



**europaean
community**

PRESS RELEASE

EUROPEAN COMMUNITY INFORMATION SERVICE

2100 M Street Northwest, Suite 707, Washington D.C. 20037 • Telephone: (202) 296-5131

For Release Wednesday, 7:00 A.M.

October 6, 1971

COMMON MARKET COMMISSION PROTESTS NEP TAX CREDIT PROPOSALS

WASHINGTON, D.C., October 6 -- The President of the Commission of the European Communities, Franco Maria Malfatti, yesterday delivered a "note verbale" to Ambassador J. Robert Schaetzel, chief of the U.S. Mission to the European Communities protesting the tax credit bill and special tax treatment for Domestic International Sales Corporations (DISC)

Herewith is an unofficial translation of the Commission's protest note.

"The Commission of the European Communities refers to bills pending before the U.S. Congress which would institute a tax credit for job development and a favorable tax (fiscal) status for Domestic International Sales Corporations (DISC). The Community is very concerned over the discriminatory aspects of the tax credit bill and the export subsidy effect which would result from a favorable tax status granted to DISC companies.

"The provisions of the tax credit bill which reserve the benefits of tax exemption on goods of American origin are incompatible with the national treatment regulation contained in Article III of the General Agreement on Tariffs and Trade (GATT) and would jeopardize benefits of tariff concessions already granted by the U.S. The simple fact that the U.S. Administration has proposed this tax bill with retroactive provisions has at once restrictive consequences on export of equipment from the Community which, in 1970, amounted to approximately \$1 billion. Further, the discriminatory effects would go beyond the term of application of this special treatment. The effect of the measure, together with the surtax and the modifications in the exchange rates of certain currencies, would practically paralyze the export of machinery equipment. The total effect

(MORE)

might reach 25 per cent and even more of Community equipment exports to the U.S.

"The bill calling for favorable tax treatment for Domestic International Sales Corporations would entail very considerable exemptions from direct taxes on profits and by virtue of its nature would artificially favor exports by lowering prices. This exemption would be incompatible with the obligations of the United States in terms of the General Agreement in the field of export subsidies and would entail the risk of serious disturbances in international competition.

"The Community is very apprehensive about the effect of the discriminatory aspects of the tax credit and the direct tax exemption (through the pretext of the International Sales Corp.) on international trade. The Community reserves the right to adopt, should the occasion arise, measures to safeguard her legitimate interests.

"The Community is sending an urgent appeal to the Government of the United States of America to reexamine these two tax bills, particularly with a view to their negative effects on international trade and their inherent risk of spreading protectionism."

#