; but the equilibrium could be restored, in relation to the position adopted under system *a*, by a lowering of factor prices in terms of foreign currency, e.g. if the rate of exchange were lower than that used under system *a*, or if there were a relative reduction in factor prices. So far as long-term static equilibrium is concerned, the only difference between systems *a* and *b* would be in the exchange rate; in either case the operation of procuring goods for the home market by means of foreign trade would bear the turnover tax once, and once only, just like the direct production for that market. Under system *a* the tax comes when the imports arrive, and under system *b* when the exports leave.

In amplification of the preceding point, the words "competitive disadvantage" or "higher or lower production costs", etc. *have no meaning* as between countries, unless we can produce an exchange rate; if the tax system under *b* raises all the exporters' costs in local currency compared with that under system *a*, and lowers the costs of imported goods to the consumer by having no compensating duty, equilibrium will require a different exchange rate, which will restore the balance. What an exchange rate *cannot* do, is to offset *unequal* additions to the costs of different export commodities (due to varying excise duties, etc.): equilibrium in the balance of payments is of course possible under such a system, but the pattern of production and trade will have been distorted from the "ideal". System *a* makes the additions due to excise duties equal — all being zero. The important point, however, is not that they are *zero*, but they are *equal*.

4.4 DIRECT TAXES

So far as "direct taxes" such as income tax are concerned, these are usually general in the sense that they apply to all industries alike.

All countries apply system *b* in regard to these taxes, making no attempt to refund the taxes when goods are exported and imposing no "compensating duty" when goods are imported. This system produces no distortions because it applies to all commodities alike.

It is, perhaps, of some theoretical interest in connection with the last paragraph to note that, if one particular industry were made to pay a specially high income tax, strictly speaking the country ought to give a "refund" on all products of that industry which were exported to compensate for the specially high tax, and also to impose a compensating duty on imports of such products. The calculation of the amounts would, of course, be extremely difficult.

So far as a direct tax is concerned, one might also say that it would be theoretically possible for the countries to adopt system *a* in respect of all commodities. A refund would then have to be given, in respect of all exports, of the direct taxes paid as a result of their production, and a compensating duty applied to all imports. If such a procedure could be adopted, system *a* would be as good as system *b*, in the sense of not creating distortions. It goes without saying, however, that the use of system *b* is much simpler so far as direct taxes are concerned, which explains why all countries follow this course.

4.5 SUMMARY

The conclusions which emerge from the foregoing analysis may be summarized as follows: if distortions are to be avoided, then each country should observe the following rules:

1. For "particular" taxes which apply only to particular industries or which apply to them with very uneven weight, it should adopt system *a*.

2. For a "general" tax whether direct or indirect, the countries can adopt either system *a* or system *b*, but they must apply the same system to all their industries.

There is no need for a country to adopt the same system for each one of its "general" taxes. Indeed, it is most usual for countries to follow system *b* for direct taxes and system *a* (though only partially) for the general turnover tax. This causes no distortions; what would cause distortions is to adopt system *a* for some commodities and system *b* for others, in respect of the same tax.

If however all the member countries of the Community agreed to adopt the same rate of general turnover tax, imposed on the same basis, then distortions would not arise, even if they applied system *b* for transactions coming within the scope of the Community, whilst applying system *a* for other transactions. This follows from the fact that the amount of tax to be paid in respect of a sale between the members of the Community would be the same under either system — though there would, of course, be *fiscal* consequences, since the taxes would go to the exporting country under system *b*. The Committee has thought it right to draw the attention of the High Authority to this possibility, but wishes to make clear that distortions will be avoided only if the turnover taxes are made identical for *all* commodities in the six countries.

So far as the turnover tax is concerned, the above analysis leads to the conclusion that distortions will arise unless either the same system is adopted for coal and steel as for other commodities, or an identical tax with the same rate and the basis is applied to all commodities in all member States. Since all member countries follow system *a* at least to the extent that the final transaction is free of tax and a compensating duty is levied on imports, the first alternative for avoiding distortions would be almost equivalent to system *a*. The fact that exports bear some part of the tax (due to the cumulative principle, which applies in part even in France), is not as serious as might be feared, since this applies to all commodities. It would not improve the position to have a special system of more complete exemption or refund for coal and steel, but rather the reverse.

4.6 EXAMPLES OF DISTORTIONS: DIFFERENT RATES

It is helpful to illustrate by means of some simple examples the types of distortion which would be caused by having a different system for coal and steel from that adopted for other commodities. To reveal the essential point, we take first a case in which two countries, F an D, each apply the same type of tax — one which is not cumulative but falls on the commodities only at the final stage — but that they have very different rates — say, 20% in F and 7% in D. Transport costs are ignored, and so are transactions with the rest of the world. System *b* is assumed to apply for coal and steel, but system *a* for other goods. For simplicity we write p_F and p_D for the selling price of any article produced in F or D respectively, before payment of tax.

The market ought to work in such a way as to indicate which goods could be produced under the best conditions in F and which in D. Under the system postulated it will, however, give the following answers:

For coal and steel: one must produce in F if p_F + 20% is less than p_D + 7%.

For any other commodity: one must produce in F if p_F is less than p_D since the percentage added for tax would be the same for all sales effected in one country, i.e. 7% for sale in D and 20% for sale in F.

These answers are quite inconsistent — the market has been falsified and there will be an artificial force leading F to concentrate its production on goods not falling within the scope of the Community and to import its coal and steel requirements, whilst in D there is an artificial force in the opposite direction. The disadvantages of higher direct taxation in D are irrelevant in this connection since they affect all products equally. The trouble arises from the fact that the rules governing the turnover tax affect the commodities unequally.

The problem becomes particularly clear if we consider a very simple product which is made from steel, but does not fall within the scope of the Community. If a ton of nails, for example, costs only 10 % more to produce than a ton of wire, the prices which producers in F would quote on the market in D would be as follows:

Wire 100 + 20% (tax in F) = 120.

Nails 110 + 7% (compensation duty in D) = 118.

Thus a ton of nails would be sold for less than a ton of wire. If the wire produced in F were competitive on the market in D, it is clear that no nails could be manufactured in D, even though the industry there might really be very efficient.

The difference between the tax system applied to wire and that applied to nails would have completely distorted the market.

