the best judgment of our marketing staff, to what extent a 50-percent reduction in the converted duty would result in lower prices and loss of sales.

The products chosen for this analysis included items of varying degrees of profitability. Our analysis was in accord with predictable market conditions and our past experience. The startling result was that the profits from the business would drop roughly 80 percent from the Kennedy round alone.

In a number of respects, our analysis is conservative, that is to say, we would incur a loss of profits greater than indicated. For example, many of our dyestuff and pigment products are specialty items, and are even more sensitive to price and volume changes than our regular line of products. In addition, we did not assume that foreign producers would lower prices to the full extent of the duty reduction on medium- and low-profit items.

We hardly have to consider the question of what our future in the dyestuff and pigment business is going to be like if the American selling price basis for tariff valuation is abandoned. But for the record, let me say that the business, as it is constituted today, would no longer turn a profit.

As in most progressive and changing businesses, we have always had to pay attention to dropping unprofitable products and bringing new products into the market. The cut in the tariffs that has already occurred as a result of the Kennedy round, and the prospect of the cuts yet to come, have caused us to greatly accelerate the elimination of dyestuffs and pigments from our line.

I wish I could also say that there has been a corresponding increase in the addition of new products as well. But the development of something new is seldom dependent upon the urgency of the moment. The process is expensive and time consuming and one can only afford to pursue it at all if the promise of return is attractive.

In the event the American selling price system is discarded, much more drastic moves would have to be made in order to survive in the dyestuff and pigment business. The most obvious such move would be to abandon much of our domestic manufacturing operations. We would then have to try to put ourselves in the most advantageous position possible as a reseller of foreign producted goods. Failing in this, we would be forced to establish manufacturing facilities abroad.

I wish we could believe and say that GAF's business will be enhanced as a result of the reductions in tariffs by other countries. But the facts will not allow us to do this. Our exports of dyestuff and pigment products represent but a few million dollars and they are rapidly decreasing. We are not able to compete with the prices offered by foreign producers. Our relatively higher cost, and not foreign tariffs, is the principal bar to our export activities. Hence, the 30-percent foreign tariff cut in return for the separate package is not going to enhance our export position.

We at GAF are not protectionists. We are an international company with subsidiaries and affiliates in many parts of the world and we think of ourselves as free traders. But we must be practical in this matter. We are in business to earn a profit for our shareholders, provide income and security for our employees, and to supply products to our customers.

We want the record of these proceedings to show that if the proposed legislation is adopted, it will make it impossible for GAF to continue manufacturing many of its dyestuff and pigment products in the United States.

If you think it is important to maintain a healthy and prosperous chemical and dystuff industry in the United States and protect the country's technological future, we urge you to reject the administration's proposal.

I thank you for the opportunity to appear before you this afternoon and present this testimony.

The CHAIRMAN. Thank you, Mr. Cowherd, very much. Are there any questions?

If not, we thank you very much for bringing to us your views.

Mr. COWHERD. Thank you.

The CHAIRMAN. The president of the Lakeway Chemicals, Inc. If you will identify yourself for the record we will be glad to recognize you for the 5 minutes that we agreed to. If, in the process, it is necessary for you to leave out any part of your statement, your entire statement will be included in the record, all except your annual report.

STATEMENT OF NORMAND PHANEUF, PRESIDENT, LAKEWAY CHEMICALS, INC.

Mr. PHANEUF. Thank you, Mr. Chairman. My name is Normand Phaneuf. I am president of Lakeway Chemical Co. Lakeway is a small publicly owned company that was started in 1960 with the aid of a loan from the local community development fund.

We have only one plant located in Egelston Township outside the corporate limits of Muskegon, Mich., and we are the largest taxpayer in the township.

This is a business that I started from scratch on 40 acres of bare land. From a meager beginning, we have grown to annual sales of over $3 million, 72 percent of which is derived from benzenoid products. Our growth is the result of many years of hard work. Our business is owned by Lakeway's 358 shareholders, many of whom are small, and has a total equity of $1,344,000 on May 30, 1968. Approximately 60 percent of this total is invested in our benzenoid facilities. Our benzenoid facilities employs 44 people, 67 percent of total employment. Our approximate benzenoid annual payroll is $400,000, and the total flowback into our community as a result of our total business amounts to $1,145,000.

Our current business is affected by imports, particularly from Japan. In 1965, the U.S. import bulletin had no record of any imports of dichlorobenzidine, our principal benzenoid chemical. Lakeway is one of four U.S. producers of dichlorobenzidine and possibly the largest single producer. In 1966 imports of this product were reported at 192,981 pounds, or 7.7 percent of total estimated usage. We believe the figure for 1967, when it becomes available from Federal sources, will reveal that over 10 percent of the U.S. market was supplied by imports. To obtain this volume the Japanese have offered products to the U.S. users at 12 to 13 percent below domestic prices. In fact, we believe that the Japanese are dumping dichlorobenzidine in the

United States. In an attempt to halt this illegal invasion into our market, we are filing a dumping complaint with the Commissioner of Customs.

A copy of this formal complaint is submitted for the record.

HOW WILL KENNEDY ROUND AGREEMENT AFFECT LAKEWAY

If ASP is retained, the Kennedy round agreements will reduce the duty on imported products from $36.7 a pound to $0.1879 a pound on January 1, 1972. A chart showing the year-by-year tariff reductions is in your folder. The amount of this reduction exceeds the present profit on dichlorobenzidine by a wide margin. Since dichlorobenzidine is our lifeblood, we are devoting a large part of our technical efforts seeking ways to reduce our costs in order to stay alive. We are determined to stay in this business if we can, but there is no doubt that the Kennedy round agreement presents us problems.

We have no hope of exporting dichlorobenzidine. Our domestic price is $1.33 a pound. We believe that the price in Europe is below $1 per pound and in Japan $1.01 and $1.06 per pound, depending on size of purchase.

For certain, the Kennedy round will cause deterioration of our profits and may in the end put us out of the dichlorobenzidine business entirely. The Kennedy round offers no advantages whatsoever. I see no possible reciprocity. We can't help but be financially hurt by the subsequent tariff reduction under the Kennedy round.

A year ago, we were asked to analyze the effect of the Kennedy round on our situation. At that time, it was reported that export value for dichlorobenzidine was $1.071 per pound. We suspected then that the $1.071 was too high by a large magnitude. We now know that our suspicions were correct.

HOW WILL THE SEPARATE AGREEMENT OR ELIMINATION OF ASP AFFECT LAKEWAY

The use of American selling price is the most certain method possible in determining a realistic base for assessing duty. It is far easier for a customs examiner at the Port of New York to determine the wholesale selling price of a dichlorobenzidine in the United States than it is for him to determine the price in West Germany, France, Italy, or Japan.

In Europe today there is no such thing as a list price for dichlorobenzidine. Producers sell at quite different prices to similar customers and yet this nonexistent foreign price is exactly the base on which the Government is considering to calculate import duties.

If we assume elimination of ASP, the use of export invoice value as a duty basis, and rate of 1.5 cents per pound plus 18 percent of export value, current imports of dichlorobenzidine would pay the following duty: From Japan, $0.16, from West Germany, $0.18.

The current duty of these imports—32.9 cents per pound. If ASP is retained and the Kennedy round reductions go unchanged, the duty in 1972 would be $0.188 cents a pound based upon the continuance of the present U.S. selling price.

Therefore elimination of ASP will reduce U.S. prices for dichlorobenzidine even more than the Kennedy round and thereby deteriorate our economic position in the market. Without question the Kennedy round and elimination of ASP alters the balance of competition between foreign and domestically produced dichlorobenzidine to the advantage of the foreign producer.

CONCLUSION

The very substantial loss facing Lakeway, its employees, and our community need not occur, should not occur, and will not occur if this committee insists on a foreign trade policy in the best interest of U.S. business which, in the final analysis, is also in the national interest.

In our small company, we are all deeply concerned about our future and with preventing any loss of employment.

I thank you. This is the end of my statement.

(The information referred to follows:)

TARIFF REDUCTIONS AS RESULT OF KENNEDY ROUND

ITEM NO. 403.59—DICHLOROBENZIDINE DIHYDROCHLORIDE

	U.S. price	Total duty (cents per pound)	Duty reduction (cents per pounds)
Base rate: 3.5 cents per pound plus 25 percent ad valorem	$1.33	36.7	----------
Present:			
Step 1: 3.0 cents per pound plus 22.5 percent ad valorem	1.33	32.9	3.8
Step 2: 2.7 cents per pound plus 20 percent ad valorem	1.33	29.3	7.4
Step 3: 2.3 cents per pound plus 17.5 percent ad valorem	1.33	.255	26.455
Step 4: 1.9 cents per pound plus 15.0 percent ad valorem	1.33	.2185	36.4815
Step 5: 1.5 cents per pound plus 13 percent ad valorem	1.33	.1879	36.5121

STATEMENT OF COMPLAINANT

To: The Commissioner of Customs, U.S. Bureau of Customs, 2100 K Street, NW., Washington, D.C.

From: Lakeway Chemicals, Inc., 5025 Evanston Avenue, Muskegon, Michigan.

By: Leonard, Clammer, Flues & Redmon, Attorneys-at-Law.

Subject: The importation and sale of dichlorobenzedine dihydrochloride (popularly known as "DCB") into the commerce of the United States at less than a fair value within the purview of the Antidumping Act, 1921, as amended.

Reference: Secs. 201–4, Antidumping Act of 1921, as amended (19 U.S.C. Sec. 160) : 19 CFR Secs. 14.6—14.8.

Lakeway Chemicals, Inc., a Michigan corporation, has its offices and principal place of business in the City of Muskegon, Michigan. Legal counsel representing it in this matter is the law firm of Leonard, Clammer, Flues & Redmon, Washington, D.C. The following information is submitted concerning the importation into and sale within the commerce of the United States of dichlorobenzidine dihydrochloride, hereinafter referred to as ("DCB"), at less than fair value, a situation which is here called to the attention of the U.S. Bureau of Customs, Department of the Treasury, with the request that it initiate a summary investigation, issue an Antidumping Product Notice, and take such other action as is relevant and proper in the circumstances under the Antidumping Act of 1921, as amended, and the regulations therein.

1. (a) Description of the merchandise

DCB is produced by a benzidine rearrangement using ortho-chlor-nitro-benzene as the starting material. The reaction is exothermic, needs careful control and requires exacting pursification of the final product. It is used by ink manufacturers who react it with arylides resulting in "Benzidine Yellow". This new

and valuable yellow pigment made its debut on the American market some fifteen years ago. The printing ink industry showed an early and great interest in Benzidine Yellow because of its adaptability to process printing. Used either alone or in combination with chrome yellow its use grew rapidly among ink makers, until today it is the most important organic yellow pigment manufactured in this country. The present product is much improved over earlier versions, yielding cleaner, stronger and softer colors, attesting to the patient, costly research that has been devoted to the product by American manufacturers.

DCB is identical to the 3.3′ dichlorobenzidine which is a cycles intermediate for five varieties of benzidine yellow. The form sold in the United States is identical with that being imported. It is within the classification range of Tariff Schedules United States number 403.60, but only the hydrochloride is sold in the United States.

(*b*) *Importation*

Japan is the source of the complained-of imports of DCB. The sole maker of DCB in Japan is:

Wakayama Seika Industry Co., Ltd., 501–1 Kozatsuga, Wakayama City, Wakayama, Japan.

New York is the prinicpal port of entry for the product. According to our best advices some eight importers are buying DCB from the above-mentioned manufacturer, five of which are known to us. They are:

Mitsui & Company, U.S.A. Inc., 200 Park Ave., New York, N.Y.

Biddle Sawyer Corporation, 64 Wall Street, New York, N.Y.

Aceto Chemical Company, Inc., 126–02 Northern Blvd., Flushing, New York.

Sakai Shoji, Inc., 230 Park Ave., New York, N.Y.

Sumitomo Shoji, Inc., 277 Park Ave., New York, N.Y.

The corporate relationship between these importing companies and Wakayama Seika Industries Co., Ltd., if any, is not known. This manufacturer exports to the United States approximately 50% of its total export volume, with West Germany, France and Southeast Asia absorbing most of the export balance. DCB prices to these other countries are not known.

According to a United States Import bulletin, the record for DCB pound imports into the United States from Japan, which is the only country exporting DCB to the United States, is as follows:

Year	Pounds imported	
1961	None	
1962	13,122	
1963	3,802	
1964	[1]	Spotty coverage outside port of New York. Port of New York—under 25 pounds.
1965	[1]	Lakeway opinion, these 2 years Japanese product not acceptable quality in United States.
1966	192,981	All ports reporting.
1967	[2] 250,000	U.S. figures due about July 1, 1968.

[1] No record.
[2] Lakeway estimate.

2. (*a*) *United States market prices*

The average selling price for DCB in the United States during 1967 was $1.29 net per pound F.O.B. plant. The average selling price for April 1968 was $1.19 net F.O.B. plant. The cause of this loss of ten cents per pound is the dumping practice of the Japanese manufacturer and exporter. On a volume business of 1,100,000 pounds annually in DCB, this amounts to a loss of $110,000 to the complainant, which is highly destructive to a company of its size.

(*b*) *Foreign market value*

Complainant is informed that the price per pound of DCB to a large domestic user in Japan is $1.01, to a small domestic user $1.06, and for the American export market $0.81, at the Japanese port. In line with these figures is our further information that the Japanese prices in the home market are $1.00 per pound in lots over one ton and $1.0625 in lots under one ton. All exports to the United States have been in lots of over one ton. Delivery price to the American purchaser with duty paid ranges from $1.15 to $1.28 per pound, depending on location.

A further breakdown of the Japanese DCB business in the United States is as follows, according to complainant's information:

1. DCB is shipped to the United States with ocean freight estimated at 6 cents to 7 cents per pound to major point of entry.
2. Both the foreign and domestic product is sold on a 100% amine basis. The foreign and domestic products are fully comparable. For 100% amine, the United States import duty based on an American selling price per pound of $1.33, is 3 cents ad valorem +22% of U.S. selling price, the total charge being approximately $0.323 per pound.
3. The estimated dockage charge in the United States is 1 to 2 cents per pound.
4. The estimated selling commission to U.S. trade is 5 to 7 cents per pound.
5. The estimated warehousing charges to U.S. user would be 4 to 5 cents per pound.
6. The estimated delivery charge to a U.S. user would be 2 to 3 cents per pound.
7. Terms of sale are net 30 days.
8. The estimated insurance runs 2 to 3 cents per pound.

Adding together all the costs of exporting DCB into the American commerce, which are minimum figures, a total of $0.523 is reached.

(c) *Users of DCB in the United States*

The following is a list of DCB users in this country. An asterisk is placed behind those who use the imported article:

1. Ameriden Cyanamid Company, Bound Brook, New Jersey.
2. Binney & Smith, Easton, Pa.
3. Child Pulp, Brooklyn, N.Y.
4. E. I. DuPont, Newark, New Jersey.
5. General Aniline & Film, New York, New York.
6. Holland-Suco, Holland, Michigan.
7. Indol Chemical*, Cartaret, New Jersey.
8. Interchemical Company, Hawthorne, New Jersey.
9. H. Kohnstamm, New York City, N.Y.
10. Fred H. Levey Company*, New York City, N.Y.
11. Sinclair & Valentine Co.*, New York, N.Y.
    Div. of Martin Marietta
12. Sandoz, Paterson, New Jersey.
13. Roma*, Fall River, Massachusetts.
14. National Aniline Div., New York, N.Y.
    Allied Chemical
15. Sherwin-Williams, Cleveland, Ohio.
16. Federal Color, Inc., Cincinnati, Ohio.
17. Hilton Davis Dic.*, Cincinnati, Ohio.
    Sterling Drug
18. Rock Hill Printing*, Rock Hill, South Carolina.
19. Synalloy*, Spartenburg, South Carolina.
20. Industrial Color, Joliet, Illinois.
21. Sun Chemical Company, New York, N.Y.

3. (a) *U.S. Production and Coonsumption*

A U.S. Tariff Commission Report as to dichlorobenzdine base and salts discloses the following as to American production and consumption:

Year	Production (thousand pounds)	Quantity (thousand pounds)	Sales value (in thousands of dollars)	Unit value per pound
1960	1,773	1,456	1,999	1.37
1961	1,889			
1962	1,702	1,351	1,895	1.40
1963	1,982	1,740	2,111	1.21
1964	2,345	1,956	2,332	1.19
1965	2,677	2,331	2,851	1.22
1966	2,790	3,050	39,23	1.29

The complainant is informed that in 1967 production was about 2,700,000 pounds, of which its share was 1,100,000 pounds.

For the first quarter of 1968 complainant produced 294,418 pounds.

(b) In addition to the complainant, the following American companies produce DCB:

The Carwin Company, Division of Upjohn, North Haven, Connecticut.
National Aniline Division—Allied Chemical, New York, New York.
Alliance Chemical Division of Pfister Chemical Co., Ridgefield, New Jersey.

4. (a) Investigative Sources

American producers, consumers, suppliers and importers as listed above are suggested as information sources, as well as Wakayama Seika Industry Co., Ltd. Further, Bernard L. Snyder, consultant to the complainant and who can be addressed at the complainant's office, is also available. Any other information relevant to this complaint which comes to the complainant's attention will be supplied the Bureau of Customs forthwith.

Respectfully submitted.

LAKEWAY CHEMICALS, INC.,
By ——— ———,
President.

3,3 DICHLOROBENZIDINE DIHYDROCHLORIDE AND 3,3 DICHLOROBENZIDINE BASE

(Report by John J. O'Connell & Associates)

(1) *Sole Maker:* Wakayama Seika Industry Co. Ltd.

(2) Plant Location: Wakayama Seika Industry Co. Ltd., 501–1 Kozatsuga, Wakayama City, Wakayama, Japan.

3. CAPACITY AND PRODUCTION, 1967

	Volume		Value	
	Metons	M lb/yr	M¥	M$
Domestic demand	200	440	160	145
Export demand	100	220	64	178
Total demand	300	660	224	623
Total capacity	500	1,100		
Operating rate (percent)	60			

4. PRICE

Level	Yen per kilogram	Cents per pound
Domestic (large user)	800	1.01
Domestic (small user)	850	1.06
Export	640	.81

(5) Export Destinations—Mainly the United States, West Germany, France, and South East Asia. The USA export demand is estimated at about 50% of Japan total export.

(6) *Comment*—For both domestic and export sales, in almost all cases, the hydrochloride is converted to the base form because of the increased stability and lessened hazard.

Many people in the industry here in Japan think that Dainichi Seika Industry Co. Ltd. is also producing the compound. However, our investigating indicates that Dainichi ceased production about five years ago and now purchase from Wakayam Seika.

The main use for the compound is in benzine-yellow, borcan fast red, and azoic dyes. For the past several years, production quantity has shown a 10–15% annual growth rate. However, prediction for the future, based on demand for benzine yellow, is that the demand curve will level out.

Mr. BURKE (presiding). Thank you. Are there any questions?

Our next witness is Mr. Charles W. French. Mr. French, we welcome you to the committee and if you wish to summarize you may and your entire statement will appear in the record.

STATEMENT OF CHARLES W. FRENCH, VICE PRESIDENT, PFISTER CHEMICAL, INC.

Mr. FRENCH. Mr. Chairman and members of the committee, I am Charles W. French, vice president of Pfister Chemical, Inc., Ridgefield, N.J. We greatly appreciate this opportunity to explain to the committee the effects that the recent tariff regulations agreed upon during the Kennedy round and the elimination of the ASP standard would have on our company. Pfister supports the statement of Mr. Robert Barnard, counsel for the Synthetic Organic Chemical Manufacturers Association and the Dry Color Manufacturers Association. The purpose of our statement is to supplement Mr. Barnard's statement and to point out the specific effects of ASP removal on Pfister.

Pfister is the principal producer in the United States of beta oxy napthoic acid, better known as BON. BON is a standardized synthetic chemical manufactured and sold in dry powder form, and is used as an intermediate in the production of pigments, dyes, and pharmaceuticals. Many of these final products, of course, have direct or indirect application to the national defense. We sincerely believe that if the Kennedy round reduction became fully effective and if ASP is removed without any protection of a practical consequence to prevent dumping, Pfister will be forced out of BON production. Elimination of the domestic production of BON would ultimately have a corresponding effect on the domestic production of its end products particularly if foreign sources of BON were to be cut off during a time of crisis.

Elimination of the domestic production of BON would also have a direct impact on the economy, both locally and nationally. BON accounts for approximately 30 percent of Pfister's sales. We employ 250 people. Pfister's payroll during 1967 totaled approximately $2 million. While Pfister is endeavoring to diversify its production, nevertheless the sudden elimination of the BON market would have a drastic effect on its total production, profits, and employment and possibly even its very existence as a corporation.

During the past 10 years there has been a tremendous increase in the level of BON imports. Germany and Japan are the chief foreign suppliers, with Italy a secondary source. Standards of purity and content are substantially identical, so that the imported product is for all practical purposes interchangeable with the competing domestic product. Between 1950 and 1967 the importation of BON grew from zero pounds to 1½ million pounds annually. In 1950 there were 11 domestic producers of BON, including Du Pont, General Aniline, Sherwin-Williams, Heyden, Augusta Chemical, Harmon Color, Standard Ultramarine, National Aniline, American Aniline, Pfister, and Hilton Davis. Now, in 1968, there remain only two domestic producers of BON, of which Pfister is the principal one.

There are several factors that account for this increasingly successful competition by foreign producers. One is the cost of labor. Wages and salaries account for approximately half the cost of production, and foreign labor costs are approximately one-half to one-sixth the size of U.S. labor costs in this field.

Second, in almost every major foreign country, chemicals are produced by a single company. Historically, cartels, and the predatory

pricing practices they foster have thrived in both Germany and Japan, the two major sources of foreign BON, and those practices still prevail. My colleague from SOCMA has already described the situation in Germany. In Japan, the Japanese Government itself has, for instance, assisted the development of a cartel regulating the production and sale of dyes. Japanese producers are assigned a virtual monopoly in the production of particular dyes, and according to their own estimates, they are thus able to selectively reduce costs 25 to 35 percent. Three Japanese companies (Mitsui, Sumitomo, and Mitsubishi) are currently producing BON for export, only one of whom exports to the United States. In both Germany and Italy BON exports are produced by a single company (Farbwerke Hoechst in Germany and Monticatini Edison in Italy). Given the experience of monopolization and cartelization within these countries, combined with the single or very limited number of producers in each, the extension of such practices to their mutual U.S. exports is not difficult to achieve. As a result, it is a relatively simple matter for these companies to control prices.

Another major factor causing the rapid increase in BON imports is tariff reductions. When Pfister began producing BON the applicable U.S. tariff rate was 7 cents per pound plus 40 percent ad valorem applied to the American selling price. By the time the Kennedy round is fully effective the rate will be 1.7 cents per pound plus 12.5 percent ad valorem.

Regardless of the reason, benzenoid chemical imports generally have increased drastically during the past few years, and with the removal of the ASP standard they will go up even further.

For a small company, Pfister has taken all available steps to protect its position. First, we spent large sums of money to modernize our facilities. We retained counsel to file an antidumping suit and to file a petition for an escape clause determination. We have been awaiting action by the Government in the antidumping suit for almost 1 year, and we are gathering recent statistics prior to filing our petition for escape clause relief.

