

domestic producers but improving the allocation of resources. Despite European delight U.S. negotiators proclaimed both parts of the chemical package were to this country's advantage,<sup>10</sup> though again falling back on a comparison of volume of 1964 trade covered by concessions.

(4) *The Basket Categories.* While use of a single year, the year selected, sampling methods, and adjustments of invoice, raise general questions applicable to the entire conversion process, the most serious reservations apply to the basket categories, where evidence of downward bias as well as statistical looseness may be noted.

The basket categories referred to are the "other" categories not the basket groups broken out of the earlier (pre-1964) basket categories. These baskets consist of products imported in small quantity and value or not imported at all, and as such they can be properly lumped as "other". This does not mean that calculation of a converted rate is not of great importance however. In some cases, the basket covers items of vast importance to domestic production.<sup>11</sup> The basket converted rate is the rate to be applied to most existing products which happened not to be imported in 1964 but which may at a later time and to those products not yet invented or traded.

The use of a single year data may be especially dangerous here because computing a basket rate involves weighting and the product mix can shift substantially from year to year.

Most serious of all aspects of the converted rates in terms of bias is the fact that the basket category includes both competitive and non-competitive items<sup>12</sup> which were combined in computing a weighted average converted rate for the basket. Since the ASP method of valuation only applies to competitive products, it is only those that require a converted rate. For non-competitive products foreign or export value is already applied so no conversion is necessary. The mixing of the two has the anomalous effect of raising the rates for non-competitive items and lowering it for competitive goods. That is, the barrier that results is higher than would have been the case if separate rates had been computed on products which the U.S. does not produce and lower on those where domestic industry competes. The converted rate on the two groups together tends toward the lower end of the range (between existing rates and converted rates for competitive items alone) because the \$ volume of non-competitive items in the basket categories was substantially higher than that of competitive items in 1964.<sup>13</sup> Thus, the final converted rate represents a greater degree of bias against domestic products than foreign. The effect of this can be seen in detail in Table VI below.

TABLE VI  
[In percent]

| Basket category    | Average converted rate-competitive products | Tariff Commission converted rate | Competitive product tariff reduction through conversion |
|--------------------|---------------------------------------------|----------------------------------|---------------------------------------------------------|
| Dyes.....          | 72                                          | 48                               | 33                                                      |
| Intermediates..... | 42                                          | 36                               | 14                                                      |
| Pigments.....      | 77                                          | 43                               | 44                                                      |

Source: Based on industry provided data.

<sup>10</sup> In testimony before the Joint Economic Committee, Ambassador Roth stated, "Taking into account both trade covered by concessions and the depth of the concessions, the United States thus stands to benefit on balance in each package. This positive balance also holds in our bilateral trade with each major participant. Our chemical industry, in short, stands to derive substantial benefits." *The Future of U.S. Foreign Trade Policy*, Hearings before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee, Volume I, p. 25.

<sup>11</sup> The basket categories cover some 3,000 products not imported in 1964 as well as over 700 that were imported; over 98% of the products produced in the United States fall in this category. In some areas, the basket comprises a major proportion of domestic production—the dye basket (TSUS 406.50J) includes items comprising 90% by volume and 60% by value of U.S. dye production.

<sup>12</sup> Non-competitive are those not produced in the United States.

<sup>13</sup> In 1964, 57.3% by value of the basket category items imported were non-competitive.