One may add an example which would arise even within the coal and steel sector, if the member countries continued to apply system *a* in their dealings with countries outside the Community, but system *b* in their dealings with other member countries. Under these circumstances, the price which the two countries could quote on an outside market would simply be their untaxed price, plus any tax imposed by the foreign country. Hence the market would indicate that F was the better place for producing steel for export outside the Community, if p were less than p_D even by as little as 1 %. But for sales within the Community we see from the above example that p_F would need to be much less than p_D, since a higher tax would be added (20 % as against 7 %). These answers are clearly inconsistent: If p_F were, say, 10 % less than p_D, production in F would contract for sale within the Community in favour of D, but expand for sale outside. The result would be an absurd distortion, caused by the adoption of one system for sales within the Community and another system for sales outside it.

4.7 EXAMPLES OF DISTORTIONS: DIFFERENT BASES OF ASSESSMENT

We have just quoted examples of distortions arising from the fact that the rates would not be the same in all countries if system *b* were adopted for transactions within the Community and system *a* for other transactions.

Further distortions — or at any rate complications — would be introduced into system *b* by the existence of different types of tax: a multi-stage tax in country D, and a tax on value added in country F. In the latter country, the tax is due only from the purchaser of the end-product and is calculated on the selling price of that end-product. The taxes levied on intermediate transactions are refunded, the recovery of the corresponding payments being shown in the monthly statement issued to each producer of the taxes paid by him on the raw materials and services he has utilized.

The difficulties arise from the manner in which the tax is levied, since it produces different situations under system *b*, according to whether the product sold is an end-product, e.g. a rail, or an intermediate product, e.g. wire.

For instance, if a rail produced in F is sold in D, the turnover tax has been paid once and for all. Again, on a rail produced in D, the multi-stage tax has also been paid once and for all. The existence in F of a tax on the value added thus produces no further distortion than that which we have already seen in the previous example to exist under system *b*.

On the other hand, a purchaser domiciled in country F buying wire produced in F, makes only an advance tax payment which is subsequently refunded. For example, a manufacturer of nails pays the final tax only when the nails are sold, and the tax is calculated on the price of the nails; the advance tax payment made on the purchase of the wire is refunded, and is thus not part of the price of the wire.

There are two consequences of this situation:

To avoid discrimination, the producer of wire in country F would have to supply the wire to the nail manufacturer in D at the price quoted to the nail manufacturer in F, and no final tax may, therefore, be levied in F in respect of the sale of the wire to the nail manufacturer in D. (We do not discuss here the methods by which the refunds might be made in practice.)

For his part, the seller of wire in country D would, if discrimination is to be avoided, have to supply the wire to the nail manufacturer in F at a price free from indirect taxation, or otherwise the nail manufacturer would pay both the foreign tax on his raw material and then the full tax levied by his own country on the total value of the nails; if the nail manufacturer in F were to pay the producer in D the price inclusive of taxes, the Government of F would have to refund to the nail manufacturer in F those taxes which had already been paid in D.

If, to avoid discrimination one follows the practices just described system *b* is no longer applied; if these practices are ignored and system *b* is strictly followed for both products, the existence in F of a tax on value added, to be borne by the nail manufacturer in F in respect of the total value of the nails, would create yet another distortion.

Under system *a*, however, an export sale would not be affected by the method of the levy. Whether we are dealing with the product in its final stage, or with an intermediate product, system *a* causes no discrimination whatsoever.

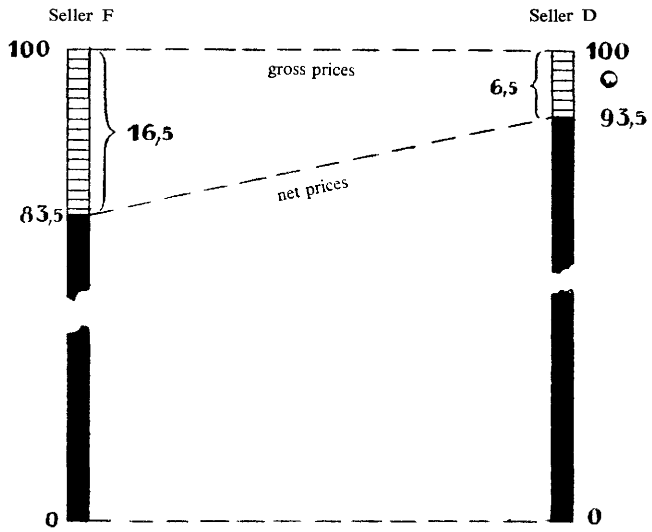
The same consequences arise from the method of levying the tax on the value added in respect of sales outside the Community.

It may be useful to illustrate the above-mentioned distortions in yet another way.

Let us assume that system *b* has been applied for a certain period to products falling within the scope of the Community, while the other products have remained subject to system *a*, and that in this way a new state of equilibrium has been attained between countries F and D. Starting from this assumption, it is possible to ascertain the conditions governing the attainment of such a state of equilibrium.

The equilibrium for the products of the Community is expressed in the following diagram by representing the gross prices of products from country D and of products from country F on an equal level. Under system *b* the place of sale is of no importance since the taxes applied are solely those of the country of origin. Assuming that no freight charges arise, the producers, net prices are found by deducting the amount of the tax. To simplify comparison, the taxes are given as percentages of the gross prices, i.e. percentages of the prices including tax. A rate inclusive of tax of about 16.5 % corresponds to 20 % exclusive of tax for country F, as given on page 26, and a rate of about 6.5 % inclusive of tax corresponds to a rate of 7 % exclusive of tax, as assumed for country D.

Products of the Community



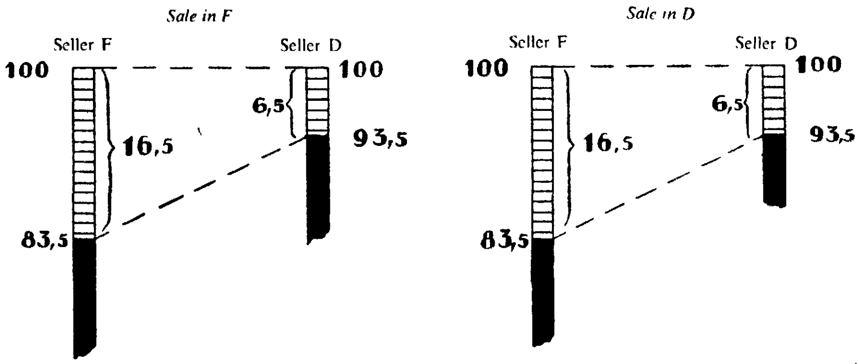
In a state of equilibrium the net prices which will be received by the sellers in F will thus be 83.5% of the gross price, while those received by the producers D will be 93.5% of the gross price, the difference in these figures being due to variations in the general conditions in both countries, such as the exchange-rate etc.