BON illustrates the unmistakable trend in the benzenoid chemical field generally. Allied Chemical & Monsanto Chemical for instance, have recently decided to abandon H-acid production and other companies such as E. I. du Pont de Nemours Co., Inc., have already abandoned the production of over 40 benzenoid intermediates and 200 dyestuffs. In other words, the larger domestic chemical companies are moving out of the production of benzenoids generally, and BON in particular, in proportion to the increased sales by foreign producers.

Pfister differs primarily in that, being a small company specializing in BON, massive conversion to other products is much more difficult, and loss of the BON market has a more drastic impact. But even if Pfister could successfully convert out of BON production entirely, thus solving its own parochial problems, in the broader sense would this be the best solution for the United States, its defense interests, and its economy?

It should be clear from this description that efficiency is neither the cause nor a feasible solution. Pfister has modernized its plant, and is regarded as the most efficient producer of BON in the United States. Otherwise we could not have held on as long as we have. But foreign

competitors have also built modern plants. Efficiency is no longer an American monopoly, while on the other hand, foreign labor costs are impossible to match, and price fixing is out of the question.

Although the trend is already too clear, the Kennedy round agreements to reduce tarriff protection by 50 percent will undoubtedly accelerate it. The selling price of imported BON is already at or slightly below the production cost of the domestic product, but some domestic customers are willing to pay the slight differential because they are reluctant to sacrifice the assurance of a regular domestic source. The Kennedy round reductions will widen the gap and make the struggle that much more difficult. The Kennedy round reductions alone, without dropping ASP, would facilitate reduction of that price to at least 10 cents per pound under our cost.

Adding on top of it, however the elimination of ASP as the basis for duties, and substituting foreign value would widen the gap to the point that no U.S. customer of BON could afford to pay the differential in order to preserve his U.S. source of supply. Foreign produced BON could then be sold within the United States considerably below present cost. And this doesn't take into account such other relevant factors as Germany's increased export rebate. The point is that elimination of the ASP standard would by itself have a disastrous effect on the salability of domestically produced BON within the United States. Under these circumstances domestic competition would become impossible, and the United States, including defense production users, would be at the mercy of foreign producers exclusively. Domestic production of BON for export, of course, is already impossible. Elimination of the U.S. domestic market would thus eliminate all U.S. production of BON.

The end result should not be underestimated. Production of end use products based on BON as the key intermediate product amounts to almost $30 million annually. With foreign producers of BON able to control their prices, by virtue of their cartel or monopoly positions in their own countries, the price of imported BON, no longer facing domestic competition, could eventually surpass current levels by a wide margin. The former domestic producers, however, having made the painful transition to other fields, if they were able to make that transition at all, would not be inclined to incur the large capital investment required to reconvert their production facilities back again. The higher prices would be here to stay.

And because of BON's status as an intermediate product, there would be a multiplied effect on the economy far transcending the effect on the particular companies that currently produce BON. In short, it would affect the cost of production of all the end products that utilize BON, and this would in turn affect the price paid for all of these products by the American consumer. Moreover, any change in price of these end products would in turn affect their ability to compete effectively with their foreign counterparts, both at home and abroad.

While I have concentrated my remarks primarily on BON, because of its importance to Pfister, BON is by no means unique. The same basic problem of which BON is merely illustrative, faces the entire benzenoid chemical industry.

The benzenoid chemical producers in the United States include both large and small manufacturers. The large manufacturers include Du Pont, Carbine, Monsanto, Allied, Dow, and American Cyanamid.

Other manufacturers, who are highly dependent upon benzenoid chemical production include: General Aniline, Harshaw, Sherwin-Williams, American Aniline, Otto B. May, Southern Dye Stuff, Synalloy, Interchem, Sun Chemical and many others.

If the U.S. industry goes out of intermediate chemical production, it will not be long before it will be unable to compete in the finished product area as well. Foreign producers will control intermediate prices to such an extent that U.S. producers will not be able to compete effectively in finished products, because of the high price of intermediate chemicals needed to produce the finished products.

We therefore urge the committee not to alter the current ASP standard as it now applies to benzenoids and BON. Instead, we urge the committee to develop a system which would protect American producers from the predatory pricing and dumping tactics of our foreign competitors. Once these practices are eliminated or controlled in international trade, we would have little fear of our future even if the ASP standard is eliminated. Finally, as a chemical company, Pfister cannot endorse Ambassador Roth's statement that "It is the chemical industry itself which stands to be a major beneficiary of this legislation."

I wish to thank you.

The CHAIRMAN. Any questions of Mr. French? We appreciate so much your coming to the committee.

Mr. FRENCH. Thank you very much.

The CHAIRMAN. Mr. Fasoli.

STATEMENT OF JOHN M. FASOLI, DIRECTOR OF PUBLIC RELATIONS, AMERICAN CYANAMID CO.

Mr. FASOLI. Mr. Chairman, American Cyanamid Co. manufactures and sells chemicals, pharmaceuticals, agricultural, building, and consumer products. In its chemical line, Cyanamid includes approximately 1,650 benzenoid chemicals, generally classified as intermediates, rubber chemicals, dyes and textile chemicals, pigments, pesticides, medicinals, and other fine chemicals. The purpose of this brief is to place in economic perspective the effects of the Kennedy round of tariff reductions and the additional proposed changes in the tariff laws of the United States on the benzenoid segment of Cyanamid's business.

CYANAMID'S BENZENOID OPERATIONS—WORKERS—PAYROLL AND TAXES PAID

The early history of the Calco Chemical Co., acquired by American Cyanamid Co. in 1929, illustrates the birth and first stages of development of the U.S. benzenoid chemicals industry. Before the early 1900's there was virtually no benzenoid industry in the United States; our requirements of dyes and other chemicals were supplied from abroad, principally from Germany. World War I dislocated international trade; imports of essential chemicals were cut off and prices increased 1,000 percent and more. To meet these shortages a group of men formed the Calco Chemical Co. in 1951. A plant was built at Bound Brook, N.J., on the banks of the Raritan River. Their difficult job of pioneering was later described as "learning the hard way."

These men translated the theoretical knowledge found in text books into processes for the manufacture of chemicals. First, they learned how to make aniline, an important chemical used for over 500 of the most common dyestuffs and pigments, and later to become the most important raw material for the sulfa-drugs. Next they learned how to convert naphthalene into beta naphthol, another key intermediate for many dyes and pigments. They were on their way, and sharing in the real birth of the chemical industry in this country.

The plant at Bound Brook, N.J., has expanded enormously. Its benzenoid business has also given rise to other plant locations. The following chart shows the number of people employed and the annual wages paid, in the benzenoid segment of Cyanamid's business:

Plant location	Employment	Payroll
Marietta, Ohio	150	$1,100,000
Damascus, Va	30	150,000
Willow Island, W. Va	260	1,950,000
Bound Brook, N.J	2,450	19,520,000
Other locations	10	80,000
Total	2,900	22,800,000

Not included in these figures are the family members dependent on the foregoing breadwinners, the shopkeepers, and retail merchants who depend on that payroll, or other workers at the plants, whose jobs depend on providing services to employees directly engaged in benzenoid production and research.

Cyanamid's benzenoid business pays the Federal Government millions of dollars each year in taxes. Other taxes are also derived from this business. For example, in 1967 the Bound Brook, N.J. plant alone paid some $1.2 million to its home community of Bridgewater Township, 18 percent of the total municipal and school budgets.

Tariffs and their reduction have, therefore, an impact which extends beyond the immediate adverse economic effect on this segment of Cyanamid's business.

NATURE OF BENZENOID INDUSTRY

Benzenoid chemicals constitute an extremely complex and integrated industry. From a few basic materials which, if imported, are in most cases free of duty, stem a very large number of interrelated compounds known as intermediates, which by many and different chemical processes, are converted into a wide diversity of finished goods such as organic dyes, pigments, rubber chemicals, pharmaceuticals, fine chemicals or explosive. Because of the interdependent of chemical manufacturers, the increasing importation of intermediates, further facilitated by the reduction in tariff rates, will adversely affect not only the manufacturer of a specific item, but manufacturers of the raw materials going into it, and of the products made from it.

The attached charts (exhibit I) demonstrate the chemical development end uses of the derivatives of three of the major intermediate chemicals made by Cyanamid. Aniline oil, for example, is a source of 838 dyes and pigments, 24 medicinals, 16 rubber chemicals, and three products for explosives.

The many products and applications of benzenoid chemicals and their derivatives have resulted from intensive research over the years in this chemical area. Recent figures indicate that Cyanamid reinvests over 6 percent of its affected benzenoid chemical sales dollar in research and this percentage has been increasing each year. Some amazing results have been obtained not only in original uses, such as more efficient dyes and pigments, but also in areas which might be considered distant from the generally industrial uses of benzenoids: in the late 1930's and early 1940's sulfa drugs—which are still significant drugs in the fight against infections in man and animals—were developed from benzenoid chemical research; more recently methotrexate, which has been termed one of the most significant drugs in cancer chemotherapy, owes its discovery to basic research in the benzenoid area. Rubber chemicals, which give longer life and greater dependability to tires and other important rubber products also result from Cyanamid research to find new benzenoid chemicals. The list of Cyanamid accomplishments could be continued, and other American companies in the benzenoid industry could swell the list with their own research discoveries, such as nylon and other man-made fibers, synthetic rubber and leather.

It should also be mentioned that under the Defense Production Act many millions of dollars of U.S. produced benzenoid chemicals—pesticides, dyes, intermediates and rubber chemicals, sulfonamides, and organic pigments—have been classified as "strategic materials" in the Nation's military, atomic energy and other defense programs.

While benzenoid chemicals are important in themselves, they reach far out of their immediate field and affect most areas of the United States economy.

Just as there is a chemical and economic interrelationship in many areas, there is close interrelationship in the production of benzenoid products. Numerous and varied manufacturing steps, reactions and conversions, are required to produce the desired end products. Each of these steps requires a great deal of labor. The American workingman's rate of pay is the highest in the world; the highest wage rate for the chemical industry among foreign countries does not amount to half the U.S. hourly rate. (See exhibit II).

COMPARATIVE PRODUCTIVITY AND EFFECT ON IMPORTS/EXPORTS

The usual axiom given in mitigation of comparison of hourly rates—that the American worker earns more but also produces proportionally more than a foreign laborer—does not hold true in the chemical field.

According to a recent report (Tariffs and the United States Benzenoid Industry—SOCMA (May 1966) chart III), four large German chemical companies averaged almost half again as much in sales income per manpower cost unit as did five large U.S. chemical companies having a comparable product mix. The German companies sold $4.87 of product for every dollar of employee cost while the U.S. companies sold $3.31.

Another index of productivity which is useful when comparing companies or industries in different countries, is measured by cal-

culating the ratio of the dollars of value added to the dollars of employee cost. Comparing companies with substantially the same product line, Japanese chemical companies have the highest productivity with a ratio of 3.03, followed by Germany with 2.55, United States 2.00, and United Kingdom 1.70 ("Financial Comparison of World Chemical Companies"—C. P. Neidig—Financial Analysts Journal, January–February 1968).

Labor, most other elements of cost, and other factors such as rationalization of production by foreign competitors have long since placed European chemical companies among the leading international traders of chemicals. Long a lawful business practice on the Continent, the dividing of production among competitors has recently been proposed by the Government of the United Kingdom as justified and desirable (Chemical Age 1968, May 11, p. 12).

Domestic industry has not been able effectively to overcome these advantages held by the foreign producers.

For example, in 1966 exports of dyes from Germany were 61 percent of the value of the dyes produced there: from the United Kingdom 49 percent; from Switzerland 112 percent. Switzerland exports more than it produces because its exports include some imported dyes. By contrast, the United States exported only 8 percent of the dyes which it produced in 1966 (The Chemical Industry 1966–67, Organization for Economic Cooperation and Development, table 7, p. 103). Cyanamid's own experience has been less than the U.S. average, with only 3 percent of its annual dyes sales derived from exports.

It is not surprising, therefore that imports of benzenoid chemicals into the United States showed a remarkable increase during the 1960's (exhibit III). These large increases in imports occurred before the tariff reductions made in the Kennedy round.

IMPACT OF KENNEDY ROUND REDUCTIONS IN DUTY

It is not possible for a businessman to predict with certainty what his competitor will do. But considering that the foreign benzenoid chemicals producer is already being given in five equal stages, starting January 1, 1968, a 50-percent reduction of tariffs, the foreign producer may take any one or more of the following three steps:

1. Reduce his export prices to the United States in an amount corresponding to the amount of tariff reduction;
2. Maintain previous prices and pocket the added profit resulting from reduced tariffs;
3. Maintain previous prices and use the added income to increase advertising, sales manpower, technical service, and other selling pressures in the United States.

Based upon previous experience, Cyanamid expects that the major reaction at least by some foreign producers will be price reduction. Domestic suppliers, in order to remain competitive, must also reduce prices. The net effect of this interplay of competitive factors will be overall price reduction. There have already come to our attention since the 10 percent reduction in tariff on January 1, 1968, several examples of reductions in price of imported benzenoid chemicals:

Product	Price	
	Before Jan. 1, 1968	After Jan. 1, 1968
Crude phthalo blue	$1.01	$0.93
Tobias acid	.67	.65
Gamma acid	1.43	1.39
Dichloroaniline	.70	.68

It cannot definitely be said that these price reductions were solely the result of the tariff reductions; other economic factors may have played a part. But it is certain that the recent tariff reduction facilitated them and that future committed tariff reductions will, in time, permit corresponding reductions.

Cyanamid has studied the effect on its benzenoid sales of the 50-percent tariff reduction accompanied by a corresponding reduction in import prices. The benzenoids are an important part of Cyanamid's business. We estimate that, on this basis, we will lose about 8 percent of the affected benzenoid sales dollars and about 42 percent of net earnings from such sales. This estimate assumes that the quantity of material sold will continue at present levels to permit the continued benefit of present volume production. But one of the damaging effects of tariff reduction is that the domestic producer loses not only sales dollars but sales volume as well.

The economic effects precipitated by tariff reduction continue beyond direct losses in sales, earning in market volume and employment. As sales decrease, the revenue available for research programs also decreases, and the outlook for a technically based industry in which research is not appropriately continued is pessimistic. Although no one can assure results in the research area, the loss of future benzenoid chemicals research, in the light of its past contributions, must be considered a decisive loss.

In addition, decreased sales and earnings of benzenoid chemicals must result in higher prices for or absorption of greater costs by other products of Cyanamid. As has been noted several times, benzenoid chemicals cannot be completely isolated; they are, within Cyanamid, produced at facilities which also manufacture other products which are not chemically related to the benzenoid group. If the benzenoids fail to carry their share of fixed charges at such a plant, those charges must be allocated to the cost of sales of the remaining products.

Over and above monetary losses is the consideration of the importance of benzenoid chemicals to many industries. For example, without antioxidants, such as Cyanamid's 2246, the production of synthetic rubber cannot continue because the synthetic rubber products would soon deteriorate. The realities of business economics could lead Cyanamid to discontinue this product. In the national interest, the United States should not become dependent on imports of such vital chemicals in the manufacture of synthetic rubber products; and, this is equally true of a great number of the benzenoids.

It is not intended at this time to forecast the Cyanamid's entire benezenoid chemicals business will be discontinued as a result of tariff reductions. Certainly, continuing studies are being made of new processes and improvements in the interest of reducing costs of production of benzenoids; where economically practicable those improvements and new processes will be made. But, it is inevitable at the very least that some products will be discontinued, many are likely to be discontinued, and that production volume will be curtailed because of competition from imports. Such curtailment and shutdown of production will idle workers when we are expected and want to take on employees. Organized labor is acutely aware of this problem and went on record at the last AFL–CIO convention as supporting tariff protection where workers jobs were jeopardized by foreign imports. A poorly considered decision in the tariff area can erase the jobs of many of the near 3,000 employees engaged by Cyanamid in the benzenoid chemicals area. At the very least, the stunted growth of that area will not provide added employment for the ever-increasing work force of the United States.

KENNEDY ROUND WILL RESULT IN INCREASED IMPORTS BUT EXPORTS WILL NOT INCREASE

The leading purpose expressed in the Trade Expansion Act of 1962 is "to stimulate the economic growth of the United States and maintain and enlarge foreign markets for the products of United States * * * industry * * *" Public Law 87–794, section 102, 19 United States Code section 1801 (1962). That congressional intent has not been fulfilled by the negotiators; in fact, even greater hurdles will be placed in the way of the export of American benzenoid chemicals, as contrasted with the freer economic ability of foreigners to sell such chemicals in the U.S. market as a result of the concessions made by our negotiators.

While foreign countries agreed to a tariff reduction, the tariffs of some of the European countries are being raised as the result of the Common Market's policy of "harmonizing" at a single tariff rate for the entire European Economic Community. Second, the Common Market countries are in the process of harmonizing their border taxes and export rebates, by shifting from the "cascade" type of turnover tax systems to a uniform value-added turnover tax (TVA) system. These taxes provide trade barriers over and above tariffs, and the charges are part of the cost of exporting to these countries.

For example, before January 1, 1968, Germany imposed a cascade-type turnover tax under which each import of a product into Germany, was taxed at the regular rate of 4 percent of the selling price including the tax. After the first of the year, Germany changed to a TVA system; products of U.S. manufacture imported into Germany are now burdened with an initial tax of 10 percent at the border. In addition, there will be a tax burden on subsequent sales in Germany limited to 10 percent of the value added after importation. On July 1, 1968, the rate will be increased to 11 percent.

The inequity of the bargain made by U.S. negotiators is illustrated by an in-depth consideration of the landed values, in the United States and in Germany of three products, vat blue 6, beta naphthol, and sulfamerazine. Beta naphthol is the prolific intermediate already described; sulfamerazine is a drug used in human and veterinary medicine; vat blue 6 is a widely used dye.

VAT BLUE 6

[Dollars per pound]

	United States to Germany			Germany to United States		
	Pre-1968	July 1968	1972	Pre-1968	July 1968	1972
Base price	$2.79	$2.79	$2.79	$1.45	$1.45	$1.45
Ocean freight	.045	.045	.045	.029	.029	.029
Insurance	.009	.009	.009	.0047	.0047	.0047
Duty	.392	.369	.284	1.116	1.004	.558
Border tax [1]	.129	.353	.469			
Custom brokers and forwarding fee	.02	.02	.02	.02	.02	.02
Export rebate				(.058)	(.159)	(.218)
Landed Value	3.385	3.586	3.617	2.5617	2.3487	1.8437
Change in landed values from pre-1968 level		.201	.232		(.213)	(.718)
Difference between import (landed value) and local base price	1.935	2.136	2.167	(.2283)	(.4413)	(.9463)

BETA NAPHTHOL

[Dollars per pound]

Base price	$0.30	$0.30	$0.30	$0.16	$0.16	$0.16
Ocean freight	.017	.017	.017	.0185	.0185	.0185
Insurance	.001	.001	.001	.0006	.0006	.0006
Duty	.047	.046	.046	.11	.10	.055
Border tax [1]	.015	.040	.055			
Custom brokers and forwarding fee	.02	.02	.02	.02	.02	.02
Export rebate				(.0064)	(.0176)	(.024)
Landed Value	.40	.424	.439	.3027	.2815	.2301
Change in landed values from pre-1968 level		.024	.039		(.0212)	(.0726)
Difference between import (landed value) and local base price	.24	.264	.279	.0027	(.0185)	(.0699)

SULFAMERAZINE

[Dollars per pound]

Base price	$4.019	$4.019	$4.019	$2.395	$2.395	$2.395
Oceanfreight	.12	.12	.12	.0395	.0395	.0395
Insurance	.014	.014	.014	.008	.008	.008
Duty	.515	.465	.465	.83	.743	.415
Border tax [1]	.186	.508	.693			
Custom brokers and forwarding fee	.02	.02	.02	.02	.02	.02
Export rebate				(.096)	(.263)	(.360)
Landed value	4.874	5.146	5.331	3.1965	2.9425	2.5175
Change in landed values from pre-1968 level		.272	.457		(.254)	(.679)
Difference between import (landed value) and local base price	2.479	2.751	2.936	(.8225)	(1.0765)	(1.5015)

[1] Border tax used on duty paid value: 4 percent pre-1968, 11 percent July 1968 and an estimated 15 percent in 1972 and after repeal of ASP.

In return for reducing the U.S.-landed cost of vat blue 6 by 72 cents per pound, beta naphthol by 7 cents per pound, and sulfamerazine by 68 cents per pound, the American producer of those products can expect the landed cost in Germany to go up 23 cents per pound for vat

blue 6, 4 cents per pound for beta naphthol, and 46 cents per pound for sulfamerazine as the result of the Kennedy round reductions.

There are other factors in addition to import duties which restrict the ability of Cyanamid and other American firms to maintain and enlarge foreign markets for benzenoid products. Other considerations are: patent laws which require licensing of patents to local firms if the patented products are not manufactured locally; charges, such as consular fees, surcharges and prior deposits; international loan and trade agreements; low local prices which, if met by an importing U.S. firm, could lead to charges of dumping; and other worrisome factors such as currency exchange restrictions, import licenses, and unreasonable documentation requirements. Restrictive policies of foreign countries or competitive circumstances in most cases compel location of facilities overseas if we are to compete successfully in the foreign markets. In addition, by constructing manufacturing plants in foreign countries, the manufacturer equalizes the disparity which inherently exists in trading between distinct economic and political sectors of the world; capital, labor, freight, and the other costs which are determinative of business success are than on a par with competition. It cannot be hoped to equalize international trade by adjustment of tariffs only; the other and more dominant business realities which have been outlined must also be considered.

AMERICAN SELLING PRICE BASIS OF VALUATION SHOULD BE RETAINED: REPEAL WILL CAUSE ADDITIONAL DAMAGE

To this forbidding picture for the benzenoid business of Cyanamid, it is now proposed by the administration, as part of its "bargain" in the recent negotiations, that the American selling price method of valuation be repealed. There is no great complexity to the American selling price method of valuation; under this system the base used for computing the tariff on benzenoid chemicals is the price charged for similar goods by American manufacturers in their own highly competitive market, instead of the export price. Enacted in the 1920's, the American selling price method of valuation has proved to be a workable system; domestic prices for materials are readily available, whereas foreign manufacturers, not governed by laws such as the Robinson-Patman Act, offer varying prices in their home countries and, understandably, are quite secretive about the charges. Indeed, the workability of the American selling price method of valuation recommends it for adoption outside the severely limited area of its application under the present law.

The American selling price basis of valuation seeks to compensate for the disparity in costs between foreign and domestic production, and, in fact, imports of benzenoids have been increasing sharply despite the American selling price basis of valuation.

The damaging effects which have already been detailed in the con-

text of the 50-percent reduction will be compounded by repeal of the American selling price. Considering again the examples of vat blue 6, beta naphthol, and sulfamerazine, the U.S. landed value of those products will have decreased markedly.

The following charts show the increased ability of foreign importers to take customers away from Cyanamid or to compel Cyanamid to make costly price reductions, as the result of the already agreed and proposed tariff reductions.

