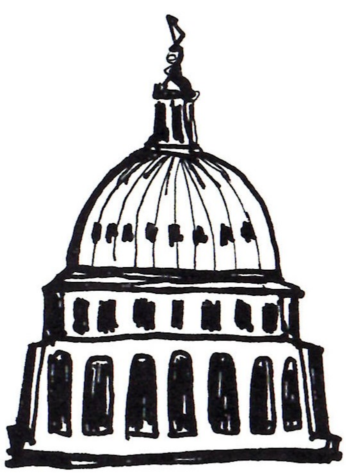

Statement of Don A. Ellis, Treasurer, Tektronix Inc. before the Senate Finance Committee

Legislation pending in the US Senate may bear strongly on the future of Tekintag, our year-old marketing subsidiary in Switzerland.

Tektronix believes parts of the bill, HR 10650, designed primarily to prevent "exporting" US jobs, will actually work to the competitive disadvantage of US firms operating abroad and may eventually threaten the security even of domestic jobs.

Treasurer Don Ellis appeared April 27 before the Senate Finance committee to describe Tektronix' dim view of the Kennedy administration's proposal. His testimony is reproduced on these pages.

The bill would result in US firms being taxed on the earnings of their overseas marketing subsidiaries **before** those earnings are remitted to this country. This has the effect of accelerating the taxation — of making the parent firm pay its taxes **sooner.** For us to have to use our money resources for taxes while foreign competitors use theirs for expansion obviously hampers our competitive position.

The legislation, which has passed the House of Representatives, is not aimed at manufacturing subsidiaries. It would have little effect on our Guernsey and Heerenveen manufacturing operations, even though these have more employees than Tekintag.

To oversimplify a bit: Now, Tekintag profits are taxed by The Netherlands and Switzerland. Because both countries encourage export business, taxes on income from exporting are lower than they would be for a company operating entirely within the borders of their country — and lower also than US rates.

If Tekintag accumulates earnings in excess of the amount it needs for expansion, it remits a dividend to Tektronix, Inc. We pay a tax on this dividend, but receive credit for applicable Swiss and Dutch taxes which Tekintag paid.

Under the administration's proposal, Tekintag earnings would be taxed by The Netherlands and Switzerland as at present — but Tektronix, Inc. would also pay tax on those earnings now, eating into the money we have available for expansion.

Some companies more experienced than we are in international marketing reportedly have made plans to liquidate their overseas operations if the bill is approved and before the President signs it into law. We plan no such step.

First, Tekintag is such a new venture that we can't precisely evaluate how the bill would affect it. Nor are we sure the measure will pass the Senate. Nor do we have any big accumulated Tekintag earnings to worry about.

Although the bill contains other provisions, Don's testimony dealt primarily with the detrimental effect of taxing the US parent firm before remittance of subsidiary earnings.

He pointed out that Tekintag was born of our determination not to abdicate our overseas market to foreign competitors — and to prevent their gaining strength to invade our domestic market also.

Any hurdle which US corporations operating overseas face and which their foreign competitors do not face is a competitive handicap, he stressed.

Don noted that our Swiss corporation performs the complicated task of coordinating the sales of three manufacturing operations. With a product as technical as ours, coordinating marketing — and our resultant ability to provide close technical assistance and advice — is essential to our international success. Because of this vital function, Tekintag is not a so-called "tax-haven" operation — one which serves no purpose other than to take advantage of a favorable tax setup.

Don emphasized three points: That anything hampering the competitiveness of foreign subsidiaries of US companies is detrimental to the United States itself; that any attempt to tax parent corporations before subsidiary earnings are remitted would encourage foreign countries to enact stiffer taxation; and that the end result of the proposal might be to threaten the security of domestic jobs by encouraging foreign companies to gain competitive strength.

(continued on next page)

Don Ellis . . . .

Because of the nature of my presentation I do not have a prepared manuscript. We did send written statements to each member of the committee, and I turned in a few this morning which I would like to see included in the record.

Senator Kerr. That has already been ordered. It will appear at the end of your testimony.

Mr. Ellis . . . I would like to make two observations and spend the balance of my time illustrating the first.

The first observation is that anything which is done to reduce the ability of US corporations and their subsidiaries to compete with foreign companies will be detrimental to the United States.

This includes parts of the tax bill under consideration.