A corresponding diagram can be drawn for the previously mentioned case of an intermediate product falling within the scope of the Community on which the tax of country F is refunded to the user.

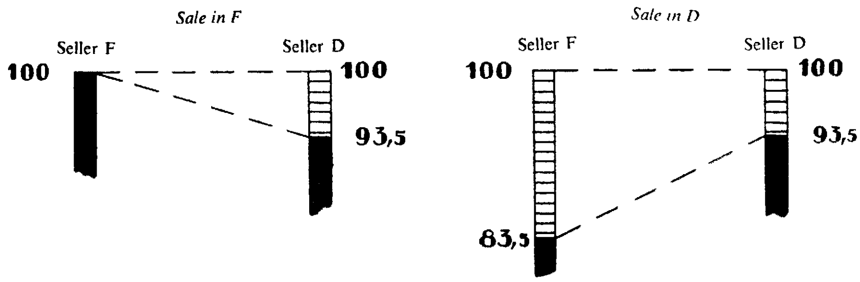
If further diagrams are added for those products which do not fall the scope of the Community and are also subject to system *a*, the following scheme emerges (the lower sections of the diagram have been omitted, since they are identical in all cases):

SYSTEM *B*

Finished products within the scope of the Community

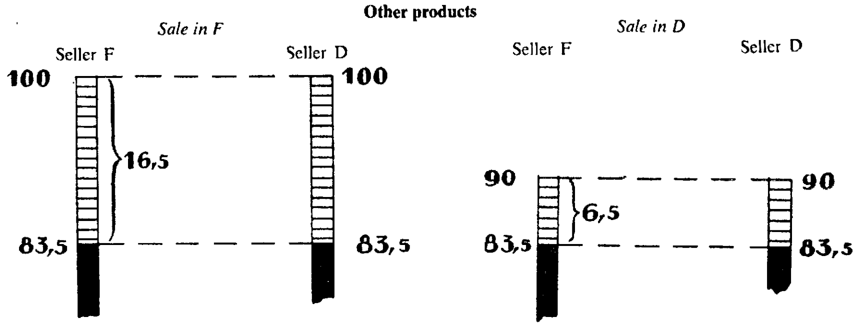


Intermediary products within the scope of the Community



SYSTEM *A*

Other products



These diagrams reveal that the assumption of the simultaneous existence of equilibrium with system *b* for products falling within the scope of the Community and with system *a* for other products presupposes arbitrary variations in the relative level of the net prices, according to which case is selected. In actual fact, such variations in this level are inconceivable in industries which are close neighbours of one another within a particular country. In practice, the sellers for whom the effects of this situation would mean too serious a handicap would simply be excluded from the market, while other sellers would enjoy arbitrary preference. The variations in the relative level of the net prices, as they result from the diagrams, thus represent so many distortions.

4.8 EFFECTS OF SYSTEMS *A* AND *B* UNDER VARYING TRADE CONDITIONS

The analysis given above relates to the effect of adopting system *b* within the Community whilst maintaining system *a* for other transactions. The results are above all applicable to long-term developments in the pattern of production.

It is also interesting to note that, if the rates of tax are very different in the various countries, their competitive positions would be affected rather differently by varying trade conditions according as system *a* or system *b* were adopted. These results would apply whether or not the same system were applied to transactions with other countries or in commodities other than coal and steel.

The fundamental reason for this is that in times of depressed trade, a producer will try to extend his market geographically, even if this means receiving a smaller price after deduction of freight. (As has been mentioned in an earlier chapter, article 60 of the Treaty expressly allows him to offer his goods in a distant market at the local price if he wishes to do so, unless the High Authority issues a decision limiting this freedom.) The extent to which a producer will be prepared to reduce his price, net of transport costs, in this way depends on the level of his prime costs, and one element in these is, of course, the turnover tax.

Under system *a* the turnover tax would represent the same proportion (20 %) of the price which a seller would ask in the market of F, whether the steel were produced in F or in D; and the same would be true for steel sold in the market of D, though the percentage would be lower. Consequently, under this system the producers would be equally placed for cutting their f.o.b. prices to distant customers, so far as the turnover tax is concerned.

Under system *b*, however, the position would be different. For producers in F the turnover tax would represent 20% of the price in both markets, and for producers in D 7%. It might well be that producers in D paid much more in direct taxes, or suffered from some other handicap, so that in times of normal trade each quoted the same price ex-works and could sell over the same sort of area. But these direct taxes do not enter into prime costs, so that producers in D would be better able to extend their market by selling at local prices if a trade depression made this necessary.

The shifting of the market's geographical points of equilibrium may thus be represented as follows:

$$\begin{array}{lcl} \mathbf{F} & & \mathbf{D} \\ \longleftarrow\! & \text{———————————} & \text{falling market} \\ & \text{———————————}\!\!\longrightarrow & \text{rising market} \end{array}$$

Thc enterprises in F will feel the effects of the varying trade conditions more strongly than the enterprises in D; this will result in a bigger reduction of the quantities sold by thc enterprises in F, or will make it necessary for them to lower their variable costs more substantially.

CHAPTER V

FINAL REMARKS AND CONCLUSIONS

Before summarizing its conclusions, the Committee wishes to draw the attention of the High Authority to a few points which arose in the course of its work, because they have a certain bearing on the problems under consideration.

It would first like to point out that an explanation of the operation of a common market entails several different conceptions of price: the net price to the producer, the gross price to the producer, the price paid by the purchaser, etc. (see chapter II). All these conceptions are significant economically, some have also a legal significance. The Treaty does not always indicate clearly to which of these conceptions it refers.

In the second place, the Committee would like to point out that the difficulties caused by the differences in the taxation systems would be eliminated if it were possible to carry out a gradual assimilation of the rates in force in the different countries.

The Committee did not consider that it was within its competence to examine in detail whether the adoption of one of the systems would increase or reduce the danger of undesirable disturbances in the common market, such as would result if the Governments of the member countries tried to give their producers or consumers a competitive advantage by "manipulating" the rates or the basis of their taxes, refunds and compensating duties. The attention of the High Authority should, however, be drawn to the following points:

a) If the "ideal" version of system *a* were adopted, it would necessarily be very difficult to calculate the appropriate refunds and compensating duties; in fact, even for a single product, it would be necessary to use several rates, the amounts of which would depend on factors such as the number of previous transactions, the method of delivery, etc.
A situation of this kind would give the Government a free hand to apply abnormally high or low rates, and there would be little possibility of controlling them.

b) If system *b* were adopted, the Governments could alter the tax rates for one or more products, especially in those countries, where the rate is not uniform. (In France, the rates of the production tax — "taxe à la production" — on coal and steel differ widely at present; they amount to about 5 and 15 % respectively.) This is even more likely with the system of a tax on the value added, since under this system the refund of taxes paid at earlier stages means that the rate of tax levied in advance on the intermediate products is of small importance for transactions within the country.

c) Under system *a'* the rules are reasonably clear.