VAT BLUE 6

[Dollars per pound]

	United States to Germany		Germany to United States	
	Pre-1968	ASP repeal	Pre-1968	ASP repeal
Base price	$2.79	$2.79	$1.45	$1.45
Ocean freight	.045	.045	.029	.029
Insurance	.009	.009	.0047	.0047
Duty	.392	.284	1.116	.435
Border tax [1]	.129	.469		
Custom brokers and forwarding fee	.02	.02	.02	.02
Export rebate			(.058)	(.218)
Landed value	3.385	3.617	2.5617	1.7207
Change in landed values from pre-1968 level		.232		(.841)
Difference between import (landed value) and local base price	1.935	2.167	(.2283)	(1.0693)

BETA NAPHTHOL

Base price	$0.30	$0.30	$0.16	$0.16
Ocean freight	.017	.017	.0185	.0185
Insurance	.001	.001	.0006	.0006
Duty	.047	.029	.11	.044
Border tax [1]	.015	.052		
Custom brokers and forwarding fee	.02	.02	.02	.02
Export rebate			(.0064)	(.024)
Landed value	.40	.419	.3027	.2191
Change in landed values from pre-1968 level		.019		(.0836)
Difference between import (landed value) and local base price	.24	.259	.0027	(.0809)

SULFAMERAZINE

Base price	$4.019	$4.019	$2.395	$2.395
Ocean freight	.12	.12	.0395	.0395
Insurance	.014	.014	.008	.008
Duty	.515	.291	.83	.612
Border tax [1]	.186	.666		
Custom brokers and forwarding fee	.02	.02	.02	.02
Export rebate			(.096)	(.360)
Landed value	4.874	5.13	3.1965	2.7145
Change in landed values from pre-1968 level		.256		(.482)
Difference between import (landed value) and local base price	2.479	2.735	(.8225)	(1.3045

[1] Border tax used on duty paid value: 4 percent pre-1968, 11 percent July 1968 and an estimated 15 percent in 1972 and after repeal of ASP.

To demonstrate that the products listed in the above charts are not unique, there are listed in exhibit IV similar statistics for seven additional sulfa drugs, 44 dyes and textile chemicals, six organic pigments, nine rubber chemicals, and 18 intermediates. These products are a representative sampling of Cyanamid's benzenoid chemicals product line.

It is evident, therefore, that the damaging effects of the 50-percent reductions in tariff rates already granted by the United States will be compounded seriously by a further reduction under the guise of the mere repeal of the American selling price method of valuation.

It was previously estimated that the 50-percent tariff reduction would cost Cyanamid 8 percent of its sales dollar and 42 percent of its earnings from its affected benzenoid business. It is further estimated that repeal of ASP will result in further losses in the affected benzenoid area of 3 percent of dollar sales and 15 percent of its earnings. The total estimated damage from both reductions is 11 percent of sales dollars and 57 percent of profit.

CONVERSION OF DUTIES WILL NOT PROVIDE EQUIVALENT DUTIES

The solution does not lie in the recent attempt of the Tariff Commission to "convert" existing rates of duty based on American selling price, of the thousands of chemical products concerned, to a rate of duty, based on export value, to provide an amount of duty on such imports presumably equivalent to the amounts now collected. The attempt did not include a study of the adverse effects on the domestic industry from such a conversion.

The basic starting point in the determination of an equivalent rate of duty is knowledge of export value. Competitive foreign prices of the number of products which concern us are not known, much less obtainable through published price schedules. Domestic selling prices are, of course, published here and are readily available in our market. The report of the Tariff Commission admits the lack of complete information on foreign prices.

The attempt to establish a schedule of rates of duty to produce an amount of duty equivalent to that now collected has several defects. For example, foreign competitors, by lowering the price for exports, could cause a different amount of duty to be collected; the basis of valuation would be transferred to the control of the foreign competitor.

Another defect of this attempt arises from the failure to set forth the benzenoids in question on an item-by-item basis. By resorting, instead, to a single test year (1964) and basket clause treatment of a whole host of benzenoids, the tentative converted rates result in an improper grouping of competitive and noncompetitive benzenoids, thereby increasing the duty on noncompetitive benzenoids, that is to say, those which are not produced in the United States, and lowering

the duty on competitive benzenoids, that is to say, those which are produced in the United States.

The most equitable and workable system of valuation is the American selling price method. It does not impede trade with the United States and simultaneously provides safeguards for equitably compensating for the disparity in the comparative costs of production between domestic and foreign producers.

Accordingly, the American selling price basis of valuation should be retained.

EXTENSION OF AUTHORITY TO THE PRESIDENT TO FURTHER REDUCE DUTIES

The large reductions of duties negotiated under the recent Kennedy round will cause serious dislocations in the chemical industry. Their effects cannot be anticipated fully at this stage. The results of the drastic duty reductions must be studied carefully. Adequate remedies must be provided to prevent industries or segments of industries essential to our economy and growth from being damaged beyond repair.

While no objection is raised to granting to the President authority to "housekeep" the negotiations already completed, no additional authority to negotiate any further reductions in duties should be granted at this time.

The extended authority to the President as proposed in H.R. 17551 should be so restricted.

ADJUSTMENT ASSISTANCE

It is unfortunate that the concept has developed that segments of American industry can be sacrificed as the result of trade negotiations.

The safeguard of "peril points" which for several years was the standard provided by the Congress to govern the extent of tariff cuts which the President could negotiate was based on a much more sound base. There the policy was to prevent injury rather than grant relief from injury after it has happened.

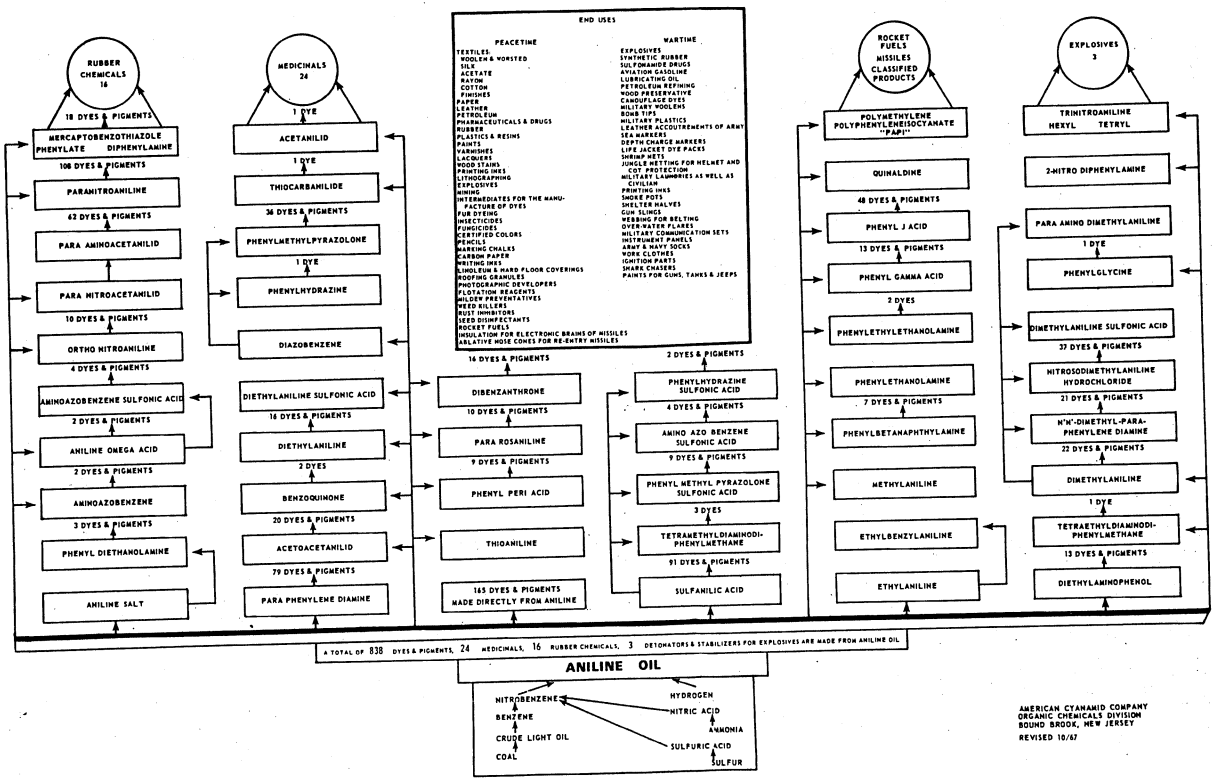
The proposed amendment of this provision in H.R. 17551 changing the causal factor from "major" to "substantial" is a step in the right direction to remedy the deficiency of the existing provision under the Trade Expansion Act of 1962.

However, adequate provision should be made to permit an escape from injury or threat of injury resulting from increased imports. An adequate escape clause should provide relief to an industry in the form of appropriate tariff adjustment.

American Cyanamid Co. appreciates the opportunity of filing its views at these hearings on a subject of vital concern to the present and future of our economy.

(Exhibits referred to follow:)

DERIVATIVES OF ANILINE OIL



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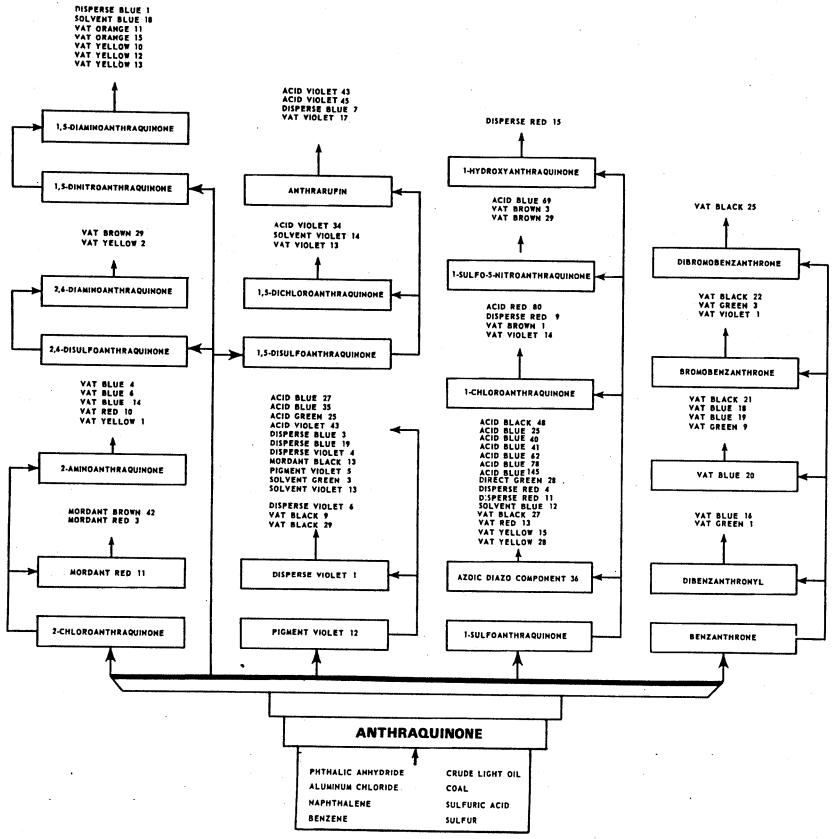
DERIVATIVES OF ANTHRAQUINONE



END USES

PEACETIME	WARTIME
TEXTILES	CAMOUFLAGE DYES
WOOLEN & WORSTED	MILITARY PLASTICS
SILK	SMOKE SIGNALS
ACETATE	WELTING WEBBING
POLYESTER	ARMY & NAVY SOCKS
RAYON	COMBAT UNIFORMS
COTTON	DRESS UNIFORMS
LINEN	ANTIOXIDANT IN POWER EQUIPMENT
PAPER	HIGH TEMPERATURE LUBRICANTS
PETROLEUM	
PLASTICS	
PAINTS	
INTERMEDIATES FOR THE MFR. OF DYES	
INTERMEDIATES FOR THE MFR. OF HYDROGEN PEROXIDE	
OIL ANTIOXIDANT	

Major intermediates produced from Anthraquinone may also be obtained from o-Benzoylbenzoic acid, the precursor of Anthraquinone. When this precursor is used as a starting material, Anthraquinone is formed in situ and subsequent reactions are the same as shown in the chart.

A few dyes which are specialty products are not included because their manufacture is a trade secret.

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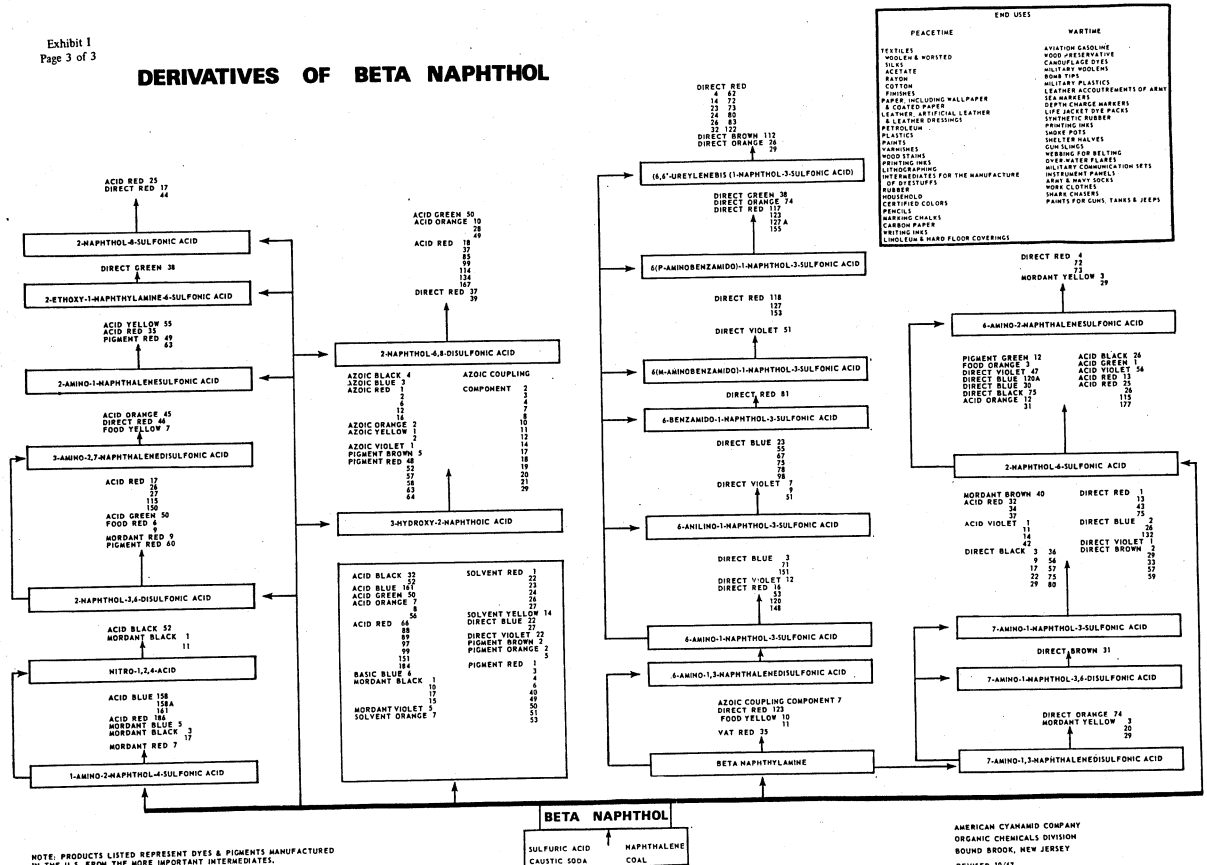
DERIVATIVES OF BETA NAPHTHOL



NOTE: PRODUCTS LISTED REPRESENT DYES & PIGMENTS MANUFACTURED IN THE U.S. FROM THE MORE IMPORTANT INTERMEDIATES.

IT SHOULD BE NOTED THAT THIS IS NOT A COMPLETE LIST OF BETA NAPHTHOL USES, SINCE THERE ARE SEVERAL HUNDRED MORE ITEMS THAT COULD BE MANUFACTURED EITHER IN THIS COUNTRY OR ABROAD.

SOURCE: NEW COLOUR INDEX AND ANNUAL TARIFF COMMISSION REPORTS

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ORGANIC CHEMICALS DIVISION
BOUND BROOK, NEW JERSEY

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EXHIBIT II

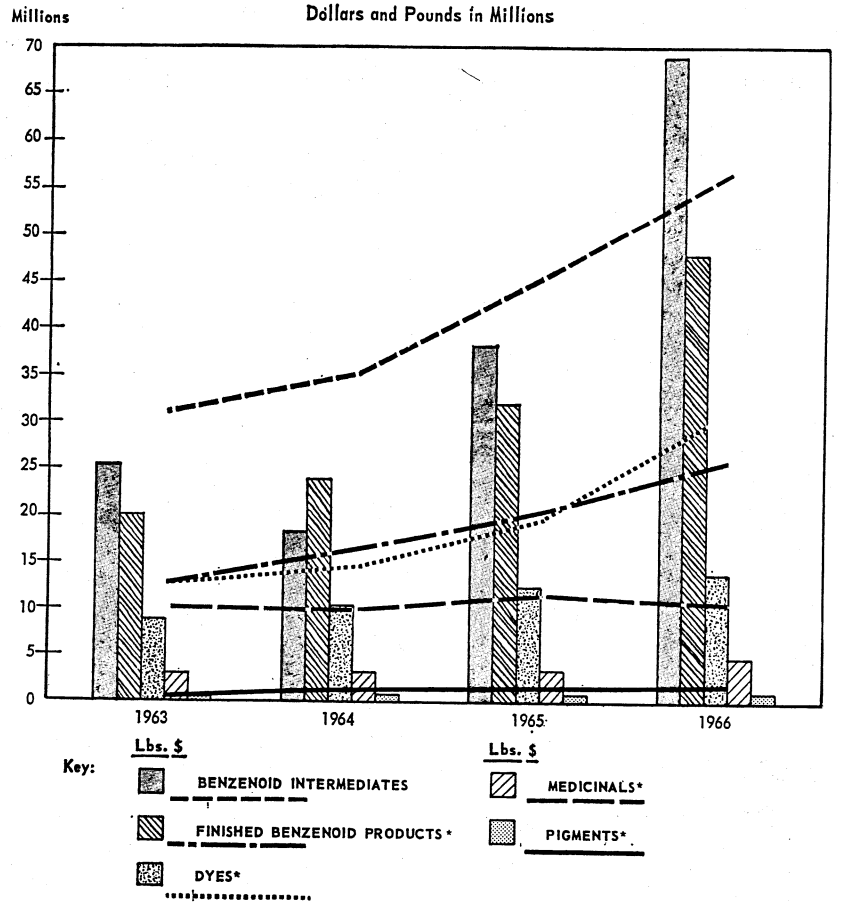
COMPARISON OF HOURLY WAGE RATES (CHEMICAL INDUSTRY)[1]

	United States	United Kingdom	Federal Republic of Germany	France	Italy	Japan
1960	$2.50	$0.92	$0.68	$0.60	$0.39	$0.42
1961	2.58	1.00	.77	.64	.43	.46
1962	2.65	1.03	.84	.68	.49	.51
1963	2.72	1.10	.92	.74	.56	.56
1964	2.80	1.18	1.00	.79	.65	.61
1965	2.89	1.28	1.09	.84	.67	.65
1966	2.98	1.37	1.16	.87	.71	(2)

[1] Sources: U.S. Department of Labor. Year Book of Labour Statistics, ILO, Geneva. Ministry of Labour Gazette, London. Annual Abstract of Statistics, Central Statistical Office, London. Statistical Year Book for the Federal Republic of Germany Statistical Office of the European Economic Community. Rassegna di Statistiche del Lavoro, Rome. Wages in Japan and the United States (U.S. Department of Labor),
[2] Not available.

Exhibit III

U.S. IMPORTS OF BENZENOIDS
1963 – 1966
Dollars and Pounds in Millions



Source: U.S. Tariff Commission Reports, 1963, 1964, 1965, 1966.

EXHIBIT IV

BENZENOID CHEMICALS—TYPICAL EXAMPLES OF IMPACT

PRODUCT AREA: FINE CHEMICALS

[Prices per pound]

Product	Tariff classification	1966 cyanamid list price	Price of foreign product landed in United States	
			1966	After 50 percent duty cut and abolition of ASP
Sulfadiazine	407.72	$6.14	$4.40	[1] $3.70
Sulfamethazine	407.73	5.39	3.02	[1] 2.18
Sulfaguanidine	407.74	2.50	1.27	[1] .93
Sulfamethizole	407.84	7.50	7.17	[1] 6.19
Sodium sulfathiazole	407.84	1.75	1.57	[1] 1.31
Sulfamethoxypyridazine	407.86	18.86	8.94	[1] 4.33
Sulfathiazole	407.88	2.75	1.85	[1] 1.26
PRODUCT AREA: DYES AND TEXTILE CHEMICALS				
Acid blue 45	406.10 B	$3.90	$3.74	[1] $2.97
Vat orange 2	406.10 E	5.00	4.76	[1] 3.76
Vat brown 3	406.10 F	4.87	4.91	4.06
Vat green 1	406.50 C	1.85	1.77	[1] 1.18
Basic blue 54	406.50 D	4.75	5.93	4.84
Vat red 1	406.50 D	4.70	5.57	4.39
Basic violet 10	406.50 E	4.76	5.29	4.01
Direct black 38	406.50 E	1.20	1.31	.98
Acid black 1	406.50 F	1.55	1.62	1.17
Basic violet 1	406.50 F	1.65	1.75	1.28
Direct yellow 4	406.50 F	2.63	2.73	1.96
Direct yellow 11	406.50 F	1.20	1.27	.91
Vat black 27	406.50 F	3.30	3.54	2.61
Vat green 3	406.50 F	2.72	2.75	1.92
Vat yellow 2	406.50 F	3.10	3.22	2.31
Basic blue 9	406.50 G	2.62	2.52	[1] 1.68
Basic green 4	406.50 G	2.73	2.59	[1] 1.73
Direct red 81	406.50 G	2.55	2.50	[1] 1.70
Vat blue 20	406.50 G	4.86	5.22	3.86
Vat brown 1	406.40 G	4.40	4.53	3.23
Acid orange 7	406.50 H	1.10	.94	[1] .55
Solvent black 7	406.50 J	.68	.87	.72
Solvent blue 38	406.50 J	5.06	6.74	5.72
Solvent green 3	406.50 J	6.13	8.22	6.99
Solvent violet 8	406.50 J	1.98	2.87	2.53
Sulfur black 2	406.02	.17	.23	.18
Basic yellow 2	406.50 H	2.45	2.19	[1] 1.36
Mordant black 17	406.50 H	1.26	1.12	[1] .69
Vat blue 18	406.50 H	5.70	4.97	[1] 3.01
Basic violet 14	406.50 I	3.80	3.43	[1] 2.17
Solvent red 49	406.50 I	6.47	6.67	4.78
Acid orange 10	406.50 J	1.37	1.61	1.24
Acid black 2	406.50 J	.98	1.12	.85
Acid orange 24	406.40 J	1.30	1.36	.97
Acid yellow 23	406.50 J	2.24	2.90	2.27
Basic brown 4	406.50 J	1.56	1.66	1.21
Basic orange 1	406.50 J	1.23	1.21	[1] .83
Basic orange 2	406.50 J	1.31	1.70	1.43
Mordant red 11	406.50 J	.96	.85	[1] .53
Solvent black 5	406.50 J	.95	1.31	1.13
White RC	406.50	1.17	1.95	1.82
Calcofluor white M2R	406.50 B	1.39	2.23	2.05
Calcofluor white 7 N	406.50 B	1.15	2.00	1.90
Calcofluor white P and CBP	406.50 B	1.40	1.98	1.71
PRODUCT AREA: ORGANIC PIGMENTS				
Pigment red 49	406.76	$1.03	$1.12	$0.84
Pigment red 53	406.74	1.34	1.27	[2] .86
Pigment red 3	406.72	1.55	1.47	.98
Pigment yellow 12 and 14	406.72	2.38	2.63	1.99
Pigment green 7	406.72	3.70	4.09	3.09
Pigment blue 15	406.72	3.24	3.60	2.72

See footnotes at end of table, p. 4667.

