SUPREME COURT OF THE UNITED STATES

No. 91–321

ITEL CONTAINERS INTERNATIONAL CORPORATION, PETITIONER *v.* JOE HUDDLESTON, COMMISSIONER OF REVENUE OF TENNESSEE

ON WRIT OF CERTIORARI TO THE SUPREME COURT OF TENNESSEE, MIDDLE DIVISION

[February 23, 1993]

JUSTICE KENNEDY delivered the opinion of the Court.

In this case we consider the validity of a state tax affecting cargo containers used in international trade, a subject we have addressed once before. See *Japan Line, Ltd.* v. *County of Los Angeles*, 441 U. S. 434 (1979). We sustain Tennessee's sales tax on leases of containers owned by a domestic company and used in international shipping.

The use of large steel containers to transport goods by truck, rail and ocean-going carrier was a major innovation in transportation technology. In 1990, the United States shipped, by value, 60% of its marine imports and 52% of its marine exports in these containers. Itel Containers, the petitioner here, is a Delaware corporation with its principal place of business in California. Itel's primary business is leasing cargo containers to participants in the international shipping industry, and all its leases restrict use of its containers to international commerce. The leases are solicited and negotiated through Itel marketing offices in California, Illinois, New Jersey, South Carolina, Texas, and Washington, and the leased containers are delivered to lessees or their agents in many of the 50 States, including Tennessee. The Tennessee deliveries occur either at Itel's Memphis terminal or at several designated third-party terminals.

In December 1986, the Tennessee Department of Revenue assessed $382,465 in sales tax, penalties and interest on the proceeds Itel earned from leased containers delivered in Tennessee for the period of January 1983 through November 1986. Itel paid under protest and filed an action for a refund, challenging the constitutionality of the Tennessee tax under the Commerce Clause, the Import-Export Clause and the Supremacy Clause. The last challenge to the tax was based on an alleged conflict both with federal regulations and with two international conventions to which the United States is a signatory. Customs Convention on Containers, Dec. 2, 1972, [1975] 988 U. N. T. S. 43 (hereinafter 1972 Container Convention); Customs Convention on Containers, May 18, 1956, [1969] 20 U. S. T. 301, T. I. A. S. No. 6634 (hereinafter 1956 Container Convention). The Tennessee Chancery Court reduced the assessment to $158,012 on state-law grounds but rejected Itel's constitutional claims.

On appeal to the Supreme Court of Tennessee, Itel maintained that the Tennessee tax is pre-empted by the Container Conventions and their implementing federal regulations. The court concluded, however, that congressional regulation of cargo containers is not pervasive and that Congress has not otherwise acted to bar state sales taxes on cargo container leases. *Itel Containers Int'l Corp.* v. *Cardwell,* 814 S.W. 2d 29, 34 (1991). Instead, the court held, Congress merely prohibits the imposition of federal customs duties on containers, and that prohibition does not pre-empt Tennessee's sales tax, which is not a customs duty. *Id.*, at 35–36.

Itel also claimed that Tennessee's tax violates the foreign commerce clause principles announced in *Japan Line, Ltd.* v. *County of Los Angeles, supra,* because the tax "prevents the Federal Government from `speaking with one voice when regulating commercial relations with foreign governments'" and "creates a substantial risk of international multiple taxation." *Id.*, at 451. The state court rejected this argument because the tax is imposed only upon a discrete transaction —the transferred possession of cargo containers within Tennessee—and therefore does not risk multiple taxation or impede federal regulation of foreign trade. 814 S.W. 2d, at 36–37.

Last, Itel argued that the tax violates the Import-Export Clause because it prevents the Federal Government from speaking with one voice in international affairs and is a tax on exports that is *per se* impermissible under *Richfield Oil Corp.* v. *State Bd. of Equalization*, 329 U. S. 69 (1946). The court dismissed Itel's one voice argument for reasons similar to those given in its Commerce Clause analysis, 814 S.W. 2d, at 38, and held the Tennessee tax does not violate *Richfield*'s *per se* restriction because it is not a direct tax on the value of goods destined for export. *Id.*, at 33. We granted certiorari, 502 U. S. —— (1992), and now affirm.