I would also like to encourage support of efforts to reduce trade barriers and move toward freer trade, which I think will do even more good for the United States.

The second is: If you were to reverse your roles with your counterparts in other countries, particularly European, and so-called "tax-haven" countries, I am sure you would retaliate with higher tax rates to counteract this country's attempt to tax earnings of foreign subsidiaries of US companies before the earnings are remitted.

Would reduce US tax

Higher foreign tax rates would increase the tax credit and reduce the amount of tax the United States would be able to collect, either as earned or when the earnings are remitted.

Also, if the foreign subsidiaries were in no position to make remittances to the parent in this country, and the tax had to be paid, it would be paid out of money that might very well otherwise be invested in this country to create more jobs.

To illustrate how hampering our ability to compete with foreign countries will hurt US jobs, I have to do something the associates in my company don't like—sort of toot our own horn.

We are one of the new technology companies. We manufacture sophisticated electronic measuring instruments. I brought one with me, to illustrate to some extent.

This is the baby of our line. It is similar to a TV set except that it is very precise. A variety of measurements can be made with it. To the electronic and electrical engineer and researcher this instrument performs the same function that a chemical balance or a microscope does for a chemist—in other words, makes the very basic measurements.

The electronics industry is particularly advantageous to some localities in this country; I am sure it is the type of industry we would like to keep strong in this country.

It is a mobile industry. It is not dependent on its location for markets or for materials. It is primarily based upon intelligence or brain power for developing the instruments; on productive careful workers to manufacture the instruments, and very particularly upon good selling effort.

History related

Our company started after World War II in 1946. The first sale was made in 1947.

The first instrument that was developed sold for around \$800, whereas the competing instruments on the market at that time sold for around \$1900 to \$2000.

We rapidly became prominent in the industry, selling instruments all over this country. Very few companies remained in competition with us.

We are located in Oregon, which is unusual for a company of this type but is very valuable to Oregon. Oregon's economy depends mostly on forest products and agriculture, both of which are highly seasonal.

Our company is considered quite an asset because while we started out with no employees in 1946 and had only 75 in 1950, by the end of 1951, as a result of the instrument uses related to the Korean defense effort, we had 320 employees. By the end of 1954, 500; 1956, 1200; 1958, 2000; 1959, 3000; 1960, 4000; and at the end of 1961, about 4600.

Of these, 250 are in our field offices providing the selling effort which I will emphasize in a minute.

We also have about 200 employees overseas.

In our business we have found personal marketing highly important. These instruments are very technical. For a customer to make good use of them he needs to have considerable instruction and demonstration. There are now 43 different oscilloscopes in our line. This sample, as I mentioned, is the baby. It is a transistorized portable scope that can be used anywhere. We have some that are fairly large, weighing as much as 150 pounds and costing \$3500 each.

We do a lot of training of our field engineers. It takes a man who has a good background to become one, and then we have in-plant training of six months just so he is capable of helping customers learn to use our products.

I have a couple of examples of letters here that illustrate what our customers think of our marketing efforts. One is from our Encino office, where recently a chief engineer disclosed his counsel to his young engineers. "If your system doesn't operate and you don't know what is wrong, blame it on the oscilloscope. The Tektronix field engineer, to defend his equipment, will show you what to do."

Foreign customers Show interest

We established ourselves in this country and then found there were customers in other countries that wished our products. From an insignificant amount in 1950, our export has expanded to take more than one-third of our output. Of course, from Oregon's viewpoint all our output is export.

Almost none of our sales are made to Oregon, but for the United States one-third of our output is now outside this country and Canada. We consider Canada domestic.

Obviously, with instruments of this sort, none of this goes to underdeveloped countries. All of it is to highly developed countries—those that use technology. We decided our marketing in the foreign field was inadequate, and in 1957 sent a man over to Europe to circulate among our distributors there to make sure they were kept up to date on the nature of our products and the ability to demonstrate them to our customers.

From 1959 to 1962 our export sales averaged an increase of 40 per cent per year. At the same time our domestic market was averaging an increase of only 20 per cent a year.

In the United Kingdom our sales in 1955 were $80,000; in 1956, $180,000; then in 1957, with our new field engineer, $320,000; 1958, $530,000; in 1959, $980,000; 1960, $1,800,000, almost double 1959; in 1961, only $2 million—and it is the slowdown I want to stress.