EXHIBIT IV—Continued

BENZENOID CHEMICALS—TYPICAL EXAMPLES OF IMPACT—Continued

PRODUCT AREA: RUBBER CHEMICALS

[Prices per pound]

Product	Tariff classification	1966 cyanamid list price	Price of foreign product landed in United States	
			1966	After 50 percent duty cut and abolition of ASP
Antioxidant 425	403.60	$1.97	$2.61	$2.43
Antioxidant 2246	403.60	1.00	1.35	1.25
Cydac	403.60	.71	.65	[1] 1.52
Diphenylguanidine	403.60	.43	.59	.52
Mercaptobenzothiazole	403.60	.44	.46	.38
MBTS	403.60	.54	.56	.46
NOBS No. 1	403.60	.71	.95	.87
NOBS special	403.60	.71	.95	.87
ZMBT	403.60	.55	.53	[1] 1.42
PRODUCT AREA: INTERMEDIATES				
2-naphthol-3, 6-disulfonic acid, disodium salt	403.56	$0.92	$0.85	[1] $0.73
Toluene-2, diamine	403.56	1.07	.85	[1] 1.70
2-naphthol-6-sulfonic acid sodium salt	403.62	.82	.75	[1] 1.59
2-amino-1-naphthalene sulfonic acid	403.66	.71	.86	.76
Aniline oil	403.66	.14	.19	.14
Aniline hydrochloride	403.66	.33	.31	[1] 1.22
O-benzoyl benzoic acid	403.66	.49	.51	.41
N,N-diethylaniline	403.66	.55	.54	[1] 1.43
N,N-dimethylaniline	403.66	.22	.33	.29
Diphenylamine	403.66	.29	.39	.33
2-methylanthraquinone	403.66	1.92	2.12	1.87
Nitro benzene	403.66	.095	.14	.10
O-(p-toluyl)benzoic acid	403.66	1.05	.78	[1] 1.56
2-hydroxy-4-methoxy benzophenone	403.66	3.90	4.91	4.42
2-hydroxy-4-m-oxtoxy benzophenone	403.66	3.50	3.90	3.37
p-phenylene diamine	403.66	1.55	1.04	[1] 1.71
2-naphthol-6,8-disulfonic acid, dipotassium salt	403.66	.80	.70	[1] 1.54
Sulfanilic acid	403.66	.21	.38	.35

[1] The price advantage already enjoyed by imports over cyanamide products will be further aggravated by the duty cut and abolition of ASP.

[2] The price advantage already enjoyed by this imported product over cyanamid's list price will be further aggravated by the duty cut and abolition of ASP.

The CHAIRMAN. We appreciate so much your coming to the committee. I want to congratulate all of you and thank you for this high degree of cooperation with us today in coordinating your testimony. It has been very helpful to us and certainly all the members of the committee will have an opportunity to give their careful consideration to it when we get into executive session.

That completes our calendar.

Without objection the committee adjourns until 10 o'clock Monday morning.

(The following statement was received, for the record, by the committee:)

STATEMENT OF G. L. TICKNER, EASTERN MANAGER, PIGMENT, COLOR AND CHEMICAL DEPARTMENT, THE SHERWIN-WILLIAMS CO.

Since World War I Sherwin-Williams has produced Benzenoid Intermediates and Pigments at a multi-million dollar investment at Chicago, Illinois. Our entry into this field was necessitated by the European hostilities which cut off our sources of supply. Approximately 550 people currently are employed with a payroll of just under three million dollars per year. Included in this effort is a

major research and development program. Our Chicago output is sold in the commercial market place and is also used in the manufacture of our coatings.

Sherwin-Williams is a member of both the Synthetic Organic Chemical Manufacturers' Association and the Dry Color Manufacturers' Association. We are in full and complete agreement with the position adopted by these two groups on Title IV of H.R. 17551.

In September 1966 our company appeared before the Tariff Commission and indicated "We anticipate being completely forced out of the Benzenoid Intermediate and pigment business by foreign producers in most areas of current activity" if there were a 50% cut in tariff rates and if the American Selling Price method of tariff evaluation were eliminated. The 1966 statement still represents the position of the Sherwin-Williams Company. During the 1966 Tariff Commission hearings our cost and profit figures were submitted on a confidential basis to strengthen and justify our testimony at that time. These figures indicated that our Intermediate business would operate at a pre-tax net loss and that our organic pigment business would produce a net profit of less than one quarter of one per cent. It was, and still is, obvious that we must not invest our stockholders' money in enterprises carrying such a return.

As a result of the conclusion of the Kennedy Round we are now faced with a 50% cut in tariff protection in the products which we produce. This has led us to re-evaluate many of our current Benzenoid activities. Several promising research projects have been halted and we have decided that substantial quantities of equipment will not be replaced when it outlives its utility. Other programs have been curtailed. These have been painful decisions for our management but they inevitably follow from a careful assessment of our ability to compete with low-cost overseas producers of labor-intensive products. Elimination of A.S.P. will certainly aggravate our current problem and lead to further curtailment of our Benzenoid program.

As we see the alternatives, in most cases we must either cease the production of our products and import from overseas or else we must invest our capital overseas to produce Benzenoids for the U.S.A. markets. In either case the effect on the nation's balance of payments is harmful.

Ambassador Roth has offered the opinion that under the separate package there will be "An exchange for fair and new opportunities for growth in the industry affected." For many years Sherwin-Williams has maintained a chemical export sales group for products manufactured by us. This group has carefully considered the opportunities which would follow from the implementation of the Benzenoid separate package. The results of this study clearly indicate to us that there is no significant advantage in our export efforts. In too many cases the reduction projected in foreign tariffs is more than offset by increases in turn-over taxes and other non-tariff barriers in foreign markets.

Our conclusion is that the adoption of the separate package will be a severe blow to the health of our Benzenoid operations with no compensating advantage to us in our export efforts. In view of this we urge the House Ways and Means Committee to recommend that the Congress maintain the American Selling Price system of customs evaluations on imports of Benzenoid chemicals.

(Whereupon, at 1:01 p.m., the committee adjourned to reconvene at 10 a.m., Monday, July 1, 1968.)

FOREIGN TRADE AND TARIFF PROPOSALS

MONDAY, JULY 1, 1968

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. Wilbur D. Mills (chairman of the committee) presiding.

The CHAIRMAN. The committee will please be in order.

Our colleague from New Jersey, Mr. Rodino, is our first witness. Welcome, Mr. Rodino, proceed as you see fit.

STATEMENT OF HON. PETER W. RODINO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. RODINO. Thank you for the opportunity to present my views on one very important aspect of the tariff and trade proposals which the Committee on Ways and Means is now considering.

At the outset, let me state that I am not a protectionist. I have always been, and I continue to be, an ardent advocate of freer trade among the free nations of the world.

But freer trade is an elusive goal that aborts fulfillment unless there is genuine give and take on the part of each of the trading partners.

The erosion of this Nation's once healthy balance of payments is a nagging reminder of the pitfalls of unreciprocal negotiations and unreciprocal agreements. The reported trade deficit for the month of May, the second deficit in 5 months, makes serious cause for concern that our trade policy is not accomplishing the objectives of those who are responsible for its execution.

To be sure, there has been give and take across the international bargaining table. But it has been a strange variety of give and take. Most of the "give" has been on our side; most of the "take" has gone to our trading partners abroad.

The latest and by far the most glaring example of the "we give—they take" approach to trade negotiations involves the American selling price, the traditional and time-tested basis of valuation of benzenoid chemicals for tariff purposes.

Instead of exacting 50 percent tariff reductions from these trading partners roughly equal to the concessions they obtained from us in the Kennedy round package, our negotiators agreed to accept mere 20 percent cuts from the United Kingdom and the EEC in the chemical sector.

For reasons that have never been satisfactorily explained to me, the American negotiating team at Geneva saw fit to go beyond the authorization granted by the Congress and agreed to seek the elimination of ASP and to tariff reductions considerably in excess of 50 percent.

In return for this unwarranted and unauthorized concession, the American negotiators could not achieve anything better than a promise from our principal trading partners abroad that they would return to us the other 30 percent of their reduction owed us from the Kennedy round which had been withheld as a "hostage."

This patently unreciprocal exchange has come to be known as the separate package because it overstepped the bounds of congressional authority and now requires explicit approval by the Congress if it is, indeed, to become effective.

In the meantime, it has come to my attention and to the attention of many other Members of the Congress that many of our trading partners abroad have already increased their border taxes to levels that more than offset the tariff reductions which they agreed to make at Geneva, so that the net effect, once again, is all give on our part and all take on their part. Their cost of entering the U.S. market is substantially reduced, but our cost of entering their market remains approximately the same.

This tampering with border taxes cannot be ignored because it poses a serious threat to our already troublesome balance of payments and negates even the pretense of reciprocity in the Geneva agreements.

One cannot help but wonder why the U.S. negotiating team—which did not hesitate to put ASP on the sacrificial bargaining block although it lacked authority to do so—did not affirmatively deal with these border taxes by insisting that they be eliminated.

Border taxes knock the Geneva agreements for a loop—the strangulating loop of a giant question mark and the one-sided, unreciprocal increases in these border taxes place the entire results of the negotiations under a cloud of ominous doubts.

Yet long before the border tax began to attract attention and spread the seeds of suspicion, many of us who were closely watching the progress of the talks at Geneva were concerned over the willingness of our negotiators to sacrifice ASP, regardless of the benefits promised by our trading partners by way of exchange.

The New Jersey congressional delegation joined, and remains united, in a rare, bipartisan, unanimous declaration urging the retention of ASP.

On June 30, 1967, the entire congressional delegation—nine Democrats and six Republican Members of the House and our two Senators, one a Republican and the other a Democrat—wrote to Ambassador William M. Roth, the President's special trade representative who has already appeared before your committee.

We requested Ambassador Roth to release the Tariff Commission's findings and conclusions on the economic impact of abandoning ASP and reducing the converted rates by 50 percent.

As of this day, we still do not know the extent of injury that had been projected by the Tariff Commission, although we have reason to believe even on the basis of a 50-percent reduction in converted

rates it was quite severe, particularly in the dye and pigment section of the benzenoid industry.

Since those original projections, moreover, the anticipated extent of injury has been worsened by the unfavorable effects of the flagrant increases in border taxes and export rebates among our trading partners in foreign lands.

New Jersey has a vital stake in the retention of ASP because it is the largest dye- and pigment-producing State in the Nation. But many other States also have an important interest, direct and indirect, in the preservation of a sound and healthy domestic benzenoid industry.

But permit me to concentrate upon that with which I am most familiar.

The 10th Congressional District of New Jersey, which it is my privilege to represent, includes 60 percent of the population of the city of Newark and most of that city's business and industrial complex.

Like so many of the Nation's older urban centers, the city of Newark is beset with serious problems.

It was the scene of a prolonged and tragic riot last summer, and vigorous activity has since been accelerated in many directions in an effort to heal the terrible wounds, to ease the tensions, to end the distrust, and to introduce programs that promise at least a start toward the solution of pressing problems that cannot in good conscience be ignored.

Major among these pressing problems is the urgent need to increase employment opportunity, particularly among members of our minority groups.

To its credit, the administration has recognized the disproportionate share of joblessness borne by minority group members, and President Johnson has provided leadership in the development of programs designed to remedy this intolerable condition.

And to its credit, the Congress has responded to the administration's recommendations by enacting and funding special programs to enhance employment opportunity among those who are presently disadvantaged.

The proposal to eliminate ASP, however, is at cross purpose to these programs. It is a grievous step backward, ill-conceived and ill-timed. It should never have been proposed and it must be stopped here and now, before irreversible damage is done.

The benzenoid industry employs thousands of workers in the city of Newark and in the Greater Newark area. Most of these workers are Negroes and Puerto Ricans. Their average earnings range from $7,500 to upward of $8,000 per year.

As a result of on-the-job training, impressive numbers of these Negroes and Puerto Ricans have advanced to positions of greater responsibility and even better pay.

But the requirements and skills associated with this employment are highly specialized and not readily transferrable to other jobs. The prospects for these workers are bleak, indeed, if the plants that now employ them are forced to close their doors or reduce sales due to increases in imports. Retraining programs that will equip them to take new jobs that may, if they are lucky, pay them $4,500 to $4,800 a

year, are not likely to be greeted with enthusiasm by men presently earning twice that amount. Nor can we overlook the depressing effect of the loss of seniority that many would suffer through forced change of employment.

Let me emphasize that labor is a principal cost factor in the manufacture of dyes and pigments, and a number of other benzenoid chemicals. Because of this, the domestic benzenoid industry is especially vulnerable to competition from manufacturers located in nations where low wages prevail.

Since 1922, when the Congress enacted ASP, this sensible and realistic valuation system has effectively prevented unfair competition from cheap-labor countries abroad.

The need for ASP is as valid today as it was in 1922, even without giving consideration to the additional pressures created by the current employment crisis in our cities.

This is no time to entertain the elimination of a program that will eliminate jobs which are so essential to the well-being of our urban areas.

Although Ambassador Roth attempts to minimize the impact, he does concede that there is a likelihood that some injury will result if ASP is abandoned.

I am convinced that Ambassador Roth is underestimating the impact, and that the loss of jobs in the Greater Newark area and other urban centers will be on a much larger scale than he foresees.

I base this conclusion on the fact that our trading partners abroad are so determined and so vigorous in their efforts to bring an end to ASP. They have gone as far as to offer to speed up the timetable of tariff reductions agreed upon at Geneva in order to win this victory, knowing, however, that they can always institute another round of border tax increases to offset the concessions, or indeed impose quotas as France has just done.

Ambassador Roth's reassurances of minimum impact notwithstanding, we must ask what prompts this vigor and what inspires this determination from abroad to win the elimination of ASP at home.

The answer, of course, is obvious.

The cheap-labor nations seek an end to ASP so they can take advantage of their low wages to gain an unfair competitive edge and capture the American benzenoid market.

They know that without the equalizing mechanism of ASP, it will be only a matter of time until they can cash in on cut-rate prices made possible by low-wage labor, squeeze out domestic competitors and close down American plants. That this will bring unemployment to thousands of American workers is no concern of theirs.

Carried to its logical conclusion, the elimination of ASP invites nothing less than the turning back of the calendar to the early 1900's when the United States was without a domestic benzenoid industry and this Nation of ours was completely at the mercy of foreign manufacturers and cartel-rigged prices.

This very alarming invitation should not be overlooked in any realistic appraisal of the pros and cons of ASP. Foreign domination of the dye and pigment industry is deeply rooted in the history of international trade and provided the initial impetus for the enactment of ASP by the Congress.

But even without the specter of foreign domination and price manipulation by cartels, I would vigorously oppose any move to eliminate ASP at this critical juncture in American life on the grounds that this is simply not the time for the Congress to toy with measures that pose any threat whatever to employment opportunities in our job-poor urban areas. This alone is a sufficient, persuasive and compelling reason to reject the pending bill with its inherent risks and hazards. I strongly urge the retention of ASP.

Thank you.

The CHAIRMAN. Are there any questions, if not, then thank you, Mr. Rodino.

Our next witnesses this morning represent the American Importers Association Organic Chemicals Group. Mr. Graubard, are you the leadoff?

STATEMENT OF SEYMOUR GRAUBARD, COUNSEL, ORGANIC CHEMICALS GROUP, AMERICAN IMPORTERS ASSOCIATION; ACCOMPANIED BY ROBERT B. STOBAUGH, JR., KARL HOCHSCHWENDER, AND WALTER W. HAINES

Mr. GRAUBARD. Yes, sir. Mr. Chairman and members of the committee, I am Seymour Graubard, a member of the firm of Graubard & Moskovitz in New York and Graubard, Moskovitz & McCauley in Washington. We appear here today as counsel to the Organic Chemicals Group of the American Importers Association (AIA) of 111 Fifth Avenue, New York, N.Y.

With me are Robert B. Stobaugh, Jr., Karl Hochschwender, and Walter W. Haines.

Mr. Stobaugh, lecturer on business administration and a member of the faculty, Harvard University Graduate School of Business Administration, has written extensively on the economics of the chemical industry and has engaged in consultative work with a number of chemical and oil companies. With your permission I will not read Mr. Stobaugh's biographical sketch but ask that it be inserted in the record at this point.

The CHAIRMAN. Does it include his place of birth? If it doesn't we should note in the record that he is a native of Arkansas.

(The biographical sketch referred to follows:)

Robert B. Stobaugh, Jr., *Lecturer on Business Administration and Member of the Faculty, Harvard University Graduate School of Business Administration.* B.S. (Chemical Engineering), Louisiana State University; Doctor of Business Administration, Harvard University Graduate School of Business Administration. Formerly held various positions in economic evaluation, marketing, financial analysis, and engineering functions of Monsanto, Caltex Oil Group, and affiliates of Standard Oil Company (New Jersey), in the United States, Europe, Middle East, and South America. Consultant to oil and chemical companies on industry economics, diversification, and international business. Currently engaged in research on financial management of multinational firms a part of Ford Foundation research project on *The Multinational Enterprise and the Nation States.* Author of the book, *Petrochemical Manufacturing and Marketing Guide;* author of articles on pricing, marketing research, overseas project management, petrochemical markets and economics, and computer simulation, in such journals as the *Harvard Business Review, The Review of Economics and Statistics, Hydrocarbon Processing, Chemical Engineering Progress,* and *Chemical Engineering.* Registered Professional Engineer and a Member of Chemical Marketing Research Association, American Institute of Chemical Engineers, American Economic Association, and American Finance Association.

Mr. GRAUBARD. Mr. Hochschwender is chairman of the Organic Chemicals Group of the American Importers Association where he also serves as a director and as vice president. A Ph. D. from Yale where he also did his undergraduate work, Mr. Hochschwender formerly taught political science and is now assistant to the president of American Hoechst Corp.

Professor Haines is chairman of the department of economics at New York University's College of Arts and Science. For the past 3 years he has made intensive studies of the effects on the U.S. chemical industry of reduction of trade barriers, with emphasis on the repeal of ASP. I ask that Mr. Haines' biographical sketch be inserted in the record at this point.

The CHAIRMAN. All of that material will be included.

(The biographical sketch referred to follows:)

Walter W. Haines. Professor of Economics and Chairman of the Department of Economics, University College of Arts and Science, New York University, A.B. and M.A., University of Pennsylvania; M.A. and Ph. D., Harvard University. Has held teaching posts at Kenyon College and the University of Peshawar, Pakistan. Chairman of the Board of Overseers of Friends World College.

Publications include *Moncy, Prices and Policy,* (2nd ed., McGraw Hill, 1966) and articles in *American Economic Review, Quarterly Journal of Economics, Journal of Economic History, National Encyclopedia,* and *Encyclopedia International.* Consulting work has included population projections as well as an extended survey of the effects on United States industry of tariff reductions for presentation to the United States Tariff Commission.

Member of American Economic Association, Society for International Development, Phi Beta Kappa, and Pi Gamma Mu. Listed in *Who's Who in America Who's Who in the East, Directory of American Scholars, American Men of Science, Who's Who in American Education, Contemporary Authors, World Who's Who of Science,* and *Dictionary of International Biography.*

Mr. GRAUBARD. Thank you, sir. After my opening remarks Mr. Stobaugh will analyze the effects of the repeal of ASP on this Nation's balance of trade, Mr. Hochschwender will submit some graphic illustrations of how ASP is used and abused, and Mr. Haines will comment on the principal arguments presented last Friday by those who would retain ASP.

In urging the enactment of H.R. 17551, and in particular title IV, we shall forebear from describing the "American selling price" valuation system as well as the agreement negotiated in 1967 at the Kennedy round session in Geneva. We believe that Ambassador Roth and other witnesses have given ample background to this committee in those regards.

Instead, we shall present—in capsule form to meet the committee's time schedule—the principal reasons why it is in the interests of our Nation to adopt H.R. 17551 now.

1. ASP was designed to protect an infant industry. That infant is now a multibillion-dollar giant, far larger and stronger than any of its foreign competitors.

2. The United States, more than 20 years ago, made a clear international commitment to convert from ASP valuation to normal valuation for benzenoids and the other products presently valued under ASP. GATT, article VII, subparagraph 2(a) provides:

> The value for customs purposes of importer merchandise should be based on the actual value of the importer merchandise on which duty is assessed, or of like merchandise, and should not be based on the value of merchandise of national origin or on arbitrary or fictitious values.

In the protocol of provisional application of GATT, the United States and the other signatories undertook as soon as practicable to bring their laws into line with the GATT standards. Since ASP valuation is based upon a statute it requires, of course, a statute to make the new standards effective.

3. ASP, by creating uncertainty as to the amounts of duties to be assessed, is a constant irritant to importers and consumers. It provides our foreign friends with a readymade retort whenever our exporters complain about unfair foreign trade barriers.

4. Repeal of ASP would so greatly improve the balance-of-payments situation that action by this Congress is clearly now in order. Mr. Stobaugh will present the facts in regard to this major consideration.

5. Repeal of ASP would eliminate the daily irritations and unfair consequences which now mark enforcement of that statute.

Mr. Stobaugh will now continue our presentation.

The CHAIRMAN. Mr. Stobaugh, we appreciate having you with us this morning.

STATEMENT OF ROBERT B. STOBAUGH, JR.

Mr. STOBAUGH. Thank you, Mr. Chairman. Members of the committee, I have completed a study to determine the effects of adoption of the "ASP package" on United States chemical exports and imports. Increases in United States exports of items other than chemicals were not considered. The results of this study have been published in a report, which is submitted with this statement.

Would you please insert this report into the record at the end of my statement?

The CHAIRMAN. Without objection that will be made a part of the record.

Mr. STOBAUGH. Thank you. Today, I would like to highlight and discuss some of the key findings of this study.

First I would like to present a very brief summary of the study. I estimate that in 1972, the base year of my study, with the adoption of the ASP package the U.S. net trade balance in chemicals would be increased by approximately $110 million. This would have a relatively minor effect on the U.S. chemical industry, including the benzenoid sector; U.S. chemical industry output presently exceeds $40 billion and benzenoid sales exceed $3 billion. Whether or not this package is adopted, U.S. production of each segment of the benzenoid industry will continue to expand, in spite of an expected increase in imports. U.S. chemical exports will continue to increase, in spite of the much higher wages paid in the U.S. than abroad for unit wage rates are not a major determinant of chemical exports.

Now I will turn to some of the details of the study and mention some additional conclusions:

1. As mentioned above, I estimate that adoption of the ASP package would result in an increase of approximately $110 million in the U.S. net trade balance in chemicals in 1972. This is the base year for which the effects of the ASP package are estimated; a larger net trade balance would be expected for subsequent years. This $110 million would result from increases in chemical exports of about $130

million and increases in chemical imports of about $20 million. It was necessary to make estimates of certain key variables in order to arrive at this final estimate. These key variables are:

(*a*) The level of U.S. exports to the European Economic Community and United Kingdom in 1972 before consideration of the effect of tariff cuts.

(*b*) The level of U.S. benzenoid imports in 1972 before consideration of the effect of tariff changes.

(*c*) The change in average U.S. tariff rates on benzenoids as a result of adoption of the ASP package.

(*d*) The effect of tariff changes on exports and imports, referred to in my study as a "tariff elasticity."

(*e*) The effect of removal of the uncertainty for the U.S. importer which now results from the American selling price method of valuation.