Itel's primary challenge is that the imposition of the Tennessee sales tax is proscribed by both the 1972 and 1956 Container Conventions. The Conventions restrict the authority of signatories to tax cargo containers by requiring signatory nations to grant the containers "temporary admission" into their borders, subject to exportation "within three months from the date of importation" unless this period is extended by Customs authorities. 1972 Container Convention, Arts. 3 and 4; 1956 Container Convention, Arts. 2 and 3. Temporary admission status permits the containers to enter a nation "free of import duties and taxes" under the 1972 Convention and "free of import duties and import taxes" under the 1956 Convention. 1972 Container Convention, Art. 1; 1956 Container Convention, Art. 2.

The Conventions define these key phrases in similar terms. The 1972 Convention defines "import duties and taxes" to mean "Customs duties and all other duties, taxes, fees and other charges which are collected on, or in connexion with, the importation of goods, but not including fees and charges limited in amount to the approximate cost of services rendered." 1972 Container Convention, Art. 1. The 1956 Convention defines "import duties and import taxes" to mean "not only Customs duties but also all duties and taxes whatsoever chargeable by reason of importation."

1956 Container Convention, Art. 1. Itel does not claim the Tennessee sales taxes on its container leases is a "Customs dut[y]" under either Convention. Rather, it says that because its containers would not be available for lease, and hence taxation, in Tennessee but for their importation into the United States, the Tennessee tax must be a tax "collected on, or in connexion with, the importation of goods" in contravention of the 1972 Convention and a tax "chargeable by reason of importation" in contravention of the 1956 Convention.

We cannot accept Itel's interpretation of the Container Conventions. Our interpretation must begin, as always, with the text of the Conventions. See *Air France* v. *Saks*, 470 U. S. 392, 397 (1985). The text, instead of supporting Itel's broad construction, makes clear that it is the reason a State imposes a tax, not the reason for the presence of the containers within a State's jurisdiction, that determines whether a tax violates the Container Conventions. The Conventions thus disallow only those taxes imposed based on the act of importation itself. In contrast, Itel's interpretation would bar all taxes on containers covered by the Conventions, because each covered container is, by definition, in the United States as a result of its temporary importation. This reading makes superfluous the Conventions' qualifying language that the only taxes proscribed are those "collected on, or in connexion with, the importation of goods" and those "chargeable by reason of importation." 1972 Container Convention, Art. 1; 1956 Container Convention, Art. 1.

In an attempt to counteract the interpretation that the Conventions prohibit only those taxes based on the importation of containers, Itel asserts that the consistent practice of other signatory nations and a prior interpretation of the 1956 Convention by the United States prove that signatory nations read the Conventions to proscribe all taxes on containers within their borders. See *Factor* v. *Laubenheimer*, 290 U. S. 276, 294–295 (1933). Itel, however, overstates the probative value of these actions.

As evidence that other signatory nations free cargo containers of all domestic taxation, Itel places primary reliance on the Economic Community Sixth Directive and the United Kingdom Value Added Tax (VAT), as illuminated in an *amicus* brief filed by the United Kingdom. Brief for United Kingdom of Great Britain and Northern Ireland as *Amicus Curiae* 7–9. Under the European VAT system, no direct tax, be it a VAT, sales or use tax, is imposed on the value of international container leases. See Sixth Council Directive of May 17, 1977, Arts. 14(1)(i) and 15(13), reprinted in CCH Common Mkt. Rep. ¶¶3165P and 3165Q.

