(1) The "separate package" embodying the elimination of ASP was agreed to under false assumptions. This was detailed in Part I of this testimony. Due to history and statistical presentation, Kennedy Round negotiations were conducted with an assumption that the United States possessed a pervasive, fundamental, and steadily widening commercial superiority over the rest of the world on an almost across-the-board basis, an assumption the facts simply do not support.

(2) The way in which the ASP bargain has been struck does not bode well for Congressional prerogatives in the formulation of trade policy. The bill is presented as something that the Administration agreed to seek to eliminate and for which they obtained concessions which will be lost if ASP is not eliminated (an approach the Senate requested be avoided in Senate Resolution 100). Now consideration of this legislation is being influenced by the EEC in its offer to speed-up the schedule of agreed upon tariff cuts. While the speed-up would be of some benefit to the United States, that benefit is transitory as it does not alter the total concession offered in exchange for ASP and leaves the United States in the same position at the end of 1972 as would have been true otherwise. This speed-up offer is also some indication of the value of ASP elimination to the Europeans, a point returned to later in this paper.

The entire ASP bargain is curious. It was hoped that the Kennedy Round would result in a broad range of tariff cuts of 50 percent in the industrial sector. In large measure this was achieved, but in the chemical sector, U.S. negotiators agreed to cut tariffs by 50 percent in exchange for an EEC–UK reduction of only 20 percent. It is difficult to accept this as an equal and reciprocal bargain as the logic of calling the ASP bargain a "separate" package would dictate. By tying the "other" 30 percent of the European cut to ASP elimination, of course, there resulted not a separate but an integrally related package.

(3) In the negotiating process, ASP was "sold" too cheaply, an argument that can be supported both by inference and analysis. It can be inferred from some of the foregoing which dealt with the false assumptions surrounding U.S. bargaining.

It has been argued that the Kennedy Round tariff concessions were reciprocal in that the deeper U.S. cuts covered a much smaller volume of trade than the smaller European reductions. This argument has also been applied to the aggregate Kennedy Round concessions. Curiously, the argument was not used on an industry basis except in the case of chemicals and neither was it applied to all nations in the chemical case. Furthermore, the logical extension of such an argument would be to have obtained more than reciprocal concessions for categories where our trade was in deficit.

As indicated earlier, weighting the cuts in tariffs in terms of 1964 data ignores what the concessions mean in terms of future imports and exports.

There are reasons for believing that the chemical industry, while by no means weak, is going through a period of international competitive change which does not support use of existing U.S. chemical trade balances as a guide to relative concessions. In addition to government sponsored industry harmonization efforts abroad, the Common Market and opening of the U.S. market made available economies of scale hitherto denied and technology represents a rapidly shrinking gap.

It would be incorrect to claim that ASP was to be eliminated as a consideration only of the remaining 30 percent chemical tariff reduction. Belgium, France, and Italy agreed to modify their road-use taxes to eliminate discrimination against American cars, the United Kingdom would reduce its preference on tobacco imports by 25 percent, and Switzerland would eliminate limitations on importation of canned fruit preserved with corn syrup. While these facts should not be overlooked, their importance seems slight.

Attitudes abroad regarding the elimination of ASP also cast some light on the negotiations. There would appear to be no reason for the chemical industry abroad to artificially inflate their optimism—quite the contrary, in view of the fact that ASP has not yet been eliminated. Yet they have expressed delight at the agreements and anticipate that the elimination of ASP will pave the way for major inroads into U.S. markets they had not previously penetrated. Not that equality of concessions means no injury. Trade depends upon comparative advantage, and reductions in tariffs, if they are meaningful in any sense other than to reduce government revenues, will foster this principle thus "harming" [9] certain

[9] "Harming" in the sense that, *ceteris paribus*, the domestic producer will face a less favorable position relative to landed cost of imports. He may, of course, respond by various cost reduction techniques or price reductions which will offset tariff cuts.