The estimates of these key variables are based upon a combination of previous empirical studies, standard methods of market forecasting, and my judgment. Since it is not possible to be sure that any one estimate is correct for any variable, I varied these estimates over a wide range in order to determine a probable range within which the increase in net trade balance in chemicals would fall in 1972. As a result of these variations in estimates of key variables, the lowest estimate of increase in the U.S. net trade balance is $67 million and the highest estimate $153 million, compared with the best estimate of $110 million. Importance lies in the fact that under any set of estimates made of the key variables, the increase in U.S. exports is estimated to exceed substantially any increase in imports. Certain qualifying assumptions must be made: there will be continued growth in world trade and reasonably stable price levels in the United States such as has existed on the average during the past 10 years. Also, implicit in my projections is the assumption that the U.S. chemical industry will have access to petroleum raw materials at world market prices.

2. Increases in exports resulting from the adoption of the ASP package would come in two major categories: (a) new products and (b) those products made by continuous-process, large-scale plants. Many of the new products are produced first in the United States because of the development activity which results from the large internal market. Although plants for the production of any new product of major commercial importance will eventually be built in the European Economic Community and the United Kingdom, lower foreign tariffs would delay the construction of the plants abroad and contribute to the increase in United States exports. Examples of such goods include certain newer types of plastics and other new products, some of which have not yet been commercialized but which will appear in the "basket" categories of tariff schedules.

In the second major category—chemicals that are made in continuous-process, large-scale plants—the large market of the United States enables very large plants to be built here, resulting in low manufacturing costs. Very often one such plant represents a substantial portion of the requirements of a product for a given foreign country. Even after a foreign country begins production of a product, the country in subsequent years sometimes has a shortage while new

capacity is being added in that country. For example, a single foreign country might consume 100 million pounds of product annually and have one plant of 100 million pounds annual capacity. As the consumption of the product increases in this foreign country, the manufacturer there might wait until total consumption is 160 million pounds annually, before adding another minimum economic sized plant of 100 million pounds. Thus, over a period of several years the imports would increase from zero up to 60 million pounds, and then fall back to zero as the new plant is completed. Plants in the United States are playing a major role in supplying such countries with the chemicals they need to fill this gap between capacity and consumption. At the same time, lower foreign tariffs would increase this type of export by delaying the construction of additional plants abroad. Even relatively large-market countries such as Germany use this type of export from the United States. For example, Germany has produced styrene monomer since 1931 but had a temporary shortage in 1964 and 1965 while a new plant was being built there. During these 2 years the United States exported almost $10 million yearly of this product to Germany.

This role fulfilled by U.S. exports in balancing capacity and consumption in foreign countries has often been overlooked by U.S. manufacturers. Even though U.S. exports have been high, they could have been even higher if the U.S. manufacturers had recognized these export opportunities. For example, various market forecasters in the United States predicted during the late 1950's and early 1960's that U.S. exports of such items as methanol, styrene monomer, and acrylonitrile had reached a peak and would drop because of the buildup in plants abroad.

In 1959, "Oil, Paint & Drug Reporter," a respected newspaper in the chemical marketing field, said in reference to styrene monomer, "Most producers feel that 1959 will be the peak export year—but after this year, monomer plants overseas will cut sharply into exports." Similar predictions were made for a number of other chemicals. Actually, for many such products U.S. exports increased, rather than decreased, so that by the middle 1960's the United States was not able to meet all of its export demand. At the same time, in some cases, American purchasers of the product were faced with temporary shortages because of lack of domestic capacity; for example, following is a quotation concerning methanol from the "Oil, Paint & Drug Reporter" in January 1966.

* * * export business has to be turned down and domestic buyers are on allocation.

Part of this shortage was due to increased methanol consumption caused by the Vietnam conflict, however, an important contributor to this shortage was that U.S. manufacturers underestimated the value of U.S. exports, which was four times as great in 1965 as had been shown in forecast in 1961 presented in "Chemical Week," another respected publication covering the chemical industry.

3. The United States will continue to be a major exporter of chemicals in spite of the much higher wages paid in the U.S. chemical industry than in the chemical industries abroad. A number of international trade studies provide evidence indicating that unit wage rates

are not an important determinant of chemical exports. These same studies indicate that new product development expenditures, resulting from a large domestic market, are much more important in explaning chemical exports than are unit wage rates.

4. The adoption of the ASP package would increase U.S. chemical imports because of two factors: (a) a decrease in tariffs on a few nonbenzenoid chemicals, and (b) a removal of the uncertainty now caused by the American selling price method of tariff valuation. Decreases in tariffs on the nonbenzenoids would be expected to increase imports by about $3 million yearly. However, in the case of benzenoids, which is the product category affected by the American selling price method of valuation, I estimate that the change in average tariff levels, when weighted by trade flows, would be negligible as a result of adoption of the ASP package. The converted tariff rates based on U.S. Tariff Commission calculations are intended to provide the same revenue as the unconverted rates used with the ASP method of valuation.

Nevertheless, a number of the peaks and valleys in the tariff schedule would be smoothed by adoption of the ASP package. This smoothing would result in lower tariffs in a number of cases, as well as higher tariffs in other cases. In a detailed check, I did not find any systematic bias toward either lower or higher equivalent tariffs. A detailed study of the dye category, for example, showed that because of the much larger quantity of imports at the lower duty levels which would be raised by adoption of the ASP package, there would be on the average a slightly higher weighted average duty on dyes.

The other major effect of adopting the ASP package would be the removal of the present uncertainty caused by basing U.S. duty on the American selling price rather than on the export value in the exporting country as is done with other products. This ASP method results is uncertainty for the U.S. importer since the American selling price for an individual item can change any time, and the U.S. importer is never certain what the duty will be until the goods have been valued by the U.S. Customs. The removal of the uncertainty in the tariff valuation process is estimated to result in an increase of approximately $17 million in U.S. imports. This $17 million when added to the previously mentioned $3 million results in an estimate of $20 million for the increase in U.S. imports for 1972.

5. Adoption of the ASP package would have a relatively minor effect on the U.S. benzenoid industry. Total benzenoid imports in 1972 are expected to be less than 3 percent of the total value of benzenoid production in the United States. The increase in benzenoid imports brought about by the adoption of the ASP package would be expected to be less than 0.2 percent of the total U.S. production of benzenoids in 1972. Production in each segment of the benzenoid industry is expected to show substantial growth between now and 1972; the value of total production of U.S. benzenoids is estimated to be $9 billion in 1972 compared with $6.2 billion in 1965.

6. A comparison of the cost of manufacturing dyes in the United States with the cost of manufacturing dyes in Germany was included in the study because of the concern about foreign competition in this category and because of estimates that dye imports would be a higher percentage of U.S. production than would be the case in other ben-

zenoid product categories. Germany, the world's largest exporter of dyes, was selected for this comparison; this comparison indicates that on the average Germany costs would be at least 83 percent of U.S. costs. If a 30-percent tariff and a 5-percent freight cost are added to the German costs, then the result would be a landed cost for German dyes equal to 112 percent of the cost of U.S. dyes.

Therefore, on the average, a 30-percent U.S. tariff for dyes would be greater than the difference in manufacturing costs between Germany and the United States. Because all operations are not average, the United States imported $26 million of dyes in 1966. This compares with $350 million of U.S. dye production and $25 million of U.S. dye exports.

The wages of production workers are a slightly higher percentage of value added by manufacture in the dye category than in a number of other chemicals—24 percent for dyes versus 20 percent for the intermediate coal-tar product category as a whole, for example. Nevertheless, there is evidence to suggest that the European exports strength in dyes is based more on technical superiority than on low wages. Chemical industry foreign investment often is based on technical know-how owned by the investing firm, and the Europeans own proportionately more of U.S. dye manufacturing facilities than in other chemical product areas.

7. Adoption of the ASP package would enable Congress to recover the practical ability to set tariffs on benzenoid products. At present, for practical purposes, the power to set effective tariffs rests with the U.S. producers in the case of products protected by the American selling price method of valuation. Once a tariff level is set by Congress, the effective tariff rate is raised whenever the competitive situation allows the U.S. producers to increase the price of the product. The protection of the consumer through the setting of effective tariffs by Congress is especially important in dyes because of the relatively low level of competition existing in this category, where many of the individual dyes are made by just a few producers.

This concludes the summary of my study. I would be happy to answer any questions you might have.

(The study referred to follows:)

EFFECTS OF PROPOSED "ASP PACKAGE" ON U.S. CHEMICAL EXPORTS AND IMPORTS

(By Robert B. Stobaugh, Jr., Lecturer on Business Administration, Graduate School of Business Administration, Harvard University)

This study was prepared by Robert B. Stobaugh, Jr., at the request of the Organic Chemicals Group of the American Importers Association. The views presented here are the author's and not necessarily the Association's.

I. THE "ASP PACKAGE" IN BRIEF

During the recent Kennedy Round, all of the major industrial nations agreed to make substantial unconditional reductions in chemical tariffs. These reductions will be made gradually so that 1972 will be the first year for the United States for which the full tariff reductions will apply.

The United States negotiators agreed to submit to Congress a Supplemental Agreement Relating Principally to Chemicals, known as the "ASP Package."[1]

[1] The details of this agreement are contained in *Agreement Relating Principally to Chemicals, Supplementary to the Geneva (1967) Protocol to the General Agreement on Tariffs and Trade,* Geneva, 30 June, 1967.

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.

EFFECTS ON U.S. CHEMICAL NET TRADE BALANCE

[In millions of dollars]

	Negative	Positive
Increase in U.S. chemical exports due to tariff reductions by European Economic Community and United Kingdom		130
Increase in U.S. chemical imports due to:		
a. Net changes in average U.S. tariffs on benzenoids	0	
b. Removal of uncertainty on U.S. benzenoid tariffs because of elimination of the ASP valuation method	17	
c. U.S. tariff reductions on nonbenzenoids	3	
Total increase in chemical imports into the United States	20	
Net increase in U.S. chemical trade balance		110

Note: A detailed discussion of these estimates follows.

B. Increase in United States exports

In this section, United States exports to EEC and United Kingdom are projected to 1972,[2c] first without allowing for any tariff cuts, then allowing for the Kennedy Round unconditional reductions, and finally for the reductions which would result with the ASP Package. Next, the product categories in which exports will be important are discussed.

1. Estimate of exports in 1972

Data on United States chemical exports to the EEC and United Kingdom for the past ten years are presented in Table 1. United States chemical exports to the EEC and United Kingdom have grown at an average yearly rate of 12.2% during this period.[3] A continuation of this growth rate between 1966 and 1972 would result in total chemical exports to EEC/UK in 1972 of $1.5 billion. However, a figure of $1.2 billion is used so that the estimate of the effects of adoption of the ASP Package will be on a conservative basis; effects of variation in this value are shown in Appendix B.

TABLE 1.—EXPORTS OF CHEMICALS FROM THE UNITED STATES TO EUROPEAN ECONOMIC COMMUNITY AND UNITED KINGDOM, 1957–66

Year	Millions	Year	Millions
1957	$268	1962	$477
1958	303	1963	527
1959	346	1964	679
1960	467	1965	716
1961	471	1966	769

Note: 1. U.S. export data for chemicals were reported for group 8 for 1962 and before. For 1963 the categories were changed so that SITC 5 has been used for chemicals in 1963 and all later years. 2. United Nations commodity trade reports for 1962 indicate that U.S. exports of SITC 5 to EEC/United Kingdom totaled $508,000,000 or 6½-percent greater than the $477,000,000 shown above for group 8 exports; however, such reports were not available to allow a similar comparison for 1957–59. If the assumption were made that the SITC 5 exports were 6½-percent higher than group 8 exports for 1957–59 then the growth rate from 1957–59 to 1966 would become 11.2 percent rather than 12.2 percent. This change would not affect the outcome of the study since projected growth rate of only 7.4 percent was used as the best estimate.

Source: Summed from data in Bureau of the Census, exports of U.S. merchandise, country by commodity.

The next step is to determine the effects of the Kennedy Round unconditional tariff cuts on the expected export flow of $1.2 billion from the United States to the EEC/UK in 1972. Because of the large number of individual chemical commodities in question, some of which are not yet in existence but which will be by 1972, it is necessary to estimate the effect of tariff cuts on an aggregate basis. Detailed studies have been made showing the effect of tariff reductions on aggregated groups of products. A review of these studies reveals that a tariff decrease

[2c] Various methods of estimating future market demand for chemicals are shown in my "Chemical Marketing Research," *Chemical Engineering*, November 22, 1965, pp. 158–160. For a category of chemicals comprising thousands of individual items, the projection of past trends is a reasonable and commonly used method. A more detailed discussion of this subject is presented in Appendix B.

[3] The years 1957–1959 were chosen as a three-year base because these are the years used as base years in the latest United States Tariff Commission Report on *Synthetic Organic Chemicals, United States Production and Sales*. Use of other three-year bases would not invalidate the basic conclusions reached in this study.

equivalent to 1% of the combined value of the goods and tariff results in an increase in trade flow in chemicals of about 2.5 to 5%. For this study, an intermediate figure of 3.5% is used (this figure will be referred to as a "tariff elasticity").[4] Effects of variation in this value are shown in Appendix B. The use of this tariff elasticity results in an estimate that United States chemical exports to the EEC/UK in 1972 will be $110 million higher as a result of the unconditional tariff reductions to which the EEC/UK agreed as part of the Kennedy Round.

A similar calculation for the ASP Package results in an estimate that adoption of this ASP Package will result in an increase of $132 million in United States chemical exports (in addition to the $110 million increase mentioned above). Details of the method of calculating these results are presented in Appendix B.

In order to determine a probable range for this value, subjective estimates were made of the effects of variations in key variables. Over 70% of the resulting estimates lie between $99 million and $165 million. The average is $132 million. If these numbers are rounded, it seems reasonable to conclude that United States chemical exports will increase by $100–$160 million if the ASP Package is adopted, with a best estimate being $130 million.

This increase in United States exports plus the increase due to the Kennedy Round unconditional reductions, when added to the export flow of $1.2 billion expected without any tariff reductions, would result in total chemical exports to EEC/UK of less than $1.5 billion in 1972. Therefore, the total United States chemical exports to the EEC/UK would be less than 3% of either the combined EEC/UK chemical market or of United States chemical production.[5] It is believed that such a small percentage would not meet either a supply or demand bottleneck.

2. Product categories for which exports will be important

United States exports of chemicals to the EEC/UK can be classified into two types: (1) New or moderately new products and (2) large-volume "mature" products. United States exports of these two types of products to the EEC/UK are important now and are expected to be increased as a result of lower EEC/UK tariffs brought about by approval of the ASP Package. Examples of exports of new or moderately new products are plastics (SITC 581) and products in the "all other" category (SITC 599). Examples of exports of large-volume products are organic chemicals (SITC 512). United States exports of these three categories (SITC 581, 599, and 512) accounted for 70% of the total chemical exports to the EEC/UK in 1966 (Table 2).

TABLE 2.—CATEGORIES OF CHEMICALS EXPORTED FROM UNITED STATES TO EUROPEAN ECONOMIC COMMUNITY AND UNITED KINGDOM, 1965–66

SITC No.	Description	Value of exports (millions)	
		1965	1966
512	Organic chemicals	$282	$270
513	Inorganic chemicals	31	36
514	Other inorganic chemicals	22	22
515	Radioactive and associated materials	37	51
521	Mineral tar and crude chemicals	11	12
531	Synthetic organic dyestuffs	7	8
532	Dyeing and tanning extracts	9	12
533	Pigments, paints, and varnishes	48	50
541	Medicinal and pharmaceutical products	12	12
551	Essential oils, perfume and flavor materials	3	5
553	Perfumery and cosmetics	14	16
554	Soaps, cleansing and polishing preparations	5	4
561	Fertilizers	3	2
571	Explosives and pyrotechnic products	143	166
581	Plastic materials	89	103
599	Other chemical materials and products	716	769
	Total		

Note: Organic chemicals (SITC 512), plastic materials (SITC 581), and other materials and products (SITC 599) as a share of total equal 70 percent in 1966.

Source: Bureau of the Census, exports of U.S. merchandise, country by commodity.

[4] This question is discussed in more detail in Appendix B and a number of studies are referenced.

[5] It is estimated that the EEC/UK combined chemical market will approximate $50 billion in 1972 and United States output will exceed this.

a. New products

This expectation of growth of United States exports of newer products is consistent with various recent studies. These recent studies indicate that new-product-oriented research and development efforts attracted by a large domestic market have a more important effect on exports than do unit wage rates. The plants to produce new products are built in a country with a large market, presumably in order to minimize the problem of communications between the market and the production facility, and to reduce the risk inherent in crossing national boundaries with a large percentage of the plant output.

As the home market expands, larger plants are built and lower unit costs of production result.[6] Also, production costs are lowered because the operations are made more efficient as the firm gains experience.[7] Thus, a large-market country initially producing a product can have a trade advantage in this product for a considerable period of time.

As the domestic market[8] of the United States is more than five times as large as that of the largest-market country in the EEC and about 1½ times as large as the domestic markets of all EEC countries combined, it is reasonable to expect that the United States will be a major exporter of new products. The lower tariffs in the EEC/UK, especially in the "basket" or "all other" categories, which would result from adoption of the ASP Package would increase United States exports of newer products by delaying the construction of manufacturing plants abroad.

Because of the importance of this idea that large domestic markets with resultant research and development is much more important in determining international trade than are unit wage rates, the results of five recent studies are reviewed. Two of these are studies of trade in plastics. Hufbauer shows that the combination of large market and early date of initial production played the major role in explaining exports of plastics; wages were not found to be an important explanatory variable.[9] Freeman shows that technical progress explained exports in plastics, and that the major exporting countries did not have input-cost advantages over other countries.[10]

Two studies of organic chemicals lend further support to this view. Results of one study suggest that exports of United States chemicals are continually shifting to new products[11] (although exports of older, large-volume products continue to be important on an absolute basis, as will be discussed below. Results of another study indicate that countries with large markets began production of individual products before countries with small markets. Unit wage rates were found not to be an important variable in explaining when countries began production of a product.[12]

A fifth study that presents results consistent with this view is the study by Gruber, Mehta, and Vernon.[13] This study shows that the five United States industries that account for the United States trade surplus spend relatively more on research and development than do the fourteen other major United States industries. The chemical industry is one of these five "export industries," and ranked second among all industries in net trade balance in 1966. Further details of this study are presented in Appendix C along with further indications that the size of a country's domestic market rather than low unit wage rates is an important determinant of exports in chemicals.

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[6] A well-known rule in the chemical industry is the "0.6 rule" which indicates that a plant of twice the output of a smaller plant will cost only $(2)^{0.6}$ or about 1.5 times as much to build. The drop in costs as industry output increases is discussed in my "Why Do Prices Drop?" *Chemical Engineering Progress*, December 1964, pp. 13–17. This article gives illustrations of a number of price drops in individual chemicals.

[7] W. B. Hirschmann, "Profit From the Learning Curve," *Harvard Business Review*, Vol 42, January–February 1964, p. 125.

[8] Measured in terms of Gross National Product, see Table C–2.

[9] G. C. Hufbauer, *Synthetic Materials and the Theory of International Trade*, Cambridge Harvard University Press, 1966.

[10] C. Freeman, "The Plastics Industry, A Comparative Study of Research and Innovation," *National Institute Economic Review*, No. 26 (November 1965), pp. 40–91.

[11] See my "Systematic Bias and the Terms of Trade," *The Review of Economics and Statistics*, XLIX (November 1967), p. 617.

[12] Results of this research by me are scheduled for publication under the tentative title, *The Product Life Cycle and International Investment*.

[13] William Gruber, Dileep Mehta, and Raymond Vernon, "The R & D Factor in International Trade and International Investment of United States Industries," *Journal of Political Economy*, LXXV, February 1967, pp. 20–37.

b. Mature products

It was previously mentioned that United States exports to the EEC/UK of mature products,[14] such as certain organic chemicals, are important and are expected to be so in the future. Because this fact apparently has not been widely recognized, it is discussed in more detail below.

Results of a study indicated that over half of United States exports of the mature products covered in the study were to countries that already produced the products: much of these exports were to the EEC/UK.[15] In my opinion, a major reason for such United States exports is that additional capacity for the manufacture of a chemical usually can only be added economically in large blocks.[16] Consumption, however, progresses relatively smoothly, so there are alternating periods of "excess" and "shortage" (Figure 1). The United States plays an important role in providing other countries with chemicals when these other countries are experiencing shortages and are operating plants at inefficiently high levels. During this stage lower foreign tariffs enable United States exports to compete better with the high marginal costs of the marginal foreign producer and to delay the construction of new capacity. (Similarly, lower United States tariffs during this stage would enable the United States economy to obtain sufficient product without paying the high cost of keeping United States plants operating at inefficiently high levels.)

An example is the case of exports of United States styrene monomer to Germany (styrene monomer is a benzenoid intermediate). These exports were negligible for 1963 and then increased sharply to almost $10 million yearly in 1964 and 1965 and then fell sharply in 1966 as new plant capacity came onstream in Germany. Germany started production of styrene monomer in 1931, some four years before production began in the United States.

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[14] In this context, a mature product is one that has reached an advanced stage of its product life cycle. Market conditions are characterized by relatively low annual percentage increases in consumption, with prices considerably lower than during the earlier years of the product life cycle. For further details see my "Chemical Marketing Research," *loc. cit.*

[15] These results were presented in a talk delivered by me to a national meeting of the American Institute of Chemical Engineers, New York, November 27, 1967. The results are scheduled for publication under the tentative title, *The Product Life Cycle and International Investment.*

[16] For most large-volume organic chemicals and plastics the minimum economical plant size is continually getting larger. As a result, lower or stable prices tend to result in spite of rising costs of hourly wage rates.

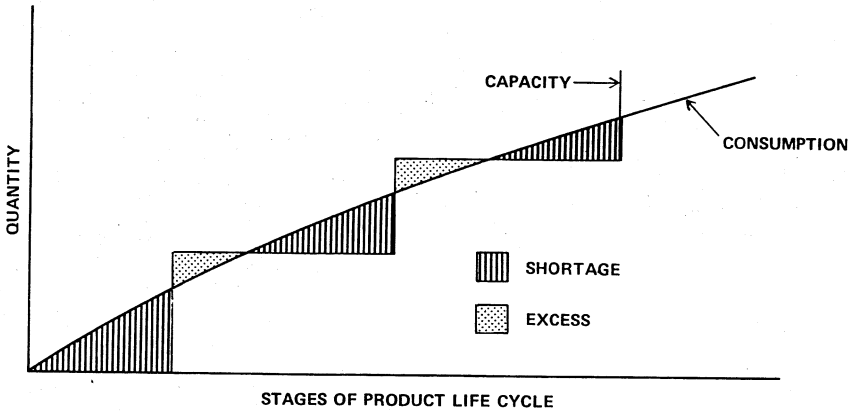

FIGURE 1: CAPACITY/CONSUMPTION RELATIONSHIP FOR ONE PRODUCT IN A FOREIGN COUNTRY

Another case is the large United States styrene monomer exports to the Netherlands. Exports of styrene monomer to the Netherlands were $13 million in 1966 and have averaged $11 million annually for the past three years. A very high tariff on styrene monomer could have resulted in a plant's being built in the Netherlands several years ago. Thus, this change in exports in one commodity to one country could amount to more than $10 million yearly for several years. If this is multiplied by a number of commodities and a number of countries, it is reasonable to believe that the estimate of increased United States exports of $130 million due to adoption of the ASP Package could be obtained by reductions in tariff levels.