The value of international container leases, however, is included in the cost of transporting goods, which in turn is added to the value of the goods when calculating VAT tax liability. Itel admits this is tantamount to an indirect tax on the value of international container leases, but claims the distinction between an indirect tax (paid by the consumer of import goods) and a direct tax on the container itself (paid by either the lessor or lessee of the container) is significant. Whether or not, in the abstract, there is a significant difference between direct and indirect taxation, the Container Conventions do not distinguish between the two methods or differentiate depending upon the legal incidence of a tax. For example, the first declaration in both Convention Protocols of Signature states that inclusion of the weight or value of containers in the weight or value of goods for calculating import duties and taxes upon those goods conflicts with the Conventions, even though this would be only an indirect tax on the containers and the legal incidence of the tax would not fall on the container lessor or lessee. 1972 Container Convention, Protocol of Signature, [1975] 988 U. N. T. S., at 74; 1956 Container Convention, Protocol of Signature, [1969] 20 U. S. T., at 326. The Conventions, in short, prohibit both direct and indirect taxes imposed based on the importation of a container, but permit direct and indirect taxes imposed on some other basis.

As further evidence in support of its position, Itel points to the statements of signatory nations objecting to Tennessee's taxation of container leases. With all due respect to those statements, we adhere to our interpretation. We are mindful that 11 nations (Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Spain, Sweden and the United Kingdom), each a signatory to at least one Container Convention, have sent a diplomatic note to the United States Department of State submitting that they do not "impose sales taxes (or equivalent taxes of different nomenclatures) on the lease of cargo containers that are used in international commerce among the Contracting Parties to the Conventions." App. to Brief for United Kingdom of Great Britain and Northern Ireland as *Amicus Curiae* 1a. The meaning these nations ascribe to the phrase "equivalent taxes" is not clear. For purposes of calculation and assessment, the European VAT system, enacted in most of the objecting nations, is by no means equivalent to a sales tax. See *Trinova Corp.* v. *Michigan Dept. of Treasury,* 498 U. S. 358, 365–366, n. 3 (1991). But as we discussed above, for the purpose of determining whether a tax is one based on importation, the European VAT system is equivalent to Tennessee's sales tax system—that is, neither system imposes a tax based on the act of importation. Only this latter form of equivalence is relevant under the Container Conventions.

Directing our attention to the *amicus* brief filed by the United States in *Japan Line, Ltd.* v. *County of Los Angeles*, 441 U. S. 434 (1979), Itel next claims the United States Government once interpreted the 1956 Container Convention to prohibit all domestic taxes on international cargo containers. Even if this were true, the Government's current position is quite different; its *amicus* brief in this case expresses agreement with our interpretation of both the 1972 and the 1956 Container Conventions. Brief for United States as *Amicus Curiae* 12.

In its *amicus* brief in *Japan Line*, moreover, the United States did not say that the 1956 Container Convention prohibited the imposition of any domestic tax on international cargo containers. Its position was simply that under the 1956 Convention the United States gave containers "the same status it gives under the customs laws to articles admitted to a `bonded manufacturing warehouse.'" Brief for United States as *Amicus Curiae* in *Japan Line, Ltd.* v. *County of Los Angeles*, O. T. 1978, No. 77–1378, p. 25 (quoting 19 U. S. C.

§1311). Starting from this premise the Government argued that, like state taxes on goods in customs bonded warehouses destined for foreign trade, see *McGoldrick* v. *Gulf Oil Corp.*, 309 U. S. 414, 428–429 (1940), state taxes on containers would frustrate a federal scheme designed to benefit international commerce. Brief for United States as *Amicus Curiae* in *Japan Line,* at 27–29, and n. 22. We declined, and continue to decline, to adopt this expansive view of *McGoldrick* and the pre-emptive effect of the Container Conventions. See *infra*, at 9–10. And, in any event, the Government's pre-emption argument in *Japan Line* does not conflict with its present interpretation that the Container Conventions themselves are violated only by a tax assessed upon the importation of containers.

