

Statement of Congress Pete Stark in
the House of Representatives on H.R. 4986,
the FSC Repeal and Extraterritorial Income Exclusion Act of 2000

September 12, 2000

Mr. Speaker, whether or not you agree that the tobacco, pharmaceutical and military industries should be exempted from receiving the FSC benefit, everyone should be opposed to the bill before us today. And whether or not you agree that the new tax scheme is in fact an export subsidy and a form of corporate welfare, you should be opposed to this bill.

The bill spends nearly \$5 billion of taxpayer dollars every year in perpetuity and our leadership is allowing a mere 40 minutes of debate time and not allowing amendments. I understand why the Administration and my colleagues wish to rush this legislation through the House. I understand that they want as little debate as possible to avoid public disclosure that will aid the European Union in their case before the World Trade Organization. However, our commitment first and foremost should be to our constituents. Our first commitment should be to the health and welfare of our seniors and children. Doesn't every taxpayer have a right to know how their hard-earned taxpayer dollars are being spent? Of course they do!

The new FSC has a new name and a new face but it does the same thing as the current FSC. The plan is still an export-contingent tax subsidy. The new scheme essentially leaves the export benefit in place but now the U.S. Treasury will forego an additional \$300 million per year to subsidize U.S. exporters. The U.S. Treasury will forego more than \$5 billion per year to help companies like Boeing, R.J. Reynolds and Monsanto peddle their products. Exporters will continue to receive a lower tax rate on income from export sales than from domestic sales. This is clearly prohibited under the WTO Agreement on Subsidies and Countervailing Measures.

Proponents of the FSC claim that the subsidy is needed in order to compete with Europe's value-added tax (VAT) system. This is simply an inaccurate depiction of the FSC benefit. International trade rules allow rebates on consumption taxes such as the European VAT and on U.S. excise and state sales taxes—this is a level playing field. Europe's corporate income tax is comparable to U.S. corporate income tax. In fact, U.S. investors often criticize Europe for imposing too high a corporate income tax burden. The FSC replacement is an export subsidy that will help industries such as the pharmaceutical, tobacco and military weapons industries capitalize on the generosity of the U.S. Congress.

Pharmaceutical Industry

Drug companies already reap huge tax benefits that lowered their average effective tax rates nearly 40% relative to other major U.S. industries from 1990 to 1996. *Fortune* magazine again rated the pharmaceutical industry the most profitable industry in 1999. Merck, the richest drug company, had greater profits than the entire airline industry and more than twice the profits of the engineering-construction industry. Drug spending increased more than 15% in 1998, 18% in 1999 and is expected to continue to increase at phenomenal rates in the future. Yet, studies have shown that American seniors without drug coverage often pay about twice as much as people in Canada & Mexico. It makes no sense to give the drug industry a tax break that further encourages such discriminate pricing behavior.

Monsanto, a pharmaceutical company that has recently merged with Pharmacia and Upjohn, had a FSC benefit of \$29 million in 1998 -- which represented 10.4% of its net income. At the same time, between 1998 and 1999, the CEO of Monsanto saw his compensation increase 43% to \$2.3 million. It makes no sense to give the drug industry a tax break that further encourages such discriminate pricing behavior.

Last month, the Ways & Means Committee rejected my amendment which would have prohibited pharmaceutical companies from receiving the full FSC benefit if they charge American consumers 5% more than what is charged to foreign consumers. It is only fair

to the millions of U.S. seniors who go without their much needed prescription drugs. Why subsidize an industry already receiving huge corporate tax credits? We should have exempted pharmaceutical companies from receiving the FSC subsidy until they charge U.S. customers as fairly as customers elsewhere around the world. The members of the Ways & Means Committee chose otherwise.

Now, I stand here today without an option to offer the amendment on the floor of the House. No amendments are allowed under today's rules. The American public will be forced to help a pharmaceutical industry that cares very little about their well-being, but cares greatly about the bottom line. This is an insult not only to American seniors, but to all U.S. taxpayers.

Tobacco Industry

As the Washington Post reported today, the Clinton Administration is currently battling the tobacco industry over the public health consequences of its industry. The tobacco industry currently receives over \$100 million per year in FSC benefits. This export subsidy—compliments of the U.S. taxpayer—will not change under the FSC replacement plan. It makes no sense that Congress would ask American taxpayers to help Philip Morris to peddle its products overseas. The U.S. tobacco industry has already caused death and disease worldwide. Smoking causes more than 3.5 million deaths each year throughout the world. That number is expected to rise to 10 million in the next 20 years. Seventy percent of these deaths will occur in developing countries that are becoming prime targets for tobacco sales.

The current Administration is trying to punish the tobacco industry for their deceit, and in the same breath, asks the U.S. taxpayer to help the U.S. tobacco industry spread death and disease outside our borders. This is completely contradictory to sound public policy.

Weapons Industry

In 1976, I led Congress in voting to decrease the benefit to weapons dealers. I offered an amendment last month in the Ways & Means Committee that would have completely eliminated the subsidy to weapons exporters. Unfortunately, the Committee reported a bill, before us today, that gives military weapons exporters twice the export benefit of the current FSC.

The U.S. already spends about \$8 billion annually to subsidize U.S. weapons manufacturers. These subsidies include taxpayer-backed loans, grants, and government promotional activities that assist U.S. weapons makers to sell their products to foreign customers. Under the current Foreign Sales Corporation scheme, weapons exporters may qualify for up to 50% of the FSC benefit. Under the new scheme, arms dealers will be able to reap the full benefit of the subsidy. Twelve percent of Boeing's profits can be attributed to the FSC benefit. This figure will actually increase under the new FSC export subsidy.

The United States should avoid promoting additional subsidies that merely serve to promote a global arms race. Increasing the benefit now for military sales would cost taxpayers \$2 billion over the next ten years. In August 1999 the Treasury department estimated that doubling the FSC benefit to 100% for military sales would not significantly affect the level of defense exports, but it is lost Treasury revenue. CBO wrote in 1997 that US defense industries have significant advantages over foreign competitors and thus do not need additional subsidies to attract sales.

It is incomprehensible that we would allow an industry that already receives more than its fair share of pork barrel spending to receive increased subsidies through the new FSC subsidy.

The democratic process has been completely subverted in order to protect an export subsidy for private industry. This bill will cost almost \$30 billion over 5 years. This is enough to pay for a Medicare prescription drug benefit that every senior deserves. It is high time that we stop pandering to the pharmaceutical, tobacco and weapons

industries and put seniors and our children first. Industry will gain at the expense of every U.S. taxpayer. I urge my colleagues to vote no on H.R. 4986.