Apparently, the fact that the United States exports mature products to countries already producing these products has not been widely recognized. As shown in Table 3, the overlooking of this source of export demand by United States companies was one of the factors which resulted, in some cases, in refusal to sell to export customers, allocation of supplies to domestic customers, and higher domestic prices.

TABLE 3.—EXAMPLES OF UNDERESTIMATION OF EXPORT MARKET BY UNITED STATES COMPANIES

I. METHANOL

Prediction

". . . by 1965 exports will probably plummet to about seven million gallons/year. Reasons: (1) foreign plants are being built; (2) mounting tariffs." (*Chemical Week*, July 1, 1961, p. 56.)

Fact

United States methanol exports were 29 billion gallons in 1965. Approximately seven million gallons went to countries that do not manufacture methanol; 22 million gallons went to countries that do manufacture methanol.

Tight supply conditions

"Methanol is now in critically short supply. Producers have de-bottlenecked plants and made incremental expansions, but still export business has to be turned down and domestic buyers are on allocation." (*Oil, Paint & Drug Reporter*, January 17, 1966, p. 31.)

II. STYRENE MONOMER

Prediction

"Most producers feel that 1959 will be the peak export year—but that after this year, monomer plants overseas will cut sharply into exports," (*Oil, Paint & Drug Reporter*, February 9, 1959, p. 45.)

Fact

Export quantity and value have been greater than 1959 in every year since then, and 1966 exports were over four times as large as those in 1959.

Tight supply conditions

"If the recent growth rate holds, shortages will exist in a few months, and obsolete capacity—now on standby—will be needed to fill the gap." "Styrene Monomer Prices will Be Hiked 1¢lb. Next month," *Chemical Week*, March 12, 1966, p.62.)

III. ACRYLONITRILE

Prediction

"Assuming an export market of 40 million pounds in 1965, 400 million pounds should be consumed. Should overseas units operate sooner, exports could shrink further." (*Oil, Paint and Drug Reporter*, December 31, 1962, p. 9.)

Fact

In 1965 exports exceeded 175 million pounds; in the United States over 700 million pounds of acrylonitrile were produced.

Tight supply conditions

"The United States acrylo supply has been tight for the past year primarily because of export demand." (*Chemical Week*, February 20, 1965, p. 23.)

C. Increase in United States imports

The effects of changes in levels of United States imports which would be caused by adoption of the ASP Package are of two types:

1. Those caused by changes in tariff levels.
2. Those caused by removal of uncertainty due to removal of ASP method of tariff valuation.

1. Result of lower tariffs

On most imports, the United States tariff duties for an imported article are calculated on the basis of wholesale price in an arm's-length transaction in the country of export—known in customs parlance as "export value." On imported benzenoid chemicals subject to the ASP method, however, a customs official must determine their price in the United States market and then assess their tariff on the basis of that price rather than on their "export value." [17] Benzenoids whose American Selling Price is much greater than their normal "export value" thus receive a higher degree of tariff protection than indicated by nominal tariff rates.

In eliminating the ASP basis of customs valuation it is not intended that the average duties collected would be either increased or decreased. The rates currently based on ASP would be changed to "converted rates" calculated by the United States Tariff Commission. These "converted rates," when applied to the imported value by the conventional method of tariff valuation, would yield a tariff revenue approximately equal to that realized by applying current United States rates to the ASP value. Rather than reducing TSUS rates by approximately 50% as was agreed in the first part of the Kennedy Round, the United States under the ASP Package would reduce these "converted rates" by approximately 50%; however, not all "converted rates" would be reduced approximately 50% because certain of the peaks and valleys of the tariff schedule would be smoothed by the application of flat rates to broad categories of items.

A detailed examination of rates which would be in effect as a result of the unconditional tariff cuts of the Kennedy Round [18] revealed that when the "converted rates" [19] are taken into account, there is no evidence of any systematic bias toward either higher or lower equivalent rates as a result of adoption of the ASP Package. Rather, it revealed that generally the tariff revenue which would be collected on individual items would not vary greatly as a result of adoption of the ASP Package. However, because of the leveling of peaks and valleys in the tariff schedule which would result, there are certain exceptions to this last statement. Dyes represent the major exceptions since a wide variety of rates on dyes would be standardized at 30% with adoption of the ASP Package, rather than ranging from 19% to 86% as presently agreed as part of the Kennedy Round.[20] A detailed examination of the dye categories revealed that because of the much larger quantity of imports at the lower duty levels, adoption of the ASP Package would result on the average in a slightly higher equivalent duty. Further details of this examination are presented in Appendix D.

Therefore, as a result of these comparisons, it is concluded that the main effect of the ASP Package on benzenoids would be to remove uncertainty in the valuation process rather than to change the levels of duties.

Seventy-nine non-benzenoid chemicals with current tariffs below 8% would have their tariffs reduced a further 30% (in addition to the Kennedy Round unconditional reductions of 20%); nine other non-beneznoid chemicals which will have tariffs greater than 50% after all of the Kennedy Round unconditional reductions are put into effect would be subject to further tariff reductions.

An estimate of the effect of these tariff reductions was made using the same tariff elasticities as used for the estimate of increase in United States exports. This estimate indicated that increased imports into the United States in 1972 as a result of adoption of the ASP Package would approximate $3 million because of lower tariffs. More details of this estimate are presented in Appendix D.

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[17] 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.

[18] Basic data from: Office of the Special Representative for Trade Negotiations, *Report on United States Negotiations,* Washington, D.C., Superintendent of Documents. Undated.

[19] The conventional rate calculated by U.S. Tariff Commission to result in same revenue that would result from ASP rate. (See T.C. Publication 181, *loc. cit.*)

[20] The 19% to 86% are converted ad valorem equivalents and therefore can be compared directly with the 30%.

2. Result of removal of uncertainty

The ASP system does not permit the United States importer to know at the time a contract for import to the United States is made whether the imported product will be subject to ASP, or what the ASP will be.

In order to estimate the effects of the removal of uncertainty on future imports, the level of benzenoid imports expected in 1972 with the ASP method of valuation still in effect is first estimated. Benzenoid imports have increased at an annual compounded rate of 15% between 1957–1959 [21] and 1966 (Table 4); however, most of this increase occurred in 1965–66 when shortages of capacity in the United States resulted in increased imports. For example, part of the major increase in imports of benzenoid intermediates was due to imports of chemicals such as phenol, phthalic anhydride, and styrene monomer, as shown in Table 5. Therefore, it is believed that the annual growth rate of 9% experienced between 1957–1959 and 1964 is a more reasonable one to expect in the long run. Projection of United States benzenoid imports to 1972 with a 9% growth rate results in estimated benzenoid imports of $150 million in 1972. However, the use of a 15% growth rate would not change the basic conclusions of this study; and the results of such an estimate are shown in Appendix D.

Table 4.—U.S. imports of benzenoids, 1957–1966

Year:	*Millions*
1957	$24.0
1958	26.5
1959	36.0
1960	33.2
1961	38.3
1962	39.1
1963	43.6
1964	49.1
1965	64.9
1966	88.1

Source: United States Tariff Commission, *Imports of Benzenoid Chemicals and Products* (annual reports).

The next step is to determine the effect of the Kennedy Round unconditional tariff cuts on this level of trade flow. The same method and the same tariff elasticities used to estimate changes in United States exports are used for this estimate. The result of this estimate is an estimated increase in imports of $80 million, or an estimated total of $230 million.

TABLE 5.—EXAMPLES OF INCREASED U.S. IMPORTS AS A RESULT OF CAPACITY SHORTAGES IN THE UNITED STATES

INCREASED U.S. IMPORTS

[U.S. imports in thousands of pounds [1]]

Product	1964	1965	1966
Phenol	0	4	8,633
Phthalic anhydride	0	0	4,598
Styrene monomer	0	0	8,544

[1] U.S. Tariff Commission, Imports of Benzenoid Chemicals and Products.

CAPACITY SHORTAGES IN UNITED STATES

1. Phenol

One news article states that prices are being increased by elimination of all discounts from list, and that "Phenol's supply bind has been felt in the industry since the turn of the year, but was aggravated by a fire that ravaged the cumene plant of Gulf Oil Corporation at Philadelphia late in May." ("Phenol Shopping Soon To Require Additional Cash," *Oil, Paint & Drug Reporter*, June 20, 1966, p. 5, 62.)

[21] These years were chosen because they are used as base years in the latest edition of the United States Tariff Commission report on *Synthetic Organic Chemicals, United States Production and Sales*. Use of other 3-year bases would not invalidate the basic conclusions reached in this study.

2. Phthalic anhydride

"Plants are operating at capacity, customers are on allocation and some resellers are making spot sales at twice the posted price of 11¢/lb., flake, delivered." ("Phthalic: Shortages to Persist," *Chemical Week*, August 20, 1966, p. 77.)

3. Styrene monomer

"If the recent growth rate holds, shortages will exist in a few months, and obsolete capacity—now on standby—will be needed to fill the gap." ("Styrene Monomer Prices Will Be Hiked 1¢/lb. Next Month," *Chemical Week*, March 12, 1966, p. 62.)

(Details of this calculation plus an indication of the effects of variation in various values is shown in Appendix D.) Slightly more than 50% of these are expected to be in noncompetitive imports; such imports are not made by a United States manufacturer and therefore are not subject to as much uncertainty in the valuation process. Thus, one is faced with estimating the effects of the removal of "slight" uncertainty on approximately $120 million of imports and the removal of "higher" uncertainty on approximately $110 million of imports. I know of no empirical study which could be used as a guide in arriving at such an estimate. However, my best estimate would be an increase of 5% on the removal of "slight" uncertainty and 10% on the removal of "higher" uncertainty. Thus, an increase in imports is estimated as follows:

	Millions
Noncompetitive imports:	
5% × $120 million	$6
Competitive imports:	
10% × $110 million	11
Total	17

This $17 million, combined with the previous estimate of a $3 million increase in non-benzenoids due to tariff changes, results in an estimated total increase in United States chemical imports of $20 million in 1972 due to adoption of the ASP Package.

In order to determine a probable range for this value, subjective estimates were made of the effects of variation in key variables. Over 70% of resulting estimates lie between $7 million and $33 million. Therefore, it seems reasonable to conclude that United States chemical imports will increase by $7–$33 million if the ASP Package is adopted, with a best estimate being $20 million. Additional details are presented in Appendix D.

D. Conclusion

Adoption of the ASP Package would increase in 1972 United States chemical exports by approximately $130 million and United States chemical imports by about $20 million, giving the United States a net trade surplus of $110 million. Expressing it another way, the ratio of increased exports to increased imports would be expected to be about 6.5 to 1.

If the highest estimate of increased United States exports—$160 million—were combined with the lowest estimate of increased United States imports—$7 million—the net trade balance would be an estimated $153 million, and the ratio of increased exports to increased imports as a result of adoption of the ASP Package would be 22 to 1.

On the other hand, if the lowest estimate of increased United States exports—$100 million—were combined with the highest estimate of increased United States imports—$33 million—the net trade balance would be an estimated $67 million, and the ratio of increased exports to increased imports as a result of adoption of the ASP Package would be 3 to 1.

Therefore, under any set of reasonable assumptions increased United States chemical exports would be substantially greater than increased United States chemical imports as a result of the adoption of the ASP Package.

IV. OTHER EFFECTS OF THE ADOPTION OF THE ASP PACKAGE

A. Expected growth in United States benzenoid industry

Regardless of whether the ASP Package is approved all segments of the benzenoid industry in the United States are expected to continue absolute growth (Table 6); although the average growth for all categories of benzenoids is expected to be 45% between 1965 and 1972, a substantially different growth

rate would not change this conclusion. The total imports of benzenoids into the United States predicted for 1972 are equal to 2.7% of the U.S. benzenoid production predicted for 1972 (Table 7). The share of these imports estimated to be a result of adoption of the ASP Package would be equal to 0.2% of total U.S. production of benzenoids ($17 million compared with $9,000 million). In turn, sales of benzenoid chemicals account for about 9% of total sales of the United States chemical industry.[1]

Imports will be equal to a higher percentage of total U.S. production in the dye category than in other categories. It is estimated that dye imports into the U.S. will be equal to 17% of U.S. dye production in 1972. However, because of growth in U.S. dye consumption, it is estimated that the total value of U.S. dye production in 1972 will be about 44% higher than in 1965 (the latest year for which the U.S. Tariff Commission report, *Synthetic Organic Chemicals, United States Production and Sales*, is available).

B. Expected comparative manufacturing costs, United States versus Europe

1. Dyes

Dyes were selected for this examination because of the concern expressed by many in the United States about foreign competition in the dye product category and because it is estimated that dye imports would be a higher percentage of United States production than would be the case in other benzenoid product categories.

Table 8 shows estimated United States costs for dye manufacture versus estimated German costs. Germany was selected for this cost comparison because it is the world's largest exporter of dyes. These data are based on average costs for the dye category as a whole. Costs of individual dyes vary widely from this average; however, as discussed below, this cost comparison tends to understate rather than overstate foreign costs. The comparison is made on the basis of equal plant capacity and output.

TABLE 6.—ESTIMATED INCREASE IN VALUE OF BENZENOID PRODUCTION, 1965–72

(1)	(2)	(3)	(4)	(5)	
Category	Value of 1965 sales[1] (million)	Estimated value of 1965 production[2] (million)	Estimated value of 1972 production[3] (million)	Increase in value of production 1965–72 after Kennedy round and ASP package (col. 4—col. 3)	
				(Million)	(Percentage)
Intermediates	$955	$2,220	$3,300	$1,100	50
Dyes	292	320	460	140	44
Pigments	94	120	190	70	58
Medicinals and pharmaceuticals	224	310	440	130	42
Flavors and perfumes	57	70	100	30	43
Other products[4]	1,726	3,180	4,510	1,330	42
Total	3,348	6,200	9,000	2,800	45

[1] Based on U.S. Tariff Commission, Synthetic Organic Chemicals, U.S. Production and Sales, 1965. Minor adjustments were made to attempt to insure comparability with import statistics reported by the U.S. Tariff Commission in Imports of Benzenoid Chemicals and Products; e.g., rubber processing chemicals were included in Intermediates in the above table rather than in Other Products. Elastomers, not subject to ASP valuation method, were not included.

[2] Estimated by author using average sales value reported by U.S. Tariff Commission, Synthetic Organic Chemicals, U.S. Production and Sales for total sales as the average unit value of total production. The difference between production and sales primarily represents production consumed by the producing company rather than sold (this is commonly referred to as "captive production").

[3] Estimated by author by methods presented in author's "Chemical Marketing Research," loc. cit., primarily by projecting past growth rates for individual categories into the future and adjusting for estimated changes in U.S. exports and imports. As the expected changes in exports and imports are relatively small compared with expected growth in consumption, the percentage growth in production is expected to be very close to that of consumption.

[4] Other Products contain data for plastics and resins, plasticizers, surface-active agents, pesticides, and other organic agricultural chemicals, and miscellaneous. This is the grouping used in U.S. Tariff Commission, Imports of Benzenoid Chemicals and Products.

[1] For the total U.S. chemical industry, only a "value of total sales" rather than "value of total production" figure is available. Hence, this estimate was made on basis of a sales comparison rather than production. Value of benzenoid sales obtained from Table 6. Value of total United States chemical industry sales obtained from Organization for Economic Cooperation and Development, *The Chemical Industry, 1965–1966*, Paris, 1967.

TABLE 7.—U.S. BENZENOID CHEMICALS: ESTIMATED IMPORTS AS A PERCENTAGE OF ESTIMATED PRODUCTION 1972

[Dollar amounts in millions]

Category	Value of 1966 imports [1]	Estimated value of 1972 U.S. imports if ASP package is adopted [2]	Estimated value of 1972 U.S. production [3]	Col. 3 as percentage of col. 4
(1)	(2)	(3)	(4)	(5)
Intermediates	$31.2	$85	$3,300	2.6
Dyes	25.8	80	460	17.4
Pigments	1.7	7	190	3.7
Medicinals and pharmaceuticals	10.9	15	440	3.4
Flavors and perfumes	4.0	13	100	13.0
Other products	14.4	47	4,510	1.0
Total	[4] 88.1	[5] 247	9,000	2.7

[1] From U.S. Tariff Commission, Imports of Benzenoid Chemicals and Products, 1966.
[2] Estimated by author by methods presented in author's "Chemical Marketing Research," loc. cit., primarily by projecting past growth rates for individual categories into the future and adjusting for estimated effects of Kennedy round including adoption of ASP package.
[3] From table 6.
[4] Individual numbers in column do not total $88,100,000 because of rounding.
[5] As discussed in app. D, this total is estimated to be $150,000,000 without the effects of the Kennedy round and $230,000,000 with the Kennedy round unconditional cuts but without the ASP package.

TABLE 8.—UNITED STATES VS. GERMAN COSTS OF DYE MANUFACTURE AFTER ASP APPROVAL

	United States	Federal Republic of Germany
Raw materials	50	40
Production workers	11	6
Other employees	6	4
Other expenses	33	33
Total	100	83
30-percent tariff		25
5-percent freight		4
Total cost in United States	100	112

Note: All figures based on 100 percent of total U.S. costs, assuming ASP package is approved.

The estimate for the United States is based on data from the latest manufacturing census in the United States (1963). The estimated costs in Germany were obtained as follows:

1. Raw materials: These costs were estimated to be 80% of the United States costs. This assumes the importation by the United States of German raw material, the payment of a 20% United States tariff on this raw material and the payment of 5% freight for the shipment of the material from Germany to the United States. Hence, if the raw material sells for 100 in Germany then it would cost the U.S. dye manufacturer 100+20+5=125. Therefore, the price in Germany would be 100/125 or 80% of the price paid by a U.S. dye manufacturer. This represents the maximum possible difference between raw material prices in Germany compared with the United States; as many raw materials are available in the United States at prices as low as those in Germany, this comparison understates average foreign costs in relation to United States costs.

2. Production workers: The ratio of German to United States hourly wages was obtained from data prepared by the Manufacturing Chemists' Association (of the United States) and presented in Table 9.

Table 9.—Hourly wage rates for chemical industries of selected countries, 1965

[All figures in dollars per hour]

Country:	
United States	2.89
United Kingdom	1.28
Germany, Fed. Rep	1.09
France	0.84
Italy	0.67
Japan	0.65

NOTE.—These data overstate the percentage differences between the United States and foreign costs by not including fringe benefits, which are usually a higher percentage abroad than in the United States. However, they are used in this study in order to present the least favorable comparison for United States plants.

Source: Compiled by Manufacturing Chemists' Association from various sources and reported in Appendix 4 of "MCA Position on the Kennedy Round Agreements, the Supplemental Agreement Relating Principally to Chemicals, and Proposed Trade Policy Legislation." The MCA statement reported some 1966 hourly wage rates, but 1965 was latest year for which hourly wage rates were reported for all of above-listed countries.

These data tend to understate average foreign costs in relation to United States costs because they do not contain an estimate of the fringe benefits, which are a higher percentage of base wages in Germany than in the United States. However, these Manufacturing Chemists Association figures are used in order to present the least favorable comparison for the United States plants.

It is necessary to correct the average wage rates for differences in productivity. Productivity estimates made on the basis of average output per employee indicate that U.S. productivity per employee is several times higher than that of Germany. For example, OECD data for 1964 indicate an apparent productivity of German chemical industry workers of 36% of the U.S. chemical workers.[2] However, such comparisons are based on existing operations in both countries and do not consider equivalent productivity for equivalent plants, including size and instrumentation. Therefore, such figures are not realistic when comparing U.S. and German dye-manufacturing facilities, as it is believed that the German scale of operation and equipment compare favorably with those in the United States. Hence, it is desirable to use an estimate of productivity based on comparable facilities. Though no thorough study of the subject seems to exist, the best estimates available of productivity in comparable chemical plants in various countries are shown in Table 10. On the basis of data in this table, German productivity was taken as 75% of U.S. The use of the 75% figure rather than the 36% figure results in a lower estimate of foreign costs in comparison with United States costs.

3. Other employees: The ratio of German to United States average monthly costs, including fringe benefits, of professional and technical personnel in the chemical industry was calculated from the Kastens citation in Table 10. No estimate is available for differences in productivity of "other employees," but this cost is so small compared with overall costs that any necessary correction would not change the conclusions of this study.

4. Other expenses: There is some question whether the costs of comparable plants are higher or lower in the U.S. than abroad. Several references indicate that construction costs are about 10% less in Germany than in the United States;[3] however, in November 1967 the president of a major U.S. engineering and construction company stated that U.S. construction costs were lower because of the very high productivity of U.S. labor.[4] Interest costs and utility costs are less in the United States than in Germany. Although there seems to be some basis for estimating that this cost category—"other expenses"—would be lower for the U.S. than for Germany, it is believed that for the purposes of this study that it is satisfactory to assume U.S. and German costs are equal.

A U.S. tariff of 30% on all dyes is proposed as part of the ASP Package. The above analysis indicates that on the average for the same sized plant a tariff

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[2] Calculated by the author from Organization for Economic Co-operation and Development, *op. cit.*, pp. 5 and 7 of Supplement.

[3] See my "Engineering Overseas Projects," *Hydrocarbon Processing*, Vol. 42 (June 1963), p. 8; and Arthur D. Little, Inc., *Revised Data on the Chemical Industry in the United States, Europe and Japan* (May 1965), p. 8.

[4] Charles C. Bonin, President of Chemical Construction Corporation, in an address to the Chemical Marketing Research Association, Philadelphia, November 9, 1967 (see *Chemical and Engineering News*, November 20, 1967, p. 34).

TABLE 10.—A COMPARISON OF ESTIMATES OF RELATIVE PRODUCTIVITY OF UNITED STATES AND FOREIGN CHEMICAL WORKERS FOR SIMILAR PLANTS

SOURCE OF YEARLY STUDY

	Kastens [1] (Union Carbide) 1962	Grosselfinger [2] (Hoechst-Uhde) 1962	Arthur D. Little,[3] 1962	I.C.I.,[4] 1966	United Kingdom,[5] 1967
United States	100	100	100	100	100
United Kingdom	50	65	75	67	60
Germany	55	75	75	----------	----------
France	50	65	75	----------	----------
Italy	40	75	75	----------	----------
Japan	30	65	50	----------	----------

[1] Productivity Factor Critical, summary of paper by M. C. Kastens reported in Chemical Engineering Progress, February 1962, p. 22.

[2] Capital Costs versus Sales Price, summary of paper by F. B. Grosselfinger reported in Chemical Engineering Progress, op. cit., p. 24.

[3] Arthur D. Little, Inc. The Impact of Proposed U.S. Tariff Changes on Organic Chemical Imports, May 1962; revised data in May 1965 did not indicate any change in relative productivity.

[4] Imperial Chemical Industries Ltd., Productivity Studies—Visits to Canada and the United States. May/June 1966, p. 1. I.C.I.'s estimates indicate that after allowing for the effects of the larger American markets, the larger size of individual orders for products, and the use of contractors, efficiency in the use of manpower in the North American chemical companies was about 1½ times I.C.I.'s in the United Kingdom.