Tennessee's sales tax is imposed upon the "transfer of title or possession, or both, exchange, barter, lease or rental, conditional, or otherwise, in any manner or by any means whatsoever of tangible personal property for a consideration." Tenn. Code Ann. §67–6–102(23)(A) (Supp. 1992). It is a sales tax of general application that does not discriminate against imported products either in its purpose or effect. Indeed, its assessment bears no relation to importation whatsoever. The tax is not pre-empted by the 1972 or 1956 Container Convention.

Itel next argues that the application of Tennessee's sales tax to its container leases is pre-empted because it would frustrate the federal objectives underlying the Container Conventions and the laws and regulations granting favored status to international containers, in particular 19 U. S. C. §1322 and 19 CFR §10.41a (1992). See *Hines* v. *Davidowitz,* 312 U. S. 52, 67 (1941) (state law pre-empted when it "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress"). The federal regulatory scheme for cargo containers, it claims, parallels the regulatory scheme creating customs bonded warehouses which we have found to pre-empt most state taxes on warehoused goods. *R. J. Reynolds Tobacco Co.* v.

Durham County, 479 U. S. 130 (1986); *Xerox Corp.* v. *County of Harris*, 459 U. S. 145 (1982); *McGoldrick* v. *Gulf Oil Corp.*, *supra*.

Itel's reliance on these decisions is misplaced. In *McGoldrick* and its progeny, we stated that Congress created a system for bonded warehouses where imports could be stored free of federal customs duties while under the continuous supervision of local customs officials "in order to encourage merchants here and abroad to make use of American ports." *Xerox Corp.*, *supra*, at 151. By allowing importers to defer taxes on imported goods for a period of time and to escape taxes altogether on reexported goods, the bonded warehouse system "enabled the importer, without any threat of financial loss, to place his goods in domestic markets or to return them to foreign commerce and, by this flexibility, encouraged importers to use American facilities." *R. J. Reynolds Tobacco Co.*, *supra*, at 147. This federal objective would be frustrated by the imposition of state sales and property taxes on goods not destined for domestic distribution, regardless of whether the taxes themselves discriminated against goods based on their destination. *Xerox Corp.*, *supra*, at 150–154. See also *R. J. Reynolds Tobacco Co.*, *supra*, at 144–147; *McGoldrick*, *supra*, at 428–429.

In contrast, the federal regulatory scheme for containers used in foreign commerce discloses no congressional intent to exempt those containers from all or most domestic taxation. In *Japan Line* we said that the 1956 Container Convention acknowledged "[t]he desirability of uniform treatment of containers used exclusively in foreign commerce" and "reflect[ed] a national policy to remove impediments to the use of containers." 441 U. S., at 452–453. But we did not hold that the Convention and the federal regulatory scheme for cargo containers expressed a national policy to exempt containers from all domestic taxation. Rather, we relied on the federal laws, along with proof of an international customary norm of home port taxation and California's creation of an asymmetry in international maritime taxation, for our conclusion that California's ad valorem property tax violated the foreign commerce clause by impeding the Government's ability to "`spea[k] with one voice'" in conducting our nation's foreign affairs. *Ibid.*

Itel does not better its pre-emption argument by claiming that the federal regulatory scheme for containers, like the customs bonded warehouse scheme, is so pervasive that it demonstrates a federal purpose to occupy the field of container regulation and taxation. We doubt that the container regulatory scheme can be considered as pervasive as the customs warehouse scheme. The latter provides for continual federal supervision of warehouses, strict bonding requirements and special taxing rules, see 19 U. S. C. §§1555 and 1557; 19 CFR, pt. 19 (1992), whereas the former is limited more to the general certification and taxing of containers, see 19 U. S. C. §1322; 19 CFR §§10.41a and 115.25–115.43 (1992). Even if Itel were correct on this point, however, we have not held that state taxation of goods in bonded warehouses is pre-empted by Congress' intent to occupy the field of bonded warehouse regulation. In fact, in *R. J. Reynolds* we specifically held that the bonded warehouse statutes and regulations did not evidence such a purpose. 479 U. S., at 149. So, too, we cannot conclude that in adopting laws governing the importation of containers Congress intended to foreclose any and all concurrent state regulation or taxation of containers.