Although this last conclusion might not appear very important in regard to the economic problems with which we are dealing here, nevertheless it has a political significance for the Community.

All the member countries at present exempt exports from indirect taxes levied at the final stage; they all follow the system whereby direct taxes are levied by the country of origin.

As regards indirect taxes at the penultimate and earlier stages, they normally follow the principle of non-reimbursement. Some of them, however, allow complicated refunds which cover only a small part of the tax; such refunds do not help to assimilate the effective levels of the tax in the different countries.

These practices, therefore, create legal inequalities and complications which by no means assist the formation of a common market; they are also likely to change according to circumstances, and the High Authority has no criterion on which to resist such changes. One may therefore, ask whether tax exemptions on exports should not be strictly limited to indirect taxes for which, under system *a*, the assessment is based on the final transaction. This would have the advantage of laying down a simple legal norm, without making any undesirable changes in the existing economic position.

Having made these observations, the Committee would now like to summarize its conclusions in the form of answers to the questions put by the High Authority; the answers will be set out in the numerical order of the questions.

5.1 As regards the *long-term consequences* for the operation of the common market, the essential fact is that system *b* — which is applied both in respect of direct taxes and to certain elements of indirect taxation — tends to distort the allocation of economic resources when it is applied only to a section of the economy (1), whereas system *a* does not interfere with the proper utilization of the resources. The Committee has worked out a few examples of the distortions which would arise from the application of system *b*. These distortions are particularly prominent in the case of the French processing industries, on account of the basis used for levying the French production tax — "taxe à la production". On the other hand, system *a* suffers from some defects, when exemptions, refunds or compensation duties cover only a part of the whole tax burden. These defects are not very serious at present, because in any particular country the compensated portion is probably about the same for most products.

Apart from the long-term consequences there may be *temporary consequences*, when there is a sudden change in circumstances. These may arise simply through the establishment of the common market — the Treaty makes provision for measures to be applied in this case — and they may also arise through a change in the taxation system. From the tables submitted it is clear that the present situation is not appreciably different from system *a'* (exemption and compensation only of taxes levied at the "final stage"); in this case there would, therefore, be no sudden change. There would, however, be a sudden change if system *a* (ideal version) or system *b* were introduced.

5.2 In chapter III the Committee has presented comparative tables showing the turnover taxes, present practices in regard to tax exemptions on exports and compensating duty on imports of certain important products within the scope of the E.C.S.C. (see tables IA, IB, IIA, IIB).

5.3 On the basis of these figures an estimate was made in section **3**.4 of the effect which current practices have on prices. The primary effect of a possible change in the system may

(1) If system *b* were applied only to one part of the economy, there is only one case in which it would cause no distortion, namely if all countries of the Community adopted the same rate and the same basis of assessment for the turnover tax.

thus be determined (cf. section 3.5). The primary tendency will be towards an expansion of the markets of the favoured sellers and a restriction of the markets open to those sellers who are put at a disadvantage. It will probably be followed by a price adjustment which must be carefully distinguished from the effect on prices of the establishment of the common market or of the economic situation.

5.4 The tables included in chapter III reveal that tax exemptions, as well as compensating duties, are everywhere lower at present than the total incidence of turnover taxes. This incidence is generally underestimated, because the incidence in the earlier stages is wholly or partially overlooked.

5.5 In practice, exemption is not applied to other taxes.

Luxembourg, 8th April, 1953

J. TINBERGEN, *Chairman*
L. DUPRIEZ
A. DI FENIZIO *Members*
B. REDDAWAY

SUMMARY

SUMMARY

1. BASIC CONCEPTS

On the 5th of May 1953 the High Authority of the European Coal and Steel Community appointed a Committee of Experts to which it submitted in particular the following question:

"Having regard to the differences in the turnover taxes levied in the various countries of the Community what would be the economic effects on the operation of the common market:

a) of a system *a* which, by exemptions for exports and compensating duties on imports, would result in the products being liable to turnover tax only in the country of destination;

b) of a system *b* under which the products, wherever they might be delivered within the common market, would be liable only to the turnover taxes of the countries of origin?"

Before answering this question the Committee recalls that the aim of a *common market* is to supply requirements as cheaply as possible, which implies the following characteristics:

1. the *net prices* quoted by a given seller at any particular point of dispatch are *the same* for all buyers;
2. every buyer always chooses the seller whose price to him is the *lowest at the point of delivery*.

These characteristics of the common market can be found in the provisions of the Treaty, although the different concepts of price are not always explicitly defined.

In order that every buyer may select the seller who is the cheapest for him, it is essential that tax considerations do not intervene to alter his decisions.

2. BASIC EFFECTS OF SYSTEMS *A* AND *B* ON THE COMMON MARKET

The Committee points out that system *b* has been generally adopted for direct taxes and that system *a* is customary for indirect taxes.

However, system *b* is also conceivable for a general turnover tax if the same rate is adopted in every country and applies to all products and to trade with all countries. But it would be incompatible with the common market to apply system *b only* to coal and steel. In that case there would be a disequilibrium between the charges on coal and steel in comparison with the charges on other products, including even products made of coal and steel. The Committee gives a few examples of distortions which would be created if the two systems were applied at the same time. The countries with a high rate would be artificially induced to concentrate their production on articles not falling within the scope of the Community and to import coal and steel. In the countries with a low rate the opposite effect would be obtained.

Certain finished products beyond the competence of the Community could even become cheaper than the raw materials they are made of, if they were transferred from a country with a high rate to a country with a low rate.

The adoption of system *b* for the coal and steel sector only would therefore result in distortions detrimental to the most rational allocation of the productive resources, which would be incompatible with the aim of the common market.

System *a* when adopted for the whole of the economy, creates no distortions but it is practically impossible to apply it in all details: to exempt the products from the precise amount of the taxes paid during the whole process of production would require extremely complicated calculations for each different case. Therefore the Committee recommends the adoption of a simple version of system *a*, under which the exemptions or refunds are limited to the amount of the tax on the final transaction. This version would be easy to apply and to control. Moreover it comes nearest to the current practices so that its adoption would not create sudden changes.