[5] Author's calculation based on statements in National Economic Development Office, Manpower in the Chemical Industries, London. Her Majesty's Stationary Office, 1967, p. 4. Statements indicate American output per head in the chemical industry is perhaps 3 times the corresponding figure for Britain, but scale of operations appeared to account for ⅔ of this difference. Thus, difference accounted for by factors other than scale of operations=⅓ (3-1)=⅔; hence, apparent relative productivity is 1⅔ more in United States than in United Kingdom, or 60 percent as much in United Kingdom as in United States. This study gave the list of products studied and such products included both batch and continuous processes. The study found that "it was in the labor intensive processes involving considerable amounts of material handling that the Americans appeared to achieve their greatest manpower saving" (p. 14).

of 30% provides sufficient protection to enable a United States dye manufacturer to compete cost-wise with imported dyes.

However, because all operations are not "average," the United States imported $26 million of dyes in 1966, compared with $350 million of U.S. dye production and $25 million of U.S. dye exports.[6] About ⅔ of the value of total dye imports were of "non-competitive" dyes, i.e., they did not compete with dyes made in the United States. It is believed that many of these "non-competitive" imports were based on superiority in technology or "know-how" rather than on differences in hourly wage rates. There is evidence to support the contention that the foreign dye industry enjoys a relatively stronger technological position than do foreign companies in other segments of the chemical industry.

First, in the chemical industry direct investment is often a result of technical know-how owned by the investor,[6] and investment by foreign chemical companies in the United States is much higher in dye manufacturing than in other areas.[7] Second, in the fast-growing area of fiber-reactive dyes, production in the United States is dominated by ICI (British), Toms River Chemical (Swiss), and American Hoechst (German). Of the 75 individual dyes and categories of dyes listed as being fiber-reactive in the latest Tariff Commission Report (1965), only eight were produced by American-owned companies. Production of fiber-reactive dyes has grown at the rate of 40% yearly since 1960 as opposed to a 6% growth rate for the production of all dyes.[8] The weight of this evidence suggests that the European competitive strength in dye manufacture is based on research and development rather than on low labor cost.

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[6] Production value estimated from United States Tariff Commission, *Synthetic Organic Chemicals, United States Production and Sales;* imports from Table 7; exports from Bureau of Census, *U.S. Exports, Commodity by Country, FT 410.*

[6] Also, Gruber, Mehta, and Vernon, *op. cit.*, pp. 30–31, discuss and present data on the point that the U.S. investment level abroad is higher in the research-oriented industries than in other industries.

[7] Approximately 40% to 50% of foreign investments in the U.S. chemical industry is owned by Swiss companies (Jules Backman, *Foreign Competition in Chemicals and Allied Products,* Washington: Manufacturing Chemists' Association, Inc., 1965). Much of this investment, along with much of the British and German chemical investments in the United States, is in dye manufacturing facilities.

[8] Fiber-reactive production up from 291,000 pounds to 1,586,000 pounds; total dye production up from 155,896,000 pounds to 207,193,000 pounds. However, because of higher unit values, fiber-reactive dyes accounted for 2.3% of total dye sales in 1965 ($6,744,000 out of $292,294,000).

2. Products other than dyes

Turning to categories of chemicals other than dyes, it appears that the U.S. manufacturer is relatively stronger vis-a-vis foreign competition for several reasons:

1. The larger U.S. market represents a relative advantage for U.S. manufacturers of chemicals produced in large-scale, continuous processing equipment. In dye manufacture a number of dyes usually are produced in one set of equipment; one batch of dye A is made and then later the same equipment is used to make a batch of dye B. There are some economies in making longer production runs of more batches of a given dye at a time and some economies in purchasing larger volumes of raw materials. Still these economies are small compared with the labor and capital saved by the manufacturer of a large-volume chemical such as styrene monomer when he erects a larger plant for increased output.

2. The wages of production workers as a percentage of total value added by manufacture are slightly less for most other chemical product categories than for dyes (Table 11), although this difference by itself would not have an important impact because of the relatively small differences.

TABLE 11.—SELECTED MANUFACTURING STATISTICS FOR BENZENOID AND CERTAIN OTHER CHEMICALS

SIC No.	Description	Wages of production workers (millions)	Value added by manufacture (millions)	Wages of production workers as a percentage of value added by manufacture
2812	Alkalies and chlorine	$88.0	$389.0	22.6
2813	Industrial gases	33.0	260.0	12.7
2814	Cyclic (coal-tar) crudes	8.6	35.1	24.5
2816	Inorganic pigments	50.0	286.0	17.5
2818	Organic chemicals (other)[1]	450.0	2,727.0	14.9
2819	Inorganic chemicals (other)	352.0	1,903.0	18.5
2821	Plastics materials[1]	264.0	1,202.0	22.0
2815	Intermediate coal-tar products[1]	116.0	570.0	20.4
28151	Cyclic intermediates[1 2]			17.8
28152	Synthetic organic dyes[1 2]			23.8
28153	Synthetic organic pigments[1 2]			24.1

[1] Denotes that benzenoids subject to ASP are included in important quantities in these categories; in some cases, nonbenzenoids are also included.

[2] Usually considered by U.S. companies to be the chemical area most susceptible to import competition because of low foreign wages.

Note: The above list includes all categories in SIC 281 (Basic Chemicals); additionally, plastics materials (SIC 2821) were included with the comparison because the United States is especially competitive internationally in the plastics area (e.g., net trade balance in 1966 in plastic materials—SITC 581—was $413 million).

3. The United States tariff for many of these other chemical products is higher than it appears to be because of the existence of specific duties plus an ad valorem. For example, the United States and EEC tariffs on two chemicals previously mentioned would be as follows if the ASP Package is approved:

	United States [9]		EEC (percent)
	Stated rate	Ad valorem equivalent (percent)	
Styrene monomer	1.4 cents per pound plus 8 percent	25	4
Synthetic phenol	1.5 cents per pound plus 12 percent	27	2

[9] The unit prices used to calculate the U.S. ad valorem equivalent are: Styrene monomer, 8 cents per pound; and phenol 10 cents per pound.

In conclusion, the proposed 30% tariff on dyes seems to be higher on the average than the difference in manufacturing costs between United States and Germany. United States manufacturers of many of the other chemicals, especially those made in larger volumes than dyes, are in a stronger competitive position than are dye manufacturers with respect to foreign competition.

C. Adjustment ability of the United States chemical companies

If the ASP Package is adopted, then the future growth in productive capacity of those products in which United States manufacturers are especially competitive will be increased because of additional exports; on the other hand, growth in an area such as dyes will be slower than would otherwise be the case.

The adjustment of the utilization of resources to cope with such a change in future investment patterns should be relatively easy for the chemical industry. First, the industry is constantly shifting resources into new products. Second, the industry has many trained personnel, such as members of the Chemical Marketing Research Association and the Commercial Chemical Development Association, who specialize in searching for new product opportunities. Third, most of the output of United States dyes and other benzenoids are made by companies that produce many other products. Many of these other products are made at the same plant site as are dyes and other benzenoids.

This ability of rapid adjustment should enbale the United States chemical companies to adjust to any export opportunities opened up by the adoption of the ASP Package.

D. Retention by Congress of the power to determine tariff levels

Traditionally, the power to set tariff levels has rested with Congress. However, for practical purposes in the case of products protected by the ASP method of valuation, the power to set tariffs rests with the United States producers. The reason for this is that once a tariff level is set by Congress, the effective tariff rate is raised any time United States producers increase prices on the product. As a result, the effective tariff is increased without any reference back to Congress.

The protection of the United States consumer by the setting of effective tariffs by Congress is especially important in the dye product category because of the relatively low level of competition as shown below.[10]

Number of producers in the United States	Individual dyes made by number of producers shown at left	
	Number	Percentage of total
1	646	50
2	214	17
3	125	10
4	105	8
5 or more	196	15
Total	1,286	100

Thus, 50% of the individual dyes made in the United States are made by only one United States producer, while 85% of the individual dyes are made by four or less producers. Data indicating the total production or total sales of individual dyes made by any specified number of producers are not available. However, about 45% of the total U.S. sales value of dyes appeared in the "all other" categories of the 1965 United States Tariff Commission Report on *Synthetic Organic Chemicals Production and Sales*, and most if not all of these sales were of dyes made by three or less producers.

E. Conclusions

These conclusions are in addition to those presented in Section III D. Continued growth is expected in all segments of the United States benzenoid industry regardless of whether the ASP Package is approved. The United States chemical industry is expected to be able to take advantage of the export opportunities opened up by the adoption of the ASP Package.

Under the ASP method of valuation, United States producers can raise the effective tariffs without Congressional approval by raising domestic prices. Adoption of the ASP Package would enable Congress to retain the power to determine tariff levels.

[10] United States Tariff Commission, *Synthetic Organic Chemicals, United States Production and Sales*, 1965.

APPENDIX A

DETAILS OF THE KENNEDY ROUND AND ASP PACKAGE

I. THE KENNEDY ROUND PACKAGE

Unconditional obligations undertaken in the Kennedy Round are as follows:

1. *The United States* agreed to duty reductions on products accounting for nearly all (95 per cent) of United States dutiable chemical imports. Tariffs will be reduced 50 per cent on most items with rates above 8 per cent; 20 per cent on items 8 per cent and below. The United States retains the ASP method of valuation for benzenoid chemicals (the ASP method of valuation is explained below).

2. *The European Economic Community* agreed to duty reductions on traiff items accounting for 98 per cent of its dutiable chemical imports from the United States. Most duties will be reduced by 20 per cent. Certain items, however, will be subject to reductions of 30 per cent and 35 per cent, while some others will be reduced less than 20 per cent.

3. *The United Kingdom* agreed to duty reductions on virtually all chemical imports from the United States except certain plastics. Most British plastics duties are currently 10 per cent, a level considerably lower than other major trading countries. The United Kingdom has agreed to reduce tariffs at rates of 25 per cent and above by 30 per cent, and rates below 25 per cent by 20 per cent.

4. *Other participants* agreed to reductions in their chemical tariffs as part of their Kennedy Round concessions.

II. THE ASP PACKAGE

The following concessions are contingent on United States elimination of the ASP valuation system:

1. *The United States* would eliminate ASP and replace rates currently based on ASP with rates that have been proposed by the Tariff Commission to be applied on the valuation as normally calculated for other United States imports and yielding the same revenue as the previous rates. These "converted" rates would be reduced, by stages, generally by 50 per cent or to an ad valorem equivalent of 20 per cent, whichever is lower, (except that in some cases the retainment of "specific components" will result in total tariffs substantially higher than 20 per cent). The principal exceptions of this formula are dyes, pigments and sulfa drugs, duties on which would be reduced to 30 per cent for dyes and pigments and 25 per cent for sulfa drugs. In addition, the United States would reduce the 8 per cent and below rates subject to the 20 per cent cut in the Kennedy Round unconditional package by a further 30 per cent and further reduce by more than 50 per cent a few other items to the 20 per cent level.

2. *The European Economic Community* would reduce its chemical tariffs by an additional amount so as to achieve a combined Kennedy Round-ASP Package reduction of 46 per cent on chemical imports from the United States. Virtually all EEC chemical tariffs would be at rates of 12½ per cent or below. (Belgium, France, and Italy would also modify road-use taxes so as to eliminate discrimination against American-made automobiles.)

3. *The United Kingdom* would reduce most of its chemical tariffs according to the following formula: Items at present dutiable at 25 per cent and above would be reduced to a level of 12½ per cent, for a 62 per cent combined Kennedy Round and ASP Package reduction. Tariff items with duties of less than 25 per cent would generally be reduced by the amount necessary to achieve a combined reduction of 50 per cent in the two packages. U.K. plastics tariffs which would be above the reduced EEC rate on the same item would be cut to that level and bound. The combined weighted average reduction in the level of British chemical tariffs on United States trade would be approximately 47 per cent on chemical imports from the U.S. After these reductions virtually all British chemical tariffs would be at rates of 12½ per cent or below. (The United Kingdom would also reduce by 25 per cent its margin of preference on imports of tobacco.)

III. THE ASP METHOD OF VALUATION

Most imports in the United States are subject to what is called an ad valorem rate of duty. Such a rate is expressed as a percentage of the value of an imported article (e.g., 10% ad valorem). In almost all cases, the ad valorem rate

of duty is applied to the wholesale price in an arm's-length transaction in the country of export—known in customs parlance as export value.

This is not the case, however, with respect to four, but only four, categories of products—benzenoid chemicals, rubber-soled footwear, and certain canned clams and wool-knit gloves. If any of these products are imported into the United States and found by the Bureau of Customs to be competitive with a domestic product, then the ad valorem rate of duty is applied to the wholesale price of the competitive domestic product—the American selling price.

Under the ASP method of valuation, the rate of duty for a particular imported article is applied to a price for a domestically produced product like or similar to, or competitive with, the imported article, irrespective of the value of the imported article. For imported benzenoid chemicals, if there is no competitive domestic product, the imported article is dutiable on the basis of United States value; United States value is the wholesale market price in the United States of prototype products imported previously, less import duty and certain other costs and allowances. If there is no United States value, the import article is appraised according to the conventional method of valuation.

IV. GENERAL DESCRIPTION OF BENZENOID CHEMICALS

The chemicals subject to ASP provisions are certain "cyclic organic chemicals having a benzenoid, quinoid, or modified benzenoid structure," as well as certain acyclic chemicals "which are obtained, derived, or manufactured in whole or in part from . . . cyclic products having a benzenoid, quinoid, or modified benzenoid structure." These chemicals are commonly referred to as benzenoid chemicals and are either characterized by a molecular structure having one or more six-membered rings or are derived from a product having such a structure. Benzenoid chemical crudes, benzenoid elastomers, and most benzenoid chemicals produced from naturally occurring animal or vegetable products are not subject to the ASP provisions.

Sources: Details of the Kennedy Round agreements are contained in *Agreement Relating Principally to Chemicals, Supplementary to the Geneva (1967) Protocol to the General Agreement on Tariffs and Trade,* Geneva, 30 June, 1967. The summary presented above under Sections I and II is based on the press release of June 29, 1967, by the Office of Special Representative for Trade Negotiations, Washington, D.C. 20506. Information on the ASP method of valuation and the general description of benzenoid chemicals was obtained from United States Tariff Commission, *Products Subject to Outy 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.

APPENDIX B

DETAILS OF ESTIMATE OF EFFECT OF ASP PACKAGE ON U.S. EXPORTS

The method used to estimate the effect of the adoption of the "ASP Package" on United States exports is:

(1) United States exports to EEC and United Kingdom are projected to 1972, first without allowing for any tariff cuts;

(2) An estimate of increased exports due to the Kennedy Round unconditional tariff cuts is made;

(3) An estimate of the effect of tariff cuts due to adoption of the ASP Package is made; and

(4) An estimate of the effect of variations in key variables is presented.

These estimates are based on the assumption that there will be continued growth in world trade and reasonably stable price levels in the U.S. such as existed during the past ten years.

I. PROJECTIONS OF EXPORTS TO 1972

Data on United States chemical exports to the EEC and United Kingdom for the past 10 years are presented in Table 1. United States chemical exports to the EEC and United Kingdom have grown at an average yearly rate of 12.2% during this period (taking 1957–1959 as a three-year base as is done in latest United States Tariff Commission report on *Synthetic Organic Chemicals, United States Production and Sales*). A continuation of this growth rate between 1966 and 1972 would result in total chemical exports to EEC/UK in 1972 of $1.5 billion.

During 1965–66, the growth in U.S. exports to the EEC/UK slowed because of a tight capacity/demand relationship in chemicals in the United States.[1] However, it is believed that this condition is not representatve of long-run trends and that the increase in United States chemical exports to the EEC/UK of 7.4% in 1966 over 1965 probably is lower than should be expected between 1966 and 1972. Still, if this 7.4% growth rate is used in order to project exports to 1972, this resulting estimate of $1.2 billion might represent a reasonable estimate for the probable "low." However, in this study in order to use a conservative estimate of United States export growth, this $1.2 billion is used as the "best estimate" of United States exports to the EEC/UK in 1972.

In some years United States exports to the EEC/UK increased as much as 30% (e.g., 1964 versus 1963), but this is too high a figure to use in order to make a reasonable estimate for a probable "high." If the $1.2 billion is used as the "best estimate," then it seems reasonable to use as a "high estimate" the $1.5 billion previously calculated for the 12.2% growth rate. In order to have a $300 million difference on either side of the "best estimate," a figure of $900 million—equivalent to a growth rate of 2.7%—is used for the "low estimate." The important point about these estimates is that they are made only to enable the estimation of the effect of the ASP Package, and as is shown later, a variation of $600 million in the estimated level of U.S. exports does not affect the major conclusions of this study.

Various methods of estimating future market demand for chemicals are shown in my article on chemical marketing research.[2] For a category of chemicals comprising thousands of individual items, the projection of past trends is a reasonable and commonly-used method. The dangers involved in projecting past growth rates into the future are discussed in this article. An especially significant danger is that the projected growth will become too large in comparison with either the production capabilities of the exporting country or the market requirements of the importing country. However, in this analysis this danger does not seem to be very real because it is estimated that the total United States exports to he EEC/UK in 1972 will be less than 3% of either United States chemical production or the combined EEC/UK chemical consumption in 1972 (exports less than $1.5 billion compared with $50 billion for United States chemical production or the combined EEC/UK chemical consumption).

An alternate method of estimating United States exports is to relate growth in United States exports to growth in the EEC/UK market. However, with this approach, two estimates must be made: (1) the relationship between growth in United States exports and growth in the EEC/UK market; and (2) the growth in the EEC/UK market. For the analysis in this report, if it is assumed that conditions and relationships existing in the period 1957–1966 are representative of conditions and relationships that will exist between 1966 and 1972, then the various methods would result in approximately the same estimate of United States exports in 1972. Hence, the simpler method of using a conservative estimate of a past trend line is believed to be quite satisfactory.

II. ESTIMATE OF THE EFFECTS OF KENNEDY ROUND UNCONDITIONAL TARIFF REDUCTIONS

The next step is to determine the effects of the Kennedy Round unconditional tariff cuts on the expected export flow of $1.2 billion from the United States to the EEC/UK in 1972. Because of the large number of individual chemical commodities in question, some of which are not yet in existence but which will be by 1972, it is necessary to estimate the effect of tariff cuts on an aggregate basis. Detailed studies have been made showing the effect of tariff cuts on aggregated groups of products.

A review of these studies reveals that a tariff decrease equivalent to 1% of the combined value of the goods and tariff results in an increase in trade flow in chemicals of about 2.5–5%. For this study an estimate of 3.5% is used for

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[1] The tight capacity/consumption relationship in the United States is discussed in more detail in Chapter III of this report.

[2] Robert B. Stobaugh, Jr. "Chemical Marketing Research," *Chemical Engineering* (November 22, 1965) pp. 153–160.

1972, with a "high estimate" of 4.5% and a "low estimate" of 2.5% (these figures are referred to as "tariff elasticities").[3]

The tariff elasticity studies are based on changes in tariff levels weighted by trade flows. Hence, for the analysis which follows the changes in EEC/UK tariffs are based on an estimate of such tariffs weighted by United States exports to the EEC/UK. The applicable EEC/UK tariffs on chemicals without taking into account any Kennedy Round reductions are estimated to be 14.3% (on the basis of tariffs weighted by United States exports to the EEC/UK).[4]

These average EEC/UK tariffs are being reduced by approximately 21% (of 14.3%) by the Kennedy Round unconditional tariff cuts and by an additional 25% (of 14.3%) conditional on the ASP Package. Thus, the average tariff levels will be 14.3× (1.00—0.21) or 11.3% after the Kennedy Round unconditional tariff reductions and 14.3× (1.00—0.21—0.25) or 7.7% if the ASP Package is adopted.

Therefore, United States chemical exports to the EEC/UK are calculated to increase as follows as a result of the Kennedy Round unconditional tariff reductions:

Tariff elasticity		Percentage change in combined value of goods & tariff		Estimated value of exports without tariff cuts	=	Estimated increased exports
3.5	×	$\frac{14.3-11.3}{114.3}$	×	$1.2 billion	=	$110 million

If the ASP Package is adopted then the increase in U.S. chemical exports to the EEC/UK as a result of the combined Kennedy Round and ASP Package tariff reductions are calculated as follows:

Tariff elasticity		Percentage change in combined value of goods & tariff		Estimated value of exports without tariff cuts	=	Estimated increased exports
3.5	×	$\frac{14.3-7.7}{114.3}$	×	$1.2 billion	=	$242 million

Therefore, the incremental increase in United States chemical exports to the EEC/UK as a result of adoption of the ASP Package would be $132 million ($242 million minus $110 million).

III. ESTIMATE OF THE EFFECT OF VARIATIONS IN KEY VARIABLES

In order to determine a probable range of the effect of adoption of the ASP Package, calculations were made using the estimated "lows" and "highs" of both the tariff elasticity and the level of United States exports to EEC/UK without the Kennedy Round unconditional tariff reductions. A subjective estimate of 1/6 was placed on the probability of occurrence of the "low" estimates of tariff elasticities

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[3] For details of individual studies, see:
Bela Balassa, *Trade Liberalization among Industrial Countries: Objectives and Alternatives* (New York: McGraw-Hill Book Company, 1967). Appendix to Chapter 4.
R. J. Ball and K. Marwah, "The U.S. Demand for Imports 1948–1958," *The Review of Economics and Statistics*, November 1962, pp. 395–401.
L. B. Krause, "United States Imports, 1947–1958," *Econometrica*, April 1962, pp. 221–38.
M. E. Kreinin, "Effect of Tariff Changes on the Prices and Volume of Imports," *American Economic Review*, June 1961, pp. 310–24.
———, "'Price' vs. 'Tariff' Elasticities in International Trade—A Suggested Reconciliation," *American Economic Review*, September 1967, pp. 891–94.
———, "Price Elasticities in International Trade," *The Review of Economics and Statistics*, November 1967, pp. 510–16.
E. A. G. Robinson (editor). *Economic Consequences of the Size of Nations* (New York: St. Martin's Press, Inc., 1960). See Verdoorn's study presented in Chapter 19, p. 291.

[4] This estimate was made by me on the basis of a study of tariffs and trade flows. While slightly different figures can be obtained for different past years and for future years depending on the assumptions made relative to the mix of chemicals to be exported, it is believed that any error introduced as a result of adopting the 14.3% figure is not large by comparison with the ranges used in this study for the probable "low" and "high" tariff elasticities.

and U.S. exports to EEC/UK without Kennedy Round unconditional reductions; a probability of 2/3 was placed on the "best" estimates and a probability of 1/6 on the "high" estimates of these variables.

Over 70% of the resulting estimates of the increase in United States chemical exports lie between $99 and $165 million. The average is $132 million. If these figures are rounded, it seems reasonable to conclude that United States chemical exports will increase by $100–$160 million if the ASP Package is adopted, with a best estimate being $130 million.

Appendix C

Additional Indications of Importance of Research and Development and Market Size Rather Than Wage Rates as Determinants of International Trade

I. RESEARCH AND DEVELOPMENT

A recent study by Gruber, Mehta, and Vernon[1] indicates that a major difference between the five United States industries that account for the United States trade surplus[2] and fourteen other major industries is the amount of funds spent on research and development. The chemical industry is one of these five "export industries," and ranked second in net trade balance in 1966 (Table C–1). In terms of scientists and engineers as a precentage of total employment, these five industries spent 4.7 times as much as the fourteen other major industries; in the sales area, these five industries spent nine times as much on scientists and engineers as did the other fourteen industries. As scientists and enigneers are often needed in the sales area for new products, this lends credence to the belief that a large R & D effort for new product development is a major cause of exports.