The precise federal policy regarding promotion of container use is satisfied by a proscription against taxes that are imposed upon or discriminate against the importation of containers. We find that Tennessee's general sales tax, which applies to domestic and foreign goods without differentiation, does not impede the federal objectives expressed in the 1972 and 1956 Container Conventions and related federal statutes and regulations.

Itel's third challenge to Tennessee's tax on container leases is that the tax violates the foreign commerce clause as interpreted by *Japan Line*. U. S. Const, Art. I, §8, cl. 3.

We began our analysis in *Japan Line* with a reformulation of the foreign commerce clause test:

> "In addition to answering the nexus, apportionment, and nondiscrimination questions posed in *Complete Auto* [*Transit, Inc.* v. *Brady*, 430 U. S. 274, 279 (1977)], a court must also inquire, first, whether the tax, notwithstanding apportionment, creates a substantial risk of international multiple taxation, and, second, whether the tax prevents the Federal Government from `speaking with one voice when regulating commercial relations with foreign governments.'" *Japan Line*, *supra*, at 451.

Without passing on the point, we assumed the California property tax in question would have met the test of *Complete Auto Transit, Inc.* v. *Brady,* 430 U. S. 274 (1977), see 441 U. S., at 451. Proceeding to the two foreign commerce requirements we had identified, we found the California tax incompatible with both. We held that because Japan had the established right, consistent with the custom of nations, see *id.*, at 447, to tax the property value of the containers in full, California's tax "produce[d] multiple taxation in fact." *Id.*, at 452. We held further that California's tax prevented the United States from speaking with one voice in foreign affairs, in that "[t]he risk of retaliation by Japan, under these circumstances, [was] acute, and such retaliation of necessity would be felt by the Nation as a whole." *Id.*, at 453.

Four years later we again addressed whether a California tax offended the foreign commerce clause, this time in the context of a unitary business income tax. *Container Corp. of America* v. *Franchise Tax Bd.*, 463 U. S. 159 (1983). Although recognizing that California's income tax shared some of the same characteristics as the property tax involved in *Japan Line*, see 463 U. S., at 187, we nevertheless upheld it based on two distinguishing characteristics.

First, the problem of double taxing in *Container Corp.,* "although real, [was] not the `inevitabl[e]' result of the California [income] taxing scheme." *Id.*, at 188 (quoting *Japan Line*, *supra*, at 447). On the other hand, "[i]n *Japan Line*, we relied strongly on the fact that one taxing jurisdiction claimed the right to tax a given value in full, and another taxing jurisdiction claimed the right to tax the same entity in part—a combination resulting necessarily in double taxation." 463 U. S., at 188. That the *Japan Line* Court adopted a rule requiring States to forgo assessing property taxes against foreign-owned cargo containers "was by no means unfair, because the rule did no more than reflect consistent international practice and express federal policy." *Container Corp., supra*, at 190.

Second, we noted that "in [*Container Corp.*], unlike *Japan Line*, the Executive Branch ha[d] decided not to file an *amicus curiae* brief in opposition to the state tax." 463 U. S., at 195. Together with our conclusion that the California income tax did not result in automatic double taxation, the Government's nonintervention suggested that the tax presented no serious threat to United States foreign policy. See *id.*, at 196.