UK competitive

The United Kingdom provides more competition than most of the other countries in Europe at present. I have furnished members of the committee with copies of a letter to Mr. Ullman, from Mr. Brooks Hays of the State Department.

It describes part of our difficulty in the United Kingdom. The United Kingdom has a 33⅓ per cent ad valorem duty on our type of instrument. However, when there is no competing instrument available in their country, they allow our instruments to come in without payment of a tariff. But whenever an English competitor claims he has an instrument like this, a deposit has to be made with the customs people until it is proved that within 9 months the competitor did not supply the instrument.

We at one time had $200,000 invested in deposits with the customs people in the United Kingdom waiting for the competitors to fail to deliver.

Had the competitors been able to deliver, of course, our price would immediately have gone up one-third to the British customers. This would give our competition an almost insurmountable advantage.

We saw the handwriting on the wall, and in 1959 started a manufacturing branch on the island of Guernsey, one of the Channel Islands.

Now, in 1959, as I mentioned, we had sales of $980,000 in the United Kingdom; 45 per cent of these were instruments manufactured on the island of Guernsey.

In 1960 sales were $1,800,000, with 50 per cent from the island of Guernsey. In 1961, of the $2 million sales, 60 per cent was from our plant in Guernsey.

This amounted to an actual decrease in the amount that came from this country. Guernsey manufactures only 5 out of our 43 types. We would not have been able to sell any of these five types made in this country; by manufacturing on the island of Guernsey, we are able to continue satisfying the United Kingdom market.

Thus, we did not abdicate to their companies the right to make our instruments.

I have another example to show where we have failed to prevent the growth of competition.

In Japan we have not sent over our own field people. We do not furnish marketing assistance there, and I think it is a big mistake.

In 1959, we had 11 competitors in Japan that we know about, and we still had about two-thirds of the Japanese business.

In 1960, we believe we satisfied only about one-half of that market. In 1962 there are at least 20 competitors in Japan, and we feel we are doing less than one-third of the business there.

We are, I think, sorely in need of field engineering in that country, as well as manufacturing.

However, seeing the handwriting on the wall in the United Kingdom, we also see it in the Common Market. Competition is developing there, so in May we will open a manufacturing facility in The Netherlands to manufacture the instruments threatened with competition.

Competition met

We will continue sending to Europe from production in Portland the other 38 scopes plus the allied instruments.

However, as I mentioned, our marketing is a problem. It is complex; it requires competence. We will be selling instruments from three different companies. Not only do the efforts need to be coordinated but our field distributors need to be informed, kept up to date at all times.

We therefore formed a marketing subsidiary (a necessary operation) to unify all of these efforts, to coordinate the instruction and demonstration, and to do the repair work. We selected a Swiss company. There are several reasons why we did it, and we did not ignore the fact that taxes would be less.

However, we went to Switzerland because it has a good record of stability—economic, political and money stability—of reliability, of easy transfer of funds, of respect, a good set of treaties, and, in particular, it is multilingual. The Swiss people are adept at dealing with the variety of countries. But as I said, we didn't ignore the fact that by forming this company in Switzerland we would have less taxes over there, therefore, less credit and—when the money is remitted back here—a larger US tax.

US exports will increase

In summary, our satisfying the world market instead of defaulting it to foreign competitors:

1. Expands exports of US-made instruments because we are increasing demand by providing proper instruction in the use of the instruments.

2. Prevents the loss of foreign and eventually domestic markets to our foreign competitors. We have no doubt that as Japan is able to make these instruments they will try to sell them in this country.

3. Brings to the United States earnings of the foreign manufacturing and marketing subsidiaries and allows us to continue our expansion there.

I might also say that our manufacturing companies over there pay a technical service fee for every instrument they make to the domestic parent directly and that, of course, is taxable income to the United States.

Our marketing company pays a license for the right to use the name.

So, if provisions to tax earnings of foreign subsidiaries remain in the tax bill, they will hamper our ability to compete. They will endanger our employment in the United States and particularly in Oregon.

We feel sure such provision will invite other countries to raise their tax rates and thereby nullify the effects of the bill.

Thank you.

Senator Kerr. Thank you very much, Mr. Ellis, for a very interesting statement and presentation.