

least as of 1964. Irrespective of how equivalent the converted rates on named products may have been as of 1964, they were subject to erosion. Any converted rate will only remain equivalent as long as the basic relationship between the ASP and the foreign export value remains the same. If after conversion this basic relationship changes, then the equivalency of the degree of protection will also change.

Because the switch to export value would provide an added incentive for lowering the export value in order to obtain a lower duty, it will place in the hands of foreign producers the ability and the incentive for eroding away even the most equivalent converted rate. It is quite clear that even the most equivalent converted rate based upon 1964 data will soon be eroded away because it is clearly in the foreign producers' interest to do so. Remember the wide range of prices at which foreign producers sell and that 56% of benzenoid imports are transactions between foreign companies and their U.S. subsidiaries in which the price of the import transaction is merely a question of where to take the profit.

*The converted rates for the baskets result in substantial unilateral tariff reductions*

Although also subject to erosion, the converted rates for the basket categories suffer from a much greater defect—they did not even begin to provide equivalent protection as of the 1964 base year. Indeed, as I mentioned a moment ago, these converted basket rates resulted in substantial unilateral tariff reductions.

*Importance of the basket rates.*—These basket rates are extremely important. Over 95% of the benzenoid products produced commercially in the United States are not named in the tariff and consequently must derive their tariff protection from the rates established for the so-called "basket categories". For example, the dye and pigment baskets alone account for over 90% of the more than 2,000 dyes and pigments produced domestically and represent approximately 60% of the total value of domestic production. The Special Trade Representative further emphasized the importance of these "baskets" when he pointed out that the basket rates are the "key to the future" for it is the basket rates which will apply to "tomorrow's products."

*The competitive-noncompetitive distinction.*—Yet it is in this critical area that the Tariff Commission's converted rates have their most serious deficiency. The Commission failed to distinguish between competitive and noncompetitive products in establishing converted rates for these "basket categories."

ASP valuation is applicable only to "competitive" imports, those which compete directly with identical products manufactured domestically. The noncompetitive products, which do not compete directly with domestically manufactured products, are valued in accord with the more common export valuation methods and therefore their converted rate is essentially the same as the existing rate. In terms of providing equivalent protection for products of U.S. industry, only the converted rates for competitive products are relevant.

Yet the Commission found that it was precluded "by the request of the Special Representative" from distinguishing between products on the basis of their competitive status even though it was recognized that to do so would have provided "a more equivalent degree of protection". (TC Publication 181, p. 55.)

In view of the instructions of the Special Representative, the Commission, in order to establish the converted rates for the basket categories, averaged together the converted rates for competitive and noncompetitive products with the anomalous result that the effective rates of duty on *noncompetitive products* were *increased* while the effective rates for imports for *competitive products* were *substantially reduced*. Because in most instances the value of noncompetitive imports in the baskets were greater than the value of competitive products, the converted rates for the baskets were weighted heavily downward. Consequently, the effective rates of duty on competitive products were reduced much more than the effective duty on noncompetitive products were raised.

*Unilateral reductions.*—Thus, the failure to distinguish between competitive and noncompetitive imports resulted in converted rates that amounted to a unilateral tariff reduction of from 14% to 44% for the large portion of domestic products, including the important "products of the future", which will have to derive their tariff protection from the basket categories.

I would like to illustrate this point with the following example: On the basis of its own data, the Tariff Commission informed us it found that the average converted rate for competitive dyes imported in 1964—covered by the basket