

international trade, a superiority which I would assert does not, in fact, exist.

The error of this assumption, I think, can be noted both by looking at trade statistics over the past 3 years in terms of trend of reported merchandise trade surplus but become even more important if we adjust that reported data to exclude Government-financed exports which do not fairly represent commercial ability, on which basis the 1967 apparent surplus of three and a half billion dollars would be reduced to about \$200 million dollars.

It is further evident if we were to take a further step of adjusting our imports to a CIF basis as our trading partners do in which case that apparent surplus in 1967 would disappear completely.

These assumptions about our commercial superiority led to unsound bargaining and results in the Kennedy round of tariff negotiations.

I think this has been somewhat clouded by the fact that the special negotiator's office has constantly referred to equality of concession. Yet that equality of concession is based upon the percentage reduction in tariffs, weighted by the volume of 1964 trade affected.

Obviously the real impact of tariff reductions is on what happens to trade subsequently, not the volume of trade to which they are already applied.

In addition, tariffs are not the sole criteria if we are talking about overall trade negotiations and concessions. If we view what happened against the background of the simultaneous border tax adjustments there is serious reason, I think, to have reservations about the nature of the bargain that was struck.

There are areas in which, as indicated in the printed testimony, the total barriers to U.S. exports to other countries are now higher than they were before the Kennedy round of tariff negotiations because of these border tax adjustments.

Furthermore, I think we can question the validity of the equality of bargain struck when we view this against the activity in the area of industry rationalization abroad.

Foreign governments, particularly in Western Europe and Japan, are vigorously pursuing a program of industry rationalization to encourage mergers to increase size, to improve the ability of their firm to compete internationally.

This is not to suggest that we should immediately reverse the policies that the Justice Department in this country has been following, but we should at least bargain with industry structure clearly in mind. That is what is being done abroad.

Lastly, it is extremely difficult to view the 50-20 agreement reached in the area of chemicals as one of equality of concession.

Again this is particularly incredible in view of what was being done at the time in the area of border tax harmonization.

In connection with ASP, I think it is worth pointing out that the system is more condemned than it perhaps deserves. I am not a strong advocate of retention of ASP as a system of tariff evaluation, but it does not do all the terrible things that frequently it is claimed result from the use of that system.

It is clearly different from the system used by other countries, but it does not represent a variable levy of the sort which insulates producers from competition abroad.