Before reconciling the holdings of *Japan Line* and *Container Corp.*, we first address the *Complete Auto* test, a test we assumed, *arguendo*, was satisfied by the tax in *Japan Line*. 441 U. S., at 451. A state tax satisfies the *Complete Auto* domestic commerce clause test "when the tax is applied to an activity with a substantial nexus with the taxing State, is fairly apportioned, does not discriminate against interstate commerce, and is fairly related to the services provided by the State." *Complete Auto*, *supra*, at 279. Because Itel accepts the Supreme Court of Tennessee conclusion that "Tennessee's sales tax meets the four-fold requirements of *Complete Auto*," 814 S. W. 2d, at 36, we need not retrace that court's careful analysis. We do note, however, that Tennessee's compliance with the *Complete Auto* test has relevance to our conclusion that the state tax meets those inquiries unique to the foreign commerce clause. That the tax is a fair measure of the State's contacts with a given commercial transaction in all four aspects of the *Complete Auto* test confirms both the State's legitimate interest in taxing the transaction and the absence of an attempt to interfere with the free flow of commerce, be it foreign or domestic.

We proceed to evaluate the tax under *Japan Line*'s two foreign commerce clause factors. Left to decide whether Tennessee's tax rests on the *Japan Line* or the *Container Corp.* side of the scale, we have no doubt that the analysis and holding of *Container Corp.* control.

Itel asserts that Tennessee's law invites multiple taxation of container leases because numerous foreign nations have a sufficient taxing nexus with the leases to impose equivalent taxes, and many nations in fact would do so were it not for the Container Conventions' prohibitions. As an initial matter, of course, we have concluded that the Conventions do not prohibit Tennessee's sales tax or equivalent taxes imposed by other nations. To the extent Tennessee has invited others to tax cargo container leases, foreign sovereigns, in an exercise of their independent judgment, have chosen not to accept.

Furthermore, the foreign commerce clause cannot be interpreted to demand that a state refrain from taxing any business transaction that is also potentially subject to taxation by a foreign sovereign. "*Japan Line* does not require forbearance so extreme or so one-sided." *Container Corp.*, *supra*, at 193. Tennessee has decided to tax a discrete transaction occurring within the State. See *Wardair Canada Inc.* v. *Florida Dept. of Revenue*, 477 U. S. 1, 9 (1986). And, according to its interpretation of its revenue code, which we accept, Tennessee credits against its own tax any tax properly paid in another jurisdiction, foreign or domestic, on the same transaction. Tenn. Code Ann. §67–6–313(f) (1989). By these measures, Tennessee's sales tax reduces, if not eliminates, the risk of multiple international taxation. Absent a conflict with a "consistent international practice [or] . . . federal policy," *Container Corp.*, 463 U. S., at 190, the careful apportionment of a state tax on business transactions conducted within state borders does not create the substantial risk of international multiple taxation that implicates foreign commerce clause concerns.

Itel further claims that if other States in this country follow Tennessee's lead and tax international container leases, the United States will be unable to speak with one voice in foreign trade because international container leases will be subject to various degrees of domestic taxation. As a consequence, Itel insists, container owners and users will be hit by retaliatory foreign taxes. To the extent Itel is arguing that the risk of double taxation violates the one voice test, our response is the same as above: Tennessee's tax does not create the substantial risk of international multiple taxation that implicates foreign commerce clause concerns.

To the extent Itel is arguing that taxes like Tennessee's engender foreign policy problems, the United States disagrees. The Federal Government, in adopting various conventions, statutes and regulations that restrict a State's ability to tax international cargo containers in defined circumstances, has acted on the subject of taxing cargo containers and their use. It has chosen to eliminate state taxes collected in connection with the importation of cargo containers. The state tax here does not fall within that proscription, and the most rational inference to be drawn is that this tax, one quite distinct from the general class of import duties, is permitted. Unlike in *Japan Line* or *Container Corp.,* moreover, the United States has filed an *amicus* brief defending Tennessee's law: "Far from conflicting with international custom, the Tennessee tax appears to promote it. The Tennessee tax thus does not interfere with our ability `to speak with one voice' on this issue involving foreign commerce." Brief for United States as *Amicus Curiae* 24. This submission "is by no means dispositive." *Container Corp.*, 463 U. S., at 195–196. But given the strong indications from Congress that Tennessee's method of taxation is allowable, and with due regard for the fact that the nuances of foreign policy "are much more the province of the Executive Branch and Congress than of this Court," *id.*, at 196, we find no reason to disagree with the United States' submission that Tennessee's tax does not infringe the Government's ability to speak with one voice when regulating commercial relations with other nations. "It would turn dormant Commerce Clause analysis entirely upside down to apply it where the Federal Government has acted, and to apply it in such a way as to *reverse* the policy that the Federal Government has elected to follow." *Wardair Canada*, *supra*, at 12.

