

RESTRICTED

GENERAL AGREEMENT ON TARIFFS AND TRADE

L/3574

13 September 1971

Limited Distribution

DOMESTIC INTERNATIONAL SALES CORPORATION (DISC)

Note on Exchange of Views¹

1. The representative of the Community referred to the proposal by the United States administration to introduce a privileged tax status for a new type of international sales corporation whose undistributed profits would not be subject to normal corporate taxes. The object of the tax system was to afford a tax incentive to exports which, according to United States administration estimates, should in the first year of implementation increase by some 1,500 million. Under the terms of the draft legislation, the tax system provided for a shift of taxes on profits in respect of export activities so long as the profits were retained by the new commercial corporation. In fact, the set of provisions for the benefit of such corporations meant that the tax system implied not merely a shift of taxation, but very substantial exemptions from direct tax on profits. Thus, loans granted by the DISC to the parent producing corporation in the United States or to any American corporation in the United States engaged in export-producing activities were eligible for the privileged system. Furthermore, the parent corporation which had established the DISC to administer export activities was authorized to sell its products intended for export to the DISC at a price which would afford substantial profit margins to the DISC. The impact of such a system on both export prices which would be lowered and profit margins which would increase for export firms, would result in the foreseeable increase in exports.
2. If the system was effectively introduced, it would be contrary to the United States commitments under the General Agreement, as it would amount to exemption from direct tax that would, by bringing down prices, be likely to promote exports.
3. Furthermore, the representative of the Community questioned the contention by the United States Government that such legislation was required to place its exports on an equal footing from a fiscal point of view with those of its foreign competitors. Such tax privileges or similar treatment in favour of exports certainly did not exist within the Community. If the system was brought into effect, there would assuredly be reactions for the adoption of similar measures by other countries.

¹The representative of the United States recalled that for the purpose of the Working Party, the United States programme to be included within the terms of reference consisted of those items which the United States representative had described at the last Council meeting. Since no reference had been made to the DISC in the United States representative's statement, the discussion of the DISC fell outside the terms of reference of this Working Party. The United States objected to any discussion of the DISC and did not participate in it, and further objected to the inclusion of any discussion of this subject in the record of exchange of views.

4. Several delegations drew attention to the fact that the proposal to create the DISC tax status had been included in the communication of the United States Government notifying the CONTRACTING PARTIES of the import surcharge (L/3567).

5. The representative of Canada reiterated the concern which his delegation had previously voiced in the Council with respect to the DISC proposal and stated that his delegation generally shared the views expressed by the EEC representative. He said that on the basis of information about the DISC proposal, it appeared to be in the nature of an export subsidy and thus of doubtful compatibility with the obligations of the United States under GATT. He thus reserved Canada's right to have recourse to the appropriate GATT provisions in the event the United States implemented the proposal.

6. The representatives of Switzerland and Sweden also expressed concern at the revised proposal for the DISC. They took the view that an exemption of direct taxes would change entirely the present structure in the field of international competition. Furthermore, they expressed the opinion that such a mechanism, if adopted by the United States Congress, would be very difficult to eliminate because the industries concerned would insist on keeping it as long as possible.