Senate Committee On Foreign Relations
Chairman Richard G. Lugar
Opening Statement For Hearing On
Tax Treaties: Bangladesh, France and Sweden
February 2, 2006

It is a pleasure to welcome our witnesses and distinguished guests to this Foreign Relations Committee hearing on a tax treaty with Bangladesh, protocols amending the existing tax treaties with France, and a protocol amending the existing tax treaty with Sweden.

As Chairman of the Senate Foreign Relations Committee, I am committed to moving tax treaties as expeditiously as possible. During the last Congress, this Committee and the full Senate approved tax agreements with Mexico, Australia, the United Kingdom, Japan, Sri Lanka, the Netherlands, and Barbados. I encourage the Administration to continue its successful pursuit of treaties that strengthen the American economy by helping our businesses access foreign markets and by providing incentives for foreign companies to create more jobs in the United States.

The agreements before us today will bolster the economic relationships between the United States and countries that are already close trade and investment partners. As the United States considers how to create jobs and maintain economic growth, it is important that we try to eliminate impediments that prevent our companies from fully accessing international markets. These impediments may come in the form of regulatory barriers, taxes, tariffs, or unfair treatment. In the case of taxes, we should work to ensure that companies pay their fair share, while not being unfairly taxed twice on the same revenue. Tax treaties are intended to prevent double taxation so that companies are not inhibited from doing business overseas. As the U.S. moves to keep the economy growing and to increase U.S. employment, international tax policies that promote foreign direct investment in the United States are critically important.

Our first agreement is a new tax treaty with Bangladesh, which was signed on September 26, 2004. The investment banking firm Goldman Sachs recently cited Bangladesh in its list of developing countries that have the greatest potential to achieve long-term economic success. The United States is currently the largest source of foreign investment in Bangladesh with $1.4 billion in fixed direct investment. American companies export about $290 million of products to Bangladesh each year.

Our next agreements are protocols with France. One protocol amends provisions of the existing income tax treaty signed in 1994. The other protocol amends provisions of the existing estate tax treaty signed in 1978. The United States is France’s largest trading partner outside the European Union, and France is one of our longest standing tax treaty partners. We have had such treaties in place with the French for more than 65 years. The protocols before us contain provisions regarding treatment of pensions, application of estate taxes, marital tax exclusions, and deductions. These tax provisions are important to the numerous American nationals living and working in France, as well as French nationals living and working here. A key provision in the income tax protocol clarifies taxation of partnerships.

Our final agreement is a protocol amending the existing treaty with Sweden. The original treaty was signed in 1994, and this protocol was finalized last September. The total amount of Swedish investment in the United States has quadrupled over the last decade to $28.5 billion at the end of 2004. This is about 15 percent of Sweden's direct investments abroad. With $34 billion invested in Sweden, the United States is the largest source of foreign direct investment in that country. The most important aspect of the protocol before us deals with the taxation of cross-border dividend payments. This protocol is one of a few recent U.S. tax agreements to provide an elimination of the withholding tax on dividends arising from certain direct investments. It will reduce tax-related barriers to trade and investment flows between the United States and Sweden, promoting even stronger economic ties between our nations.

We are joined by a distinguished panel of witnesses who will help us evaluate the treaties and protocols before us. From the Treasury Department, we welcome Ms. Patricia Brown, the Deputy International Tax Counsel and the lead negotiator of the treaties. We also welcome Mr. Tom Barthold, Acting Chief of Staff of the Joint Committee on Taxation. Finally we welcome Mr. Bill Reinsch, the President of the National Foreign Trade Council. The Committee looks forward to the insights and analysis of our expert witnesses.

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