Itel's final avenue of attack on the Tennessee tax is that, as applied to international container leases, it violates the Import-Export Clause. U. S. Const., Art. I, § 10, cl. 2. Our modern Import-Export Clause test was first announced in *Michelin Tire Corp.* v. *Wages*, 423 U. S. 276, 285–286 (1976):

> "The Framers of the Constitution . . . sought to alleviate three main concerns by committing sole power to lay imposts and duties on imports in the Federal Government, with no concurrent state power: [1] the Federal Government must speak with one voice when regulating commercial relations with foreign governments, and tariffs, which might affect foreign relations, could not be implemented by the States consistently with that exclusive power; [2] import revenues were to be the major source of revenue of the Federal Government and should not be diverted to the States; and [3] harmony among the States might be disturbed unless seaboard States, with their crucial ports of entry, were prohibited from levying taxes on citizens of other States by taxing goods merely flowing through their ports to the other States not situated as favorably geographically." *Ibid.*

The first and third components in this formulation mirror inquiries we have already undertaken as part of our foreign commerce clause analysis. That is, the one voice component of the *Michelin* test is the same as the one voice component of our *Japan Line* test. *Japan Line*, 441 U. S., at 449–450, n. 14. And the state harmony component parallels the four *Complete Auto* requirements of the foreign and domestic commerce clause. *Department of Revenue of Washington* v. *Association of Washington Stevedoring Cos.*, 435 U. S. 734, 754–755 (1978) ("The third Import-Export

Clause policy . . . is vindicated if the tax falls upon a taxpayer with a reasonable nexus to the State, is properly apportioned, does not discriminate, and relates reasonably to services provided by the State"). Having concluded that the Tennessee tax survives Commerce Clause scrutiny, we must conclude the tax is consistent with the first and third component of our *Michelin* test.

This leaves only *Michelin*'s second component: ensuring that import revenues are not being diverted from the Federal Government. We need not provided a detailed explanation of what, if any, substantive limits this aspect of *Michelin* places on state taxation of goods flowing through international channels, for the tax here is not a tax on importation or imported goods, but a tax on a business transaction occurring within the taxing State. The tax does not draw revenue from the importation process and so does not divert import revenue from the Federal Government. For similar reasons, we reject the argument that the tax violates the prohibition on the direct taxation of imports and exports "in transit," the rule we followed in *Richfield Oil*, 329 U. S., at 78–79, 84. Even assuming that rule has not been altered by the approach we adopted in *Michelin*, it is inapplicable here. Tennessee's sales tax is levied on leases transferring temporary possession of containers to third parties in Tennessee; it is not levied on the containers themselves or on the goods being imported in those containers. The tax thus does not divert import revenue from the Federal Government because "the taxation falls upon a service distinct from [import] goods and their value." *Washington Stevedoring*, *supra*, at 757. See also *Canton R. Co.* v. *Rogan*, 340 U. S. 511, 513–514 (1951).

For the reasons we have stated, we hold that Tennessee's sales tax, as applied to Itel's international container leases, does not violate the Commerce, Import-Export or Supremacy Clause. The judgment of the Supreme Court of Tennessee is affirmed.

It is so ordered.