3. GENERAL REMARKS

As far as direct taxes are concerned, which may be higher or lower in the different countries, the Committee points out that the level of these taxes is not relevant for the consideration of the different systems of turnover tax. These direct taxes affect *all* products and therefore they create no distortions. The differences between the level of these taxes as well as the differences between the general conditions in the various countries are reflected amongst other things in a certain equilibrium exchange rate.

The Committee makes the following observation about the possible adoption of a new taxation system at the same time as the establishment of the common market. In this case it would be necessary to distinguish clearly between the effects of the adoption of the new taxation system as such and the effects of the establishment of the common market. It is essential to determine whether the changes in the allocation of productive resources, which the taxation system itself causes in the long run, are desirable or not. Apart from these long-term consequences there may be temporary effects (not only due to changes in the fiscal system) whenever a sudden change of circumstances occurs. These short-term consequences can, if necessary, be mitigated. This case may arise even through the establishment of the common market; the Treaty contains provisions for this eventuality.

The essential point is, however, to determine how the allocation of productive resources will be influenced in the long run by the change under consideration.

APPENDIX

REFERENCE KEY

Symbols

\> .... *greater than...*

— .... *nil*

⊕ .... *case dees not arise*

* .... *percentages marked with an asterisk are not applied precisely in accordance with either of the two systems* (cumulative and non-cumulative)

Colours

The black figures relate to the calculation of the incidences.

The red figures have been taken, or deduced, from the memoranda submitted to the Committee.

The green figures are of an informative nature, and are not used for a separate calculation of incidences.

EXPLANATORY NOTES

(1) For each country, the figures in the first column represent percentages of the selling price, *exclusive of tax*.

(2) The figures denoted by (2) in the second column for each country represent percentages of the selling price, *inclusive of tax*.

(3) The figures denoted by (3) in the second column for each country represent percentages of the price carriage paid.

(4) For coal supplied to coking plants working for export, the rate has been deduced to 1.8 %. In certain cases and under special conditions, it will be reduced to 4.5 ‰, as for instance in the case of sales by a producer to an export merchant ; there are also single-stage flat rates.

(5) Home-produced coal which is not destined for use in the iron and steel industry is subject to a single-stage flat rate of 4 %.

(6) As an exception to the general rule of a cumulative rate of 3 %, coking fines, coke and all other imported mineral fuels which are not destined for use in the iron and steel industry, are subject to tax at a single-stage flat rate of 5.5 %.

(7) Direct deliveries to private individuals are at present subject to a rate of 6 %. *Cf.* figure 8.

(8) Exemption from tax is envisaged.

(9) Of the purchase price.

(10) The incidence calculated on the basis of estimates represents an approximate value only (see Chapter III, 3, 2).

(11) Deliveries of prepared pit-timber are exempt.

(12) On imported products, the tax is levied on the transport charges to the frontier in all cases.

(13) The French turnover tax system comprises four classes of taxes : the "taxe à la production", the "taxe sur les transactions", the "taxe locale sur le chiffre d'affaires", as well as comparable taxes on certain services. This table contains only the rates of the two first named taxes, but the other two classes of taxes have also been taken into account in the calculations. The "taxe à la production" is basically a one-stage (non-cumulative) tax, yet this tax also contains a cumulative element which varies according to the type of transaction and is added to the cumulative element of the "taxe sur les transactions".

COMPARATIVE TABLE OF TURNOVER TAXES, TAX EXEMPTIONS, REFUNDS, COMPENSATING DUTIES, AND TAXES LEVIED ON ENTRY OF IMPORTS

(Art. 2, Sections 2, 3, 4 and 5, Order No. 1/53 of the High Authority, of March 5, 1953)

Table I A

HARD COAL

	GERMANY		BELGIUM		FRANCE		ITALY		LUXEMBOURG		NETHERLANDS	
	Germany 1	Germany 2	Belgium 1	Belgium 2	France 1	France 2	Italy 1	Italy 2	Luxembourg 1	Luxembourg 2	Netherlands 1	Netherlands 2
TRANSACTIONS WITHIN A MEMBER COUNTRY												
TURNOVER TAXES												
I. — TRANSACTIONS BETWEEN PRODUCER AND : MANUFACTURER — WHOLESALER — RETAILER — PRIVATE INDIVIDUAL. *Rate :*												
1. — under a non-cumulative system — a) incidence of the final stage	⊕	⊕			7,93 (13)	6,35* (2)			⊕	⊕	⊕	⊕
2. — under a cumulative system — a) incidence of the final stage	4,17 (1)	4 (2)	4,5* (4)			1 (2)	3 * (5)		⊕	⊕	4,17	4 (2) (7)
b) estimated incidence of the penultimate stage (*the proportion of taxable raw materials and services in the cost price of the products is taken as 40 %*).	1,6		1,7		4,1		1,2		⊕	⊕	1,5 (11)	
c) estimated incidence of the previous stages (*the proportion of taxable raw materials and services in the cost price of the penultimate stage and the previous stage is taken as 50 %*).	1,6		1,7		2		1,2		⊕	⊕	1,6	
— estimated total incidence (10)	7,4		7,9		14		5,4		⊕	⊕	7,3	
— total incidence according to the memoranda submitted to the Committee	> 7		> 6,1			13,08 (2)						
II. — TRANSACTIONS BETWEEN WHOLESALER AND : MANUFACTURER — RETAILER — PRIVATE INDIVIDUAL. *Rate :*												
1. — under a non-cumulative system	⊕	⊕			7.93	6,35* (2)			⊕	⊕	⊕	⊕
2. — under a cumulative system	—	—	0,45 (4)			1 (2)	3 * (5) (6)		0,5	0,5	3.1 —	3(2)(8) (to private individuals) — (to manufacturers)
III. — TRANSACTIONS BETWEEN RETAILER AND PRIVATE INDIVIDUAL. *Rate :*												
1. — under a non-cumulative system	⊕	⊕			7,93	6,35* (2)	— (5) (6)		⊕	⊕	⊕	⊕
2. — under a cumulative system	4,17 (1)	4 (2)	—			1 (2)			2,04	2	3,1	3 (2) (8)
TRANSACTIONS BETWEEN MEMBER COUNTRIES												
TAX EXEMPTION ON EXPORTS												
I. — TRANSACTIONS BETWEEN PRODUCER AND : MANUFACTURER — DEALER *Rate*	— 4,17(1)	— 4 (2)	— 4,5		— 7,93	- 6,35* (2) - 1	⊕		⊕	⊕	— 4,17	— 4 (2)
II. — TRANSACTIONS BETWEEN DEALERS AND : MANUFACTURER — DEALER. *Rate*	—	—	— 0,45		— 7,93	- 6,35* (2) - 1	⊕		⊕	⊕	—	—
TAX REFUNDS ON EXPORTS												
I. — TRANSACTIONS BETWEEN PRODUCER AND : MANUFACTURER — DEALER *Rate*	— 0,5		⊕		⊕	⊕	⊕		⊕	⊕	—	—
II. — TRANSACTIONS BETWEEN WHOLESALER AND : MANUFACTURER — DEALER. *Rate*		— 3,68(3) — 0,5 (3)	⊕		⊕	⊕	⊕		⊕	⊕	— 4 (9)	
TOTAL INCIDENCE ON EXPORTS												
— *Estimate based on the calculations of the Committee* (10)	2,7		3,4		6,1		⊕		⊕	⊕	3,1	
— *Estimate based on the memoranda submitted to the Committee*	> 2.3		> 1.6									
COMPENSATING DUTY OR TAX LEVIED ON ENTRY OF IMPORTS *Rate*		4 (3)		4,5 (3)		8 (3)		3 (12) (6)		2 (3)		4 (3) (7)

