If reciprocity is measured, as it should be, by the amount of trade which would flow from a given reduction, it is clear that the Common Market's reduction should in fact have been much greater than ours.

The conclusion to be drawn from this is quite clear—there simply is no independent consideration for either the elimination of ASP or for the substantial reductions in excess of 50% which would result from implementation of the "separate package". The "additional" 30 percent which we are being "offered" is already more than due in return for the 50 percent reduction which we agreed to make in the Kennedy Round.

III. THE SO-CALLED "SEPARATE PACKAGE" REDUCES MOST BENZENOID TARIFFS BY MORE THAN 50 PERCENT AND IS UNRECIPROCAL

I would like now to focus upon the second area in which the United States and its chemical industry were deprived of reciprocity—the "separate package." The "separate package" agreement which would be implemented by H.R. 17551, provides for still further reductions in excess of the 50 percent reduction made on all benzenoid chemicals in the Kennedy Round. These further reductions result from (1) the adoption of converted rates of duty which do not provide protection equivalent to the ASP rates and (2) the further reduction of many of these converted rates below certain "ceiling rates" agreed to by the negotiators. This agreement would require reduction in excess of 50% not only on the vast majority of the benzenoid chemicals produced by the domestic industry but on 9 non-benzenoid chemicals as well.

Inequivalent converted rates

I would like to first deal with further reductions which result from the elimination of ASP valuation via the adoption of the converted rates of duty developed by the Tariff Commission. These converted rates do not provide the domestic industry with protection equivalent to that accorded under ASP valuation. This fact was specifically recognized by the Tariff Commission, which stated in its Report, TC Publication 181, July 1966 (p. 53), that:

> " * * * no schedule of converted rates could be devised which would provide for future imports 'protection' equivalent to that afforded by the ASP system."

However, in order to analyze the economic effect of adoption of the proposed converted rate, it is not sufficient just to know that the rates do not provide equivalent protection. We must in some way assess just how inequivalent the converted rates really are. While time will not permit me to deal with the complicated matter of converted rates in any great detail, I believe it would be helpful to review briefly just what we mean by the term "converted rate".

The converted rate is the rate which, when applied to the more commonly used "export value" method of valuation, yields the same amount of duty on a product as would have been yielded by application of the current statutory rate to the American Selling Price of the product. Thus, a product which currently bears a 25% duty based upon the American Selling Price, which has an American Selling Price of $2.00 and a foreign export value of $1.00, would have a converted rate of 50% in order to yield the same amount of duty. You need only divide the American Selling Price by the foreign export value and multiply the result times the present ASP duty in order to obtain the converted rate. It is important to note that the greater the disparity between the U.S. price and the foreign price, the higher the converted rate as compared with the present ASP rate.

With this background I think that you can see the basic deficiencies in the converted rates developed by the Tariff Commission. In examining these deficiencies it is necessary to distinguish between the converted rates for products specifically named in the tariff and the converted rate developed for the "basket" categories. Neither provide protection equivalent to the ASP rates, but they are inequivalent for somewhat different reasons. The rates for named products were fairly equivalent as of 1964, but subject to erosion, while the rates for the basket categories were grossly inequivalent to begin with—indeed, they amounted to a substantial unilateral tariff reduction.

Rates for named products are subject to erosion

The converted rates developed by the Tariff Commission for named products were a little too low due primarily to reconstructing export values after the fact, but on the whole these rates do provide a substantial degreee of protection, at