

We wish to emphasize, however, that in our view this issue has been brought into the ASP question as a diversionary tactic, to draw attention away from the two essential matters involved in ASP:

1. ASP is an indefensible non-tariff barrier to international trade; and
2. The agreements reached at Geneva are fair and reciprocal.

The Ways and Means Committee is certainly expert in the analysis of tax matters and their economic effect. We do not believe that the members of the Committee will be misled by misrepresentations as to the nature and effect of the border tax and its relationship to the ASP issue. The essential feature left out of the SOCMA analysis is that the German manufacturer must bear the tax as well as the United States exporter, which places both the German manufacturer and the American exporter under the same burden in the German market. The change in the level of the tax from 4 percent to 10 percent was a change which equally affected the American exporter and the German manufacturer. Thus, the argument that Germany has taken away with one hand what it has granted with the other simply will not withstand objective analysis.

There is an inherent disadvantage in both the previous and present tax systems in Germany and the EEC to countries like the United States and Switzerland who have a lower proportion of indirect taxes. The change from 4 percent to 10 percent, however, has not materially affected this disadvantage. The difficulties are in the different systems of taxation and the GATT rules allowing adjustments at the border for internal taxes. A change in the GATT rules is currently under discussion in Geneva.

This issue, however, is clearly distinct from the negotiations on chemicals and the ASP package. All non-tariff barriers and all outstanding trade problems cannot be solved at once. Negotiation on ASP has produced fruitful results but there are certainly other problems remaining in world trade which must be attacked separately. Foreign chemical exporters to the United States are clearly disadvantaged by the final list and perhaps could have insisted upon elimination of the final list in negotiations with the United States on chemicals. It was clearly recognized, however, that this was a separate problem which must await another day for solution.

The presentation of SOCMA on border taxes can best be viewed as a diverting tactic, and we trust that the Committee's attention will not be deflected from the specific problem before it.

The Special Representative for Trade Negotiations in his testimony before this Committee has indicated the seriousness with which the United States views the border tax problem and the efforts which are being made to eliminate the disadvantage to the United States as called for by the President in his message of January of this year. We respectfully suggest that more could be accomplished in eliminating any disadvantage to the United States inherent in the border tax system by proceeding to ratify the ASP protocol, thus opening the door to negotiations on other non-tariff barriers.

Why the chemical companies object to the elimination of ASP

In view of the economic evidence and the material benefits which should flow to the American industry it is worth asking why the chemical companies are opposed to the ASP package. The obvious reason is that a large measure of unjustified protection will be lost and no industry wishes to give up protection. In view of the policy of the United States to gradually reduce barriers to trade a relevant question is why the chemical industry, one of the strongest in our economy, should be an exception to this policy.

Perhaps one key to the position of the chemical companies may be found in their desire to substitute investment abroad for export sales. Since 1957 the chemical and allied products industry has invested \$7.3 billion in plant and equipment abroad. This investment has been at an accelerating pace, from \$234 million in 1957 to \$308 million in 1962, \$1,045 million in 1966 and an estimated \$1,472 million in 1968. Investments of this industry will constitute, in 1968, 28.4 percent of all investments abroad by all United States manufacturing companies. (See Table 12, STR Statement.) These investments have produced sales by American-owned enterprises abroad of \$9 billion in 1967 rising from about \$2½ billion in 1957. (See Table 14, STR Statement.)

Figure V (Based on Table 14, STR Statement) compares sales by United States plants abroad and exports from the United States by the chemical and allied products industry. Although United States exports increased by \$1.4 billion from 1957 to 1967, sales by United States plants abroad increased by about \$6.5 billion over the same period.