REFERENCE KEY

Symbols

>	.... *greater than...*
—	.... *nil*
⊕	.... *case does not arise*
?	.... *cannot be estimated*
*	.... *rates marked with an asterisk are not applied precisely in accordance with either of the two systems* (cumulative and non-cumulative).

Colours

The black figures relate to the calculation of the incidences.

The red figures have been taken, or deduced, from the memoranda submitted to the Committee.

The green figures are of an informative nature, and are not used for a separate calculation of incidences.

EXPLANATORY NOTES

(1) For each country, the figures in the first column represent percentages of the selling price, *exclusive of tax*.

(2) The figures denoted by (2) in the second column for each country represent percentages of the selling price, *inclusive of tax*.

(3) The figures denoted by (3) in the second column for each country represent percentages of the price carriage paid.

(4) For coal supplied to coking plants working for export, the rate has been reduced to 1.8 %, which is equivalent to an additional exemption of approx. 1.3 %.

(5) Home-produced coal which is not destined for use in the iron and steel industry is subject to a single-stage flat rate of 4 %.

(6) As an exception to the general rule of a cumulative rate of 3 %, coking fines, coke and all other imported mineral fuels which are not destined for use in the iron and steel industry, are subject to tax at a flat rate of 5.5 %.

(7) Deliveries to private individuals are at present subject to a rate of 6 %. *Cf.* figure (8).

(8) Exemption from tax is envisaged.

(9) Of the purchase price.

(10) Sales effected by producers are subjected to a rate of 4.5 %; where a coke producer has himself bought the coal treated by him, the sales effected by him are exceptionally subject to a rate of 4.5 ‰; all subsequent sales through purchasing dealers are also subject to a rate of 4.5 ‰. There are also single-stage flat rates.

(11) The incidence calculated on the basis of estimates represents an approximate value only (see Chapter III, 3, 2).

(12) The details of the French turnover tax system given under figure (13) in Table I-A apply also to this table.

(13) On imported products, the tax is levied on the transport charges to the frontier in all cases.

COMPARATIVE TABLE OF TURNOVER TAXES, TAX EXEMPTIONS, REFUNDS, COMPENSATING DUTIES, AND TAXES LEVIED ON ENTRY OF IMPORTS

(Art. 2, Sections 2, 3, 4 and 5, Order No. 1/53 of the High Authority, of March 5, 1953)

Table I B

COKE

(coke produced by an independent coking plant)

	GERMANY		BELGIUM		FRANCE		ITALY		LUXEMBOURG		NETHERLANDS	
TRANSACTIONS WITHIN A MEMBER COUNTRY												
TURNOVER TAXES												
I. — TRANSACTIONS BETWEEN PRODUCER AND: MANUFACTURER — WHOLESALER — RETAILER — PRIVATE INDIVIDUAL												
Rate: a) incidence of the final stage — 1. under a non-cumulative system	⊕	⊕							⊕	⊕	⊕	⊕
a) incidence of the final stage — 2. under a cumulative system	4,17 (1)	4 (2)	0,45 * (10)		7,93 (12)	6,35 * (2) 1	3 * (5)		⊕	⊕	4,17	4 (2) (7)
b) estimated incidence of the penultimate stage (*the proportion of taxable raw materials and services in the cost price of the products is taken as* 80 %)	3.2		3,4		?		2,3		⊕	⊕	3,2	
c) estimated incidence of a second stage (*in which the proportion of taxable raw materials and services in the cost price of the penultimate stage is* 40 % *(see Table I-A, Hard Coal)*)	1,2		1,3		?		0,9		⊕	⊕	1,2	
d) estimated incidence of the previous stages (*the proportion of taxable raw materials and services in the cost price of the second stage and the previous stages is taken as* 50 %)	1,2		1,3		?		0,9		⊕	⊕	1,2	
— estimated total incidence (11)	9,8		6,5		?		7,1		⊕	⊕	9,8	
— total incidence according to the memoranda submitted to the Committee												
II. — TRANSACTIONS BETWEEN WHOLESALER AND: MANUFACTURER — RETAILER — PRIVATE INDIVIDUAL.												
Rate: 1. — under a non-cumulative system	⊕	⊕							⊕	⊕	⊕	⊕
2. — under a cumulative system	—	—	0,45		7,93	6,35 * (2) 1 (2)	3 * (5) (6)		0,5	0,5 (2)	3,1 —	3(2)(8) (to private individuals) — (to manufacturers)
III. — TRANSACTIONS BETWEEN RETAILER AND PRIVATE INDIVIDUAL.												
Rate: 1. — under a non-cumulative system	⊕	⊕							⊕	⊕	⊕	⊕
2. — under a cumulative system	4,17 (1)	4 (2)	—		7,93	6,35 * (2) 1 (2)	— (5) (6)		2,04	2	3,1	3 (2) (8)
TRANSACTIONS BETWEEN MEMBER COUNTRIES												
TAX EXEMPTION ON EXPORTS												
I. — TRANSACTIONS BETWEEN PRODUCER AND: MANUFACTURER — DEALER Rate	— 4,17	— 4 (2)	- 0,45 (10) - 1,3 (4)		— 7,93	- 6,35 * (2) - 1 (2)	⊕		⊕	⊕	— 4,17	— 4 (2)
II. — TRANSACTIONS BETWEEN DEALER AND: MANUFACTURER — DEALER Rate	—	—	- 0,45 (10)		— 7,93	- 6,35 * (2) — 1 (2)	⊕		⊕	⊕	—	—
TAX REFUNDS ON EXPORTS												
I. — TRANSACTIONS BETWEEN PRODUCER AND: MANUFACTURER — DEALER Rate	— 1		⊕		⊕	⊕	⊕		⊕	⊕	— 3,43	—
II. — TRANSACTIONS BETWEEN DEALER AND: MANUFACTURER — DEALER Rate		—3,68 (3) — 1 (3)	⊕		⊕	⊕	⊕		⊕	⊕	— > 4 (9)	
TOTAL INCIDENCE ON EXPORTS												
— *Estimate based on the calculations of the Committee* (11)	4,6		4,7		?		⊕		⊕	⊕	2,2	
— *Estimate based on the memoranda submitted to the Committee*												
COMPENSATING DUTY, OR TAX LEVIED ON ENTRY OF IMPORTS Rate		4 (3)		4,5 (3)		8 (3)		3 (13) (6)		2 (3)		4 (3) (7)
NOTE: For a colliery with its own coking plant (the penultimate stage is assumed to be 60 %, the previous stages 50 %). — Total incidence	9		9,7				⊕		⊕		9	
— Total incidence on exports	3,8		5,2				⊕		⊕		4,8	

