STATEMENT OF LEON W. GERST, PRESIDENT, TENNECO COLORS DIVISION, TENNECO CHEMICALS, INC.

Mr. Chairman and members of the Committee on Ways and Means, my name is Leon W. Gerst. I am the president of Tenneco Colors Division, Tenneco Chemicals, Inc., Reading, Pa. We manufacture dyestuffs, dye intermediates, and pigments in plants which are located in different sections of our country, i.e., Reading, Pa.; Belleville, N.J.; Paterson, N.J.; Beaufort, S.C.; and Evanston, Ill. We maintain technical laboratories in each of those locations, as well as in Charlotte, N.C. We also maintain many points of distribution throughout the country.

We have approximately 500 employees, our payroll runs approximately $3 million per year.

I appear here today to present some hard, down-to-earth business facts which I hope will bring to your attention certain serious flaws in the proposed House bill 17551 (Trade Expansion Act, 1968). This bill contains the proposal to remove the American selling price, more commonly known as ASP, as a system of tariff valuations.

The first business fact you should know, is that our company is one of the major producers of AZO-type dyes in the United States. These are extremely competitive products. Most dyes which we make and sell in the United States for $1,00 base value can be purchased from foreign producers for export to the United States for approximately 40¢. (We have documented evidence of this.)

The second business fact is that the abolition of ASP, as provided for in title IV of this bill, will, in effect, reduce tariffs 70%, not 50%. This, therefore, exceeds the maximum 50% tariff reduction limits set in the original Trade Expansion Act. I will illustrate these two simple arithmetical facts in the following Exhibit No. 1, to which I draw your attention.

Please note line 1 of this exhibit shows the comparable foreign base price on our dyes to be 40¢. Line 3 shows our American selling price base as $1.00 per pound, with an original 40¢ duty reduced by 1972 to 20¢. Line 4 shows that by enactment of the proposal before you this 40¢ duty would be reduced to 12¢. Line 5 shows the ability of the foreign producer to currently sell a dye in he U.S. at 95¢ per pound. Because of the Kennedy Round, by 1972 he will be able to sell it at 75¢ per pound. If you enact title IV of his bill, he will be able to sell it for 67¢ per pound.

Line 6 shows that the Kennedy Round has reduced these tariffs by the maximum of 50%, and title IV of the bill will reduce it additionally to 70%.

The third business fact is, that while asp is applied to all benzenoid chemicals, the hard core of the asp question is the dyestuff industry, dyes are made by a single batch technology and their problems are different from other benzenoids. The fact is that the tariffs on other commodities were lower than dyestuff tariffs to start with. For example, if you compare a commodity that previously carried an 8% tariff, by cutting it in half, you have only reduced it to 4%. Conversely, dyestuffs had a 40% tariff, and by cutting that tariff by half, you have reduced it to 20%. You should know that no other major sector of American industry has been made to carry so heavy a burden as the dyestuffs industry. Now this bill seeks to remove the asp entirely. This may well turn out to be the final straw that will break the back of this American industry.

Let us go farther and examine what the economic significance is of this reductions already sustained. It means that if we use $1.00 base sales value for comparison in both commodities, we find that in order to complete, the low tariff producer may now have to sell its product 4¢ cheaper on the dollar, but the dyestuff producer will now have to find a way to sell his product 20¢ cheaper on the dollar, a big difference indeed!

Let us proceed further with this single thought. Since the 50% tariff reduction will actually become a 20% price reduction, in order to meet foreign competition, then this reduction actually can convert to a major profit reduction of serious consequences.

Fourth business fact: I submit that there may not be a single American dyestuff producer who is currently operating on a net profit to sales of 20%. On the contrary, estimates have placed the net profit to sales dollar closer to 4% to 10%. I feel certain the Department of Commerce, or the Internal Revenue Service could confirm this economic fact to the House Ways and Means Committee.