Under this Supplemental Agreement the United States would:

1. Eliminate the American Selling Price basis of customs valuation on benzenoid chemicals;[2] and

2. Reduce further the tariffs on selected non-benzenoid chemicals.

In exchange for these concessions the European Economic Community and the United Kingdom would reduce further their tariffs on most chemicals by approximately 25% and make other nontariff concessions not related to chemicals. Further details of the Agreement are in Appendix A.

To assist Congress in deciding the merits of the proposed "ASP Package" legislation, this study has been prepared. In this study an estimate of the effects of the proposed ASP Package on United States chemical exports and imports is presented. Increases in United States exports of items other than chemicals are not considered.

II. MAJOR CONCLUSIONS

1. Adoption of the ASP Package would result in an increase of approximately $110 million in the United States net trade balance in chemicals in 1972. This would be a result of increases in chemicals exports of $130 million and chemical imports of $20 million. If key assumptions are varied other estimates can be obtained; however, under any set of reasonable assumptions it is estimated that increased exports will substantially exceed increased imports. The lowest estimate of increase in net trade balance is $67 million and the highest estimate is $153 million, compared with the best estimate of $110 million.

2. The tariff reductions which would be made by the European Economic Community and the United Kingdom as a result of the ASP Package would increase United States exports primarily in the newer product categories, such as plastics and the "other chemicals" category, and in products made by continuous-process, large-scale plants. The United States will continue to be a major exporter of chemicals, even though the United States chemical industry pays much higher wages than do chemical industries abroad. Low wage rates are apparently a less significant aid to exports than is a large domestic market.

3. The change in average tariff levels in the United States would be negligible as a result of adoption of the ASP Package. The major effect on United States imports would be the removal of the uncertainty now present because of the ASP method of tariff valuation, in which the duty is based on the "American Selling Price" rather than on "export value" in the exporting country. The ASP method results in uncertainty for the United States importer since the American Selling Price for an individual item can change at any time, and therefore, the importer is never certain what the duty will be until the goods have been valued by United States customs.

4. Regardless of whether the ASP Package is approved, continued growth in output is expected in all segments of the United States benzenoid chemical industry—the industry which would mainly be affected by increased imports as a result of adoption of the ASP Package. The average growth in production of benzenoid chemicals in the United States is expected to be 45% between 1965 and 1972.

5. Total imports of benzenoid chemicals into the United States in 1972 are estimated to be less than 3% of United States production of benzenoid chemicals, regardless of whether the ASP Package is approved.

III. AN ESTIMATE OF THE EFFECTS OF THE ASP PACKAGE ON THE CHEMICAL TRADE BALANCE OF THE UNITED STATES

A. Summary

It is estimated that adoption of the ASP Package would result in an increase of $110 million in the net trade balance of the United States in chemicals for 1972.[2b] Details of this estimate are shown below:

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[2] More details of this valuation method and a definition of benzenoid chemicals are contained in U.S. Tariff Commission publications, e.g., United States Tariff Commission, *Products Subject to Duty on the American Selling Price Basis of Valuation: Conversion of Rates of Duty on Such Products to Rates Based on Values Determined by Conventional Valuation Methods,* TC Publication 181, Washington, D.C., July 1966.

[2b] Unless another source is given, all estimates in this study were made by the author.