REFERENCE KEY

Symbols

\> .... *greater than...*

— .... *nil.*

⊕ .... *case does not arise.*

* .... *rates marked with an asterisk are not applied precisely in accordance with either of the two systems* (cumulative and non-cumulative).

Colours

The black figures relate to the calculation of the incidences.

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The green figures are of an informative nature, and are not used for a separate calculation of incidences.

EXPLANATORY NOTES

(1) For each country, the figures in the first column represent percentages of the selling price, *exclusive of tax*.

(2) The figures denoted by (2) in the second column for each country represent percentages of the selling price, *inclusive of tax*.

(3) The figures denoted by (3) in the second column for each country represent percentages of the price carriage paid.

(4) In certain cases which are subject to special conditions, the rate is reduced to 4.5 ‰. There are also single-stage flat rates. For iron ore the rate is 1.8 %.

(5) The incidences calculated on the basis of estimates represent approximate values only (see Chapter III, 3, 2).

(6) These refunds are intended to cover the incidence of the tax on the raw materials; they are calculated on the purchase price and must not exceed fixed maximum rates.

(7) Of the purchase price.

(8) On imported products, the tax is levied on the transport charges to the frontier in all cases.

(9) The details of the French turnover tax system given under figure 13 in Table I-A apply also to Table II-A.

(10) The proportion of 70 % of raw materials and services in the cost price would not meet the case of an integrated iron and steel plant with its own coking plant and/or iron ore mine.

COMPARATIVE TABLE OF TURNOVER TAXES, TAX EXEMPTIONS, REFUNDS, COMPENSATING DUTIES, AND TAXES LEVIED ON ENTRY OF IMPORTS

(Art. 2, Sections 2, 3, 4 and 5, Order No. 1/53 of the High Authority, of March 5, 1953)

Table II A

BILLETS

as an example of crude steel

	GERMANY		BELGIUM		FRANCE		ITALY		LUXEMBOURG		NETHERLANDS	
TRANSACTIONS WITHIN A MEMBER COUNTRY												
TURNOVER TAXES												
I. — TRANSACTIONS BETWEEN PRODUCER AND : MANUFACTURER — DEALER												
Rate : 1. — under a non-cumulative system / 2. — under a cumulative system — a) incidence of the final stage	⊕ 4,17 (1)	⊕ 4 * (2)	4,5 * (4)		19,55 (9)	15,35*(2) 1 (2)	⊕ 3		⊕ 2,04	⊕ 2 (2)	⊕ 4,17	⊕ 4 (2)
b) estimated incidence of the penultimate stage .... (*the proportion of taxable raw materials and services in the cost price of the product is taken as* 70 %) (10)	2,8		2,2 (4)		4,4		2		1,4		2,8	
c) estimated incidence of the previous stages.. (*the proportion of taxable raw materials and services in the cost price of the penultimate stage and the previous stages is taken as* 50 %)	2,8		3		5		2		1,4		2,8	
— estimated total incidence (5)	9,8		9,7		29		7		4,8		9,8	
— total incidence according to the memoranda submitted to the Committee	9,2 à 13,8	8,8 à 13,2(2)	> 7,4			24,19 (2)	6,96		2,8		> 6,4	
II. — TRANSACTIONS BETWEEN DEALER AND : MANUFACTURER — DEALER												
Rate : 1. — under a non-cumulative system	⊕	⊕			19,55	15,35 * (2)	⊕		⊕	⊕	⊕	⊕
2. — under a cumulative system	—	—	0,45 (4)			1 (2)	3		0,5	0,5 (2)	—	—
TRANSACTIONS BETWEEN MEMBER COUNTRIES												
TAX EXEMPTIONS ON EXPORTS												
I. — TRANSACTIONS BETWEEN PRODUCER AND : MANUFACTURER — DEALER. *Rate*	— 4,17 (1)	— 4 (2)	— 4,5 (4)		— 19,55	-15,35* (2) - 1 (2)	⊕ — 3		— 2,04	— 2 (2)	— 4,17	— 4 (2)
II. — TRANSACTIONS BETWEEN DEALER AND : MANUFACTURER — DEALER *Rate*	—	—	— 0,45 (4)		— 19,55	15,35 * (2) 1 (2)	⊕ — 3		— 0,5	— 0,5 (2)	—	—
TAX REFUNDS ON EXPORTS												
I. — TRANSACTIONS BETWEEN PRODUCER AND : MANUFACTURER — DEALER. *Rate*	— 0,5		⊕		⊕	⊕	⊕		⊕	⊕	— 0,8 (6)	
II. — TRANSACTIONS BETWEEN DEALER AND : MANUFACTURER — DEALER *Rate*		—3,68 (3) —0,5 (3)	⊕		⊕	⊕	⊕		⊕	⊕	— 4 (7) — 0,8 (6)	
TOTAL INCIDENCE ON EXPORTS												
— *Estimate based on the calculations of the Committee* (5)	5,1		5,2		9,4		4		2,8		4,8	
— *Estimate based on the memoranda submitted to the Committee*	4,5 à 9,1		> 2,9				3,96		0,8		> 1,4	
COMPENSATING DUTIES, OR TAXES LEVIED ON ENTRY OF IMPORTS *Rate*		4 (3)		4,5 (3)		20 (3)		3 (8)		2 (3)		4 (3)

REFERENCE KEY

Symbols

- > .... *greater than...*
- — .... *nil.*
- ⊕ .... *case does not arise.*
- * .... *rates marked with an asterisk are not applied precisely in accordance with either of the two systems* (cumulative and non-cumulative).

Colours

The black figures relate to the calculation of the incidences.

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The green figures are of an informative nature, and are not used for a separate calculation of incidences.

EXPLANATORY NOTES

(1) For each country, the figures in the first column represent percentages of the selling price, *exclusive of tax*.

(2) The figures denoted by (2) in the second column for each country represent percentages of the selling price, *inclusive of tax*.

(3) The figures denoted by (3) in the second column for each country represent percentages of the price carriage paid.

(4) In certain cases which are subject to special conditions, the rate is reduced to 4.5 ‰. There are also single-stage flat rates. For iron ore the rate is 1.8 %.

(5) The incidences calculated on the basis of estimates represent approximate values only (see Chapter III, 3, 2).

(6) These refunds are intended to cover the incidence of the tax on the raw materials; they are calculated on the purchase price and must not exceed fixed maximum rates.

(7) Of the purchase price.

(8) The French turnover tax system comprises four classes of taxes: the "taxe à la production", the "taxe sur les transactions", the "taxe locale sur le chiffre d'affaires", as well as similar taxes on certain services. This table contains only the rates of the two first named taxes but the other two classes of taxes have also been taken into account in the calculations. The "taxe à la production" is basically a one-stage (non-cumulative) tax, yet this tax also contains a cumulative element which varies according to the type of transaction and must be added to the cumulative element of the "taxe sur les transactions".

(9) On imported products, the tax is levied on the transport charges to the frontier in all cases.

(10) The proportion of 70 % of raw materials and services in the cost price would not meet the case of an integrated iron and steel plant with its own coking plant and/or iron ore mine.

COMPARATIVE TABLE OF TURNOVER TAXES, TAX EXEMPTIONS, REFUNDS, COMPENSATING DUTIES, AND TAXES LEVIED ON ENTRY OF IMPORTS

(Art. 2, Sections 2, 3, 4 and 5, Order No. 1/53 of the High Authority, of March 5, 1953)

Table II B
HOT-DRAWN PLATES
of less than 3 mm thickness
as an example of processed steel.
The plate maker is assumed to have bought the crude steel from another enterprise.

	GERMANY		BELGIUM		FRANCE		ITALY		LUXEMBOURG		NETHERLANDS	
TRANSACTIONS WITHIN A MEMBER COUNTRY												
TURNOVER TAXES												
I. — TRANSACTIONS BETWEEN PRODUCER AND: MANUFACTURER — DEALER												
Rate: 1. — under a non-cumulative system / 2. — under a cumulative system: a) incidence of the final stage	⊕ 4,17 (1)	⊕ 4 (2)	4,5 * (4)		19,55 (8)	15,35 * (2) 1 (2)	⊕ 3		⊕ 2,04	⊕ 2 (2)	⊕ 4,17	⊕ 4 (2)
b) estimated incidence of the penultimate stage .... *(the proportion of taxable raw materials and services in the cost price of the product is taken as 70 %.)*	2,8		3		4,4		2		1,4		2,8	
c) estimated incidence of an analogous second stage (10)	1,9		1,5 (4)		3		1,4		0,9		1,9	
d) estimated incidence of the previous stages.. *(the proportion of taxable raw materials and services in the cost price of the second stage and the previous stages is taken as 50 %.)*	1,9		2		3,4		1,4		0,9		1,9	
— estimated total incidence (5)	10,8		11		30,4		7,8		5,2		10,8	
— total incidence according to the memoranda submitted to the Committee	8,3 à 13,8	8 à 13,2 (2)	> 7,4				6,5		3		> 6,2	
II. — TRANSACTIONS BETWEEN DEALER AND: MANUFACTURER DEALER												
Rate: 1. — under a non-cumulative system	⊕	⊕			19,55	15,35* (2)	⊕		⊕	⊕	⊕	⊕
2. — under a cumulative system	—	—	0,45 (4)			1 (2)	3		0,5	0,5 (2)	—	—
TRANSACTIONS BETWEEN MEMBER COUNTRIES												
TAX EXEMPTIONS ON EXPORTS												
I. — TRANSACTIONS BETWEEN PRODUCER AND: MANUFACTURER — DEALER *Rate*	—4,17 (1)	— 4 (2)	— 4,5 (4)		— 19,55	-15,35 * (2) - 1 (2)	— 3		— 2,04	— 2 (2)	— 4,17	— 4 (2)
II. — TRANSACTIONS BETWEEN DEALER AND: MANUFACTURER — DEALER. *Rate*	—	—	— 0,45 (4)		— 19,55	-15,35* (2) - 1 (2)	— 3		— 0,5	— 0,5 (2)	—	-
TAX REFUNDS ON EXPORTS												
I. — TRANSACTIONS BETWEEN PRODUCER AND: MANUFACTURER — DEALER *Rate*	— 1		⊕		⊕	⊕	⊕		⊕	⊕	— 0,5 (6)	
II. — TRANSACTIONS BETWEEN DEALER AND: MANUFACTURER — DEALER. *Rate*		— 3,68 (3) — 1 (3)	⊕		⊕	⊕	⊕		⊕	⊕	— 4 (7) — 0,5 (6)	
TOTAL INCIDENCE ON EXPORTS												
— *Estimate based on the calculations of the Committee* (5)	5,6		6,5		11		4,8		3,2		6,1	
— *Estimate based on the memoranda submitted to the Committee*	3,1 à 8,6		> 2,9				3,5		1		> 1,5	
COMPENSATING DUTIES, OR TAXES LEVIED ON ENTRY OF IMPORTS *Rate*		6 (3)		4,5 (3)		20 (3)		3 (9)		2 (3)		4 (3)

NOTE: For an integrated enterprise (assuming a proportion of 70 % of taxable raw materials and services in the cost price of plates), the total incidences and total incidences on exports, expressed in percentages of the selling price, are comparable with those given for billets (see Table II A).