II. MARKET SIZE

To illustrate the point that market size is an important determinant of chemical exports, a tabulation of the relative rank of Gross National Product and chemical exports is shown below for 1965, for the six countries listed in a Manufacturing Chemists' Association memorandum.[3] While it would be possible to select certain countries to show certain results of tests, this list of countries was used because it was selected by the Manufacturing Chemists' Association.

Country	Rank order of GNP	Rank order of chemical exports
United States	1	1
Germany, Federal Republic	2	2
United Kingdom	3	3
Japan	4	6
France	5	4
Italy	6	5

This tabulation indicates that the higher a country's GNP, the higher also are its chemical exports. A rank correlation of this relationship is significant at the 95% confidence level.[4]

[1] William Gruber, Dileep Mehta, and Raymond Vernon, "The R & D Factor in International Trade and International Investment of United States Industries," *Journal of Political Economy*, LXXV (February 1967), pp. 20–37.

[2] Trade surplus of these industries in 1966 was $8.5 billion compared with a total for all United States manufacturing of $5.0 billion (Table C–1).

[3] See Table C–2 for data and for exact citation for Manufacturing Chemists' Association memorandum.

[4] Spearman's rank correlation coefficient=0.83.

TABLE C-1.—CHARACTERISTICS OF 5 U.S. INDUSTRIES THAT ACCOUNT FOR TRADE SURPLUS IN MANUFACTURED GOODS

[In billions of dollars]

Industry and SITC No.	U.S. Exports	1966 U.S. Imports	U.S. Trade Surplus
Machinery except electrical (71)	$5.55	$1.59	$3.96
Chemicals (5)	2.68	0.94	1.74
Transportation (73)	3.71	2.21	1.50
Electrical machinery (72)	1.90	1.01	0.89
Instruments (86)	0.76	0.39	0.37
Total	14.60	6.14	8.46
Total all manufactures (SITC 5, 6, 7, 8)	19.1	14.1	5.0

	5 Industries Above	14 Other Industries
Scientists and engineers in R. & D. as percent of total industry employment	3.2	0.4
Scientists and engineers in production as percent of total industry employment	2.1	0.8
Scientists and engineers in sales as percent of total industry employment	0.9	0.1
Total	6.2	1.3
Net fixed assets as percent of value added	31.0	41.0

Sources: Trade data from Bureau of the Census. Other data from Gruber, Mehta, and Vernon, loc. cit.

TABLE C-2.—GROSS NATIONAL PRODUCT AND CHEMICAL EXPORTS FOR LIST OF COUNTRIES SELECTED BY MANUFACTURING CHEMISTS' ASSOCIATION, 1965

	GNP (billions)	Chemical exports (millions)
United States	$681	$2,402
Germany, Federal Republic	112	2,077
United Kingdom	99	1,230
Japan	96	547
France	94	1,014
Italy	57	605

Sources: GNP data: International Monetary Fund, International Financial Statistics; Chemical exports: Organization for the Economic Co-operation and Development, op cit., p. 35. List of countries: Those for which wage rates were included in the list compiled by Manufacturing Chemists' Association and reported in appendix 4 of "MCA Position on the Kennedy Round Agreements, the Supplemental Agreement Relation Principally to Chemicals, and Proposed Trade Legislations."

III. UNIT WAGE RATES

To illustrate the point that low wages in the chemical industry apparently are not a major determinant of chemical exports, the rank order of wage rates presented for the six major industrial countries in the recent Manufacturing Chemists' Association memorandum are compared below with the rank order of chemical exports of these countries for 1965.[5]

Country	Rank order of unit wage rates	Rank order of chemical exports
United States	1	1
United Kingdom	2	3
Germany, Federal Republic of	3	2
France	4	4
Italy	5	5
Japan	6	6

[5] See Tables 9 and C-2 for data sources.

As shown above, instead of the low-wage countries being large exporters of chemicals, the countries with the highest wages are the largest exporters of chemicals.

Therefore, the results of studies mentioned in Section III of the body of the study together with the data in this Appendix strongly suggest that a combination of a large market and R & D activity is much more important in explaining chemical exports than are unit wage rates.

APPENDIX D

DETAILS OF ESTIMATE OF EFFECT OF ASP PACKAGE ON UNITED STATES IMPORTS

I. PRESENT UNITED STATES TARIFF LEVELS OF BENZENOIDS

Because duties for benzenoids are based on ASP, there are no readily available statistics showing average duty based on foreign "exports values." An estimate of 45% was used for this study, based on data from the following sources:

1. H. G. Grubel and H. G. Johnson, "Nominal Tariff Rates and United States Valuation Practices: Two Case Studies," *The Review of Economics and Statistics*, May 1967, pp. 138–142. This article presents estimates of effective tariffs for benzenoid intermediates; these estimates were from a low of 40.9% to a high of 53.2%

2. Averages of ad valorem equivalents reported in T.C. Publication 181.[1] The arithmetic average of ad valorem equivalents for 12 categories accounting for 90% of benzenoid imports was 55%. However, a check of categories accounting for over half of this 90% indicated that the arithmetic averages overstate the weighted-average tariff level by 15% to 100%. This would suggest an effective tariff level of 28% to 48%.

If anything, this estimate of 45% might be a little on the high side. However, the final estimate is not very sensitive to reasonable changes in this estimate, as the use of 40% rather than 45% would decrease by less than 10% the estimated increase in imports.

II. CHANGES IN IMPORTS AS A RESULT OF CHANGES IN LEVEL OF UNITED STATES DUTIES

There are three different changes in United States duties which would be brought about by adoption of the ASP Package. Each is discussed in turn.

A. Conversion of ASP rates to conventional rates

A detailed comparison of rates after the Kennedy Round,[2] the "converted rate" calculated by U.S. Tariff Commission,[3] and the rates which would apply with adoption of the ASP Package did not reveal any systematic bias toward either higher or lower rates. Therefore, changes in tariff levels should result in an average net difference of about zero, after allowing for the increases and decreases in individual items. The effect of the removal of uncertainly in the valuation process is discussed in Section III of this Appendix.

Since the wide variety of rates on dyes would be standardized at 30% with adoption of the ASP Package, a more detailed examination was made of dye category 406.50, which accounted for approximately 70% of dye imports in 1965.[4] This category includes 272 individual dyes plus an "other" category. Dye category 406.50 has a current rate of 40% ASP which will be reduced to 20% ASP as a result of the Kennedy Round unconditional cuts. Its current converted ad valorem equivalents range from a low of 38% to a high of 172%, so this range will become 19% to 86% as a result of the Kennedy Round unconditional cuts. If the ASP Package is adopted, all of these rates would become 30%. Therefore, the lowest rate would be increased by 11% and the highest rate reduced by 56%; other rates in between these two extremes would be affected less.

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[1] 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*, Washington, D.C., July 1966. (T.C. Publication 181.)

[2] Basic data from: Office of the Special Representatives for Trade Negotiations, *Report on United States Negotiations*, Washington, D.C., Superintendent of Documents.

[3] The conventional rate calculated by U.S. Tariff Commission to result in same revenue that would result from ASP rate (see T.C. Publication 181, *op. cit.*).

[4] Calculated from reference given in Footnote 1 above.

A unit value for the various subcategories of dyes in 406.50 was calculated by dividing the "specific equivalent" [5] by the "converted rate." This unit value was then multiplied by the quantity of imports for 1964 in order to obtain an estimated value for the imports of each subcategory.[6] This estimated value for each subcategory was then multiplied by the level of tariff changes which would result for the subcategory as a result of the ASP Package. The results indicated that because of the much larger quantity of imports at the lower duty level, there would be on the average a slightly higher weighted-average duty after the ASP Package than before. Therefore, proceeding on the basis that the average duty level would not change as a result of the ASP Package would result in a higher import estimate than would actually be the case.

B. Reductions in duties on items with duties less than 8%

United States imports of the 79 non-benzenoid chemicals covered by this proposed reduction amounted to approximately $31.6 million in 1965. Eight items accounted for $21.1 million, or 67% of the total. The weighted average tariff reduction for these eight items for the ASP Package would be 1.8% of the value of the items. If a "tariff elasticity" of 3.5 is used (as is used for other calculations) imports would increase by slightly over 6%, or about $2 million for 1965 trade volume. If allowance is made for a normal expansion of trade to 1972, then the increase due to the ASP Package would be about $3 million.

C. Reduction in duties on items with duties greater than 50%

The value of imports of these items in 1965 was $304,000. One item, vinyl chloride monomer, accounted for $257,000 of this. The tariff reduction due to the ASP Package for this item is the same as a reduction in ad valorem equivalent of from 27% down to 23%.[7] Thus, the increase in trade due to this reduction should be negligible in terms of evaluating the overall ASP Package.

D. Conclusions

The major changes in import levels due to changes in tariff levels would be in the importation of the 79 non-benzenoid chemicals; the expected increase in imports is about $3 million for 1972.

III. CHANGES IN IMPORTS AS A RESULT OF REMOVAL OF UNCERTAINTY

First, an estimate of the level of benzenoid imports expected in 1972 without any Kennedy Round cuts is presented. Next, an estimate is presented showing the effects of the Kennedy Round unconditional tariff cuts on estimated 1972 imports. Finally, estimates are presented showing the effects of removal of uncertainty on those imports because of elimination of the ASP method of valuation.

A. Level of imports in 1972 without any Kennedy round tariff reductions

Benzenoid imports have increased at a compounded rate of 15% annually between 1957–1959 and 1966; however, most of this increase occurred in 1965–66 when shortages of capacity in the United States resulted in increased imports. This is discussed in detail in the body of this study and in Table 5. The annual growth rate of 9% experienced between 1957–1959 and 1964 is a more reasonable one to expect in the long run. Projection of United States benzenoid imports to 1972 with a 9% growth rate would result in estimated benzenoid imports of $150 million in 1972 versus $200 million for the 15% growth rate. If $150 million is used as a "best estimate" and $200 million as a "high estimate," then it seems reasonable to use $100 million as a "low estimate." Effects of using the "low" and "high" estimates instead of the "best" estimate are presented below in Section IV of this Appendix.

B. Effect of the Kennedy round unconditional tariff reductions

As discussed in Sections I and II of this Appendix the tariff changes are from the present effective level of about 45% down to a new level of 22½%. Using the same tariff elasticity and same method of calculation as used for United States

[5] This is a $/pound equivalent of the total combined specific and ad valorem rates for a given category (see T.C. Publication 181, *op. cit.*). Thus, if specific equivalent=$1.00 and converted rate=50%, then unit value=$2.00.

[6] Import data from United States Tariff Commission, *Imports of Benzenoid Chemicals and Products*, 1964.

[7] A reduction in actual tariffs of from 1.25¢/pound+6% down to 1¢/pound+6%; this item has a unit value of 6¢/pound according to United States Tariff Commission Report, *United States Production and Sales of Organic Chemicals*, 1965.

exports results in the following estimate of the increase in United States benzenoid imports due to the Kennedy Round unconditional tariff cuts:

Tariff elasticity	×	Percentage change in combined value of goods and tariffs	×	Estimated imports before allowing for tariff reductions	=	Estimated increase in imports due to tariff reductions
3.5	×	$\frac{45-22.5}{145}$	×	$150 million	=	$80 million

Adding the estimated increase in imports of $80 million to the previously estimated level of $150 million results in a new estimate of $230 million for benzenoid chemicals. Effects of varying the key numbers are shown below in Section IV of this Appendix.

Slightly more than 50% of these imports will be in noncompetitive imports; i.e., those not made by a United States manufacturer and therefore not subject to as much uncertainty in the valuation process. Thus, one is faced with estimating the effect of the removal of "slight" uncertainty on $120 million of imports and the removal of "higher" uncertainty on $110 million of imports. I know of no empirical study to serve as a guide in arriving at an estimate. However, my best estimate would be an increase of 5% on the removal of "slight" uncertainty and 10% on the removal of "higher" uncertainty. Thus, an increase in imports would be expected as follows:

5% × $120 million = $ 6 million
10% × $110 million = $11 million

Total = $17 million

Effects of varying these percentages are presented below.

IV. EFFECT OF VARIATIONS IN KEY VARIABLES ON FINAL ESTIMATES

Variations in estimates of the following key variables were made in order to determine a probable range rather than just a "best" estimate for the effects of the adoption of the ASP Package on United States imports.

Key variable	Range of estimates		
	Low	Best	High
Change in average U.S. tariff rates on benzenoids as a result of adoption of ASP package (percent)	−5	0	+5
Level of U.S. benzenoid imports in 1972 without any Kennedy round tariff cuts (millions)	$100	$150	$200
Tariff elasticity (percent)	2.5	3.5	4.5
Effect of removal of uncertainty	0	5 and 10	10 and 20

A subjective estimate of ⅙ was placed on the probability of the occurrence of each of the "low" estimates, an estimate of ⅔ for the occurrence of each of the "best" estimates, and an estimate of ⅙ for the occurrence of each of the "high" estimates.

Over 70% of the resulting estimates of change in United States exports as a result of the ASP Package are between $7 million and $33 million. From this, it seems reasonable to conclude that United States imports of benzenoids would increase by $7–$33 million, with a best estimate of $20 million.

The CHAIRMAN. We thank you, Mr. Stobaugh.

Mr. STOBAUGH. Thank you.

STATEMENT OF KARL HOCHSCHWENDER

Mr. HOCHSCHWENDER. Mr. Chairman and members of the committee, the importers of benzenoid chemicals believe that a repeal of ASP, even though there will be an increase in the average tariff protection,

will lead to an expansion of their business. The ASP valuation method makes it difficult to do business while a major cost—in this case the duty—is uncertain and often not fixed until long after a transaction has been concluded. It is even more difficult to do business in these circumstances when your competitor has the means to manipulate this cost factor.

When a U.S. firm originates a line of business by importing a product which is not being manufactured in the United States, the ad valorem component of duty is assessed on "U.S. value"—the importer's sales price less allowances for profit, overhead, freight, and duty. After this importer develops a market for his product based upon this valuation, a domestic manufacturer may decide to start producing the same article. He can exclude the importer from the market by listing an ASP price just high enough so that the sum of the resulting higher duty, added to the importer's landed cost for the product, is above the domestic price. Thus, the ASP system fosters a form of economic parasitism.

Recently one of our member companies was selling a noncompetitive intermediate at a price of $3.25 a pound paying duty on a U.S. value of $2.40 a pound. The Bureau of Customs notified the company that a domestic manufacturer has been offering the product at a price of $8 a pound. In this case the importer was nevertheless able to compete against the domestic manufacturer's price of $8 a pound. However, since entries as much as 2 years old were still unliquidated, the importer had to pay substantial additional duties which wiped out his profits.

One may ask why a domestic manufacturer offers an article at a noncompetitive price. Sometimes the domestic manufacturer does not intend to adhere to his list price.

Then again, the manufacturer may not have serious intentions of selling the product at all, especially if it is an intermediate. He may be using the product to manufacture a dye or another finished product. By reporting a high sales price he can artificially inflate the production costs of his domestic competitors who manufacture the same end product using imported intermediates.

Furthermore, the importer is constantly exposed to uncertainties resulting from the revision of domestic prices. Even the withdrawal of a price by one domestic manufacturer may result in a surprise penalty for the importer. One of our members recently sold an intermediate at $2.30 a pound, the duty being 3½ cents a pound plus 25 percent ad valorem on the ASP of $2.40 a pound, a total duty 63½ cents a pound. The manufacturer withdrew his price bringing into effect the next higher price of $3.50 a pound. Thus duty was raised to 91 cents a pound for a product imported at $1.45 a pound, cost, insurance, and freight. A fair profit was turned into a loss.

Frankly, we are somewhat at a loss to know why the domestic industry so bitterly opposes repeal of ASP. Those in the chemical trade can testify from their day-to-day business dealings to how formidable the domestic industry is as a competitor. The statistics of sales volume and profits of the industry are a tangible indicator of this. One might think that they would, with good grace, agree to removal of a nontariff protection which is as blatantly out of date and discriminatory as is ASP, especially where they are getting such a disproportionate quid pro quo in terms of new and expanded market opportunities.

The only explanation we can see for the domestic witnesses' attitude is that they view an increase in imports as necessarily displacing U.S. production. In other words, they appear to view the market as static and inelastic. Their own fantastic growth record shows how fallacious is such a view. On the contrary, the result of expanded trade—if past experience in chemicals is any guide—can only be a bigger pie from which there will be bigger slices of business for all—particularly for the domestic chemical giants.

Not only will the domestic industry benefit from increased export opportunities but also as the purchasers of large quantities of benzenoid imports. Indeed, almost all imports of intermediates—which amount to more than one-third of total annual benzenoid imports—are purchased by domestic producers and used to manufacture U.S. finished chemicals. The alimination of ASP's nontariff barrier to those imports as well as the tariff reductions on these intermediates in the ASP package should make them more readily available at competitive prices.

On the other hand, the ASP package increases the average duty protection on dyestuffs, which are claimed to be the most sensitive area to import penetration. Thus, the domestic industry will receive increased protection where it claims it needs it most, if H.R. 17551 is enacted.

We of the organic chemicals group regret very much that instead of a calm dispassionate analysis, the ASP debate has produced so much acrimony. It seems apparent that a system so out of line with the principles of competitive free enterprise, of U.S. trade policy, and the GATT must sooner or later be changed by the U.S. Congress. Why not now? The opportunity may not recur for the United States to receive such recompense for doing something which it is bound to do ultimately. The free world needs U.S. leadership to dismantle nontariff barriers. We should provide that leadership.

Thank you.

The CHAIRMAN. We thank you.

STATEMENT OF WALTER W. HAINES

Mr. HAINES. Mr. Chairman and gentlemen, my name is Walter W. Haines. I am professor and chairman of the Department of Economics at University College of Arts and Science, New York University. At the request of the American Importers Association I have conducted an 8-month study of the effect of tariff reductions on the U.S. benzenoid industry. That study has resulted in a monograph of almost 400 pages, now being processed.

In 15 minutes I can do no more than touch briefly on a few points of that study, with particular reference to errors that have already been introduced in evidence before this committee by representatives of the domestic industry.

THE ORIGIN OF ASP

ASP was first introduced for coal-tar products, benzenoids, in the Tariff Act of 1922. A reading of the Congressional Record will show beyond doubt, that although the House wished to use ASP valuation

for all imports, this idea was rejected by the Senate, and by the House-Senate conference, as a result of an exhaustive study by the Treasury Department, which found that ascertaining American selling prices for competitive imports would be administratively difficult, uncertain, time-consuming, and subject to manipulation. Mr. Anthony Simonetti, Acting Appraiser and former Chief Assistant Appraiser of Merchandise for the Customs Bureau has testified before the Tariff Commission that in fact that is so and that ASP "is infinitely more difficult to establish than, for instance, 'export value.' "

The Congressional Record shows that the reasons why this unsatisfactory method was applied to benzenoids were the chaotic conditions of both the European dye market and foreign exchange markets as a result of the war, and the desire to protect what was then a very infant industry against an established Germany industry. It also was a device for disguising extremely high rates. As Senator Smoot pointed out, it was easier to set a 90-percent rate ASP than what would then have been an equivalent rate of 900 percent on foreign value.

The industry still testifies to the remarkably high protective value of the ASP system, which today provides some benzenoids with the highest effective protective duties of any imports into the United States, reaching a maximum of 172 percent. Such rates are highly anachronistic in today's world when all of the original reasons for ASP have long disappeared.

BORDER TAXES

The industry has emphasized throughout its testimony the problem of harmonization of European border taxes which, they say, destroy the reciprocity of the Geneva negotiations. The implication is that we gave the Common Market the right to raise border taxes as part of the Geneva agreements. This is simply not so. Although the two actions are occurring in the same timespan, they are not otherwise related. Our negotiators did not "give away" any right in this connection. On the contrary, they specifically reserved the right of the United States to initiate action under the GATT if these tax changes do in fact nullify or impair tariff concessions under the agreement. The administration is, in fact, pursuing this matter, as indeed it should. But failure to pass this bill would not help solve the border tax problem in any way.

In a number of other ways domestic industry spokesmen have misrepresented the border tax situation, but since it is irrelevant to the present bill in any case, there seems to be no point in going into these errors.

THE EFFECT OF THE ASP AGREEMENT

The industry stresses the drastic nature of the cuts in benzenoid duties that this bill will approve. Mr. Barnard, for instance, says—page 41—"the tariffs on the competitive products, those we do make, would be reduced by considerably more than 50 percent." This is not true.

A comprehensive computer analysis of the original Kennedy round agreement and the separate package, using an item-by-item breakdown of every tariff class from 403.02 to 409.00, shows that approval of the ASP package will raise the average weighted level of duties by

5.7 percent. Taking only competitive products, "those we do make," to use Mr. Barnard's words, the ASP package will lower average duties by 6.1 percent. This is a long way from the "more than 50 percent" claimed by Mr. Barnard. Not only that, but the same analysis shows that the ASP package will raise duties on dyes, the most sensitive of benzenoid areas, by 22.9 percent, and will raise duties on competitive dyes by 3.7 percent.

In exchange for this, the Common Market and United Kingdom will reduce their entire chemical tariffs by an average of 22 to 26 percent. This may not, indeed, be reciprocity, but if not, it is Europe that should be making the complaint. It is clear that they value the removal of the uncertainty and discrimination of ASP highly enough to accept a bargain that is numerically very much in our favor.

When SOCMA asked its members: "Is the 30-percent reduction in European chemical tariffs worth the abolition of ASP and the further duty reductions in excess of 50 percent which would be required under the 'separate package'?", they were asking a question that was totally erroneous in its assumption. Since the information on which the replies were based was false, any answers that it received must obviously be irrelevant.

COMPARATIVE COSTS

One reason the domestic industry seems to fear tariff cuts, even phantom ones such as here, is that they believe that they have an inherent cost disadvantage compared to European competitors. Robert Barnard speaks of "our inherent cost disadvantage"—page 46—Edwin Cowherd refers to "our relatively higher cost"—page 5—and the American Cyanamid Co. reports that "the unit cost of chemical production of leading foreign competitors is much lower than in the United States"—page 1. While each of these statements may be true with regard to specific isolated products, as generalizations they are patently and demonstrably false.

No one denies that the United States exports three times as much chemicals as it imports. We couldn't sell these products abroad unless we could undersell our competitors even after freight, insurance, and tariffs for these exports; therefore, we must have lower costs and these low-cost exports exceed imports by three to one. A larger part of our chemical industry, therefore, has costs below foreign firms that has costs above them. Even in dyes we export as much as we import.

When Mr. Turchan, for instance, says that "where costs of production abroad are lower than in the United States, it takes a greater cut in foreign tariffs * * * to generate an equivalent export increase," he is talking this same kind of absolute nonsense. If foreign production costs are lower than ours, no conceivable tariff reduction would help our exports. One, if we can undersell competitors, will we export anything at all. The fact that we do export, therefore, proves our ability to produce more cheaply in those particular lines.

No one doubts that wages are higher in the United States, but (*a*) so is productivity, and (*b*) labor costs are a small part of total costs. For the chemical industry payroll, costs are only 15.6 percent of shipments. That means that out of every dollar's worth of goods, 15.6

cents is paid to labor, 84.4 cents goes to other costs. Even if Europe paid only one-third our wages, and all other costs were the same, they would have to pay 90 cents for a product that costs us $1, and the 10-cent differential would be more than eaten up in freight and importer's expenses if they tried to ship such a product here.

The cry of the industry that they can't meet lower costs abroad is simply not true.

IMPORT PENETRATION

Nor are we being inundated by imports. It is true that imports are rising faster at the present time than exports. To a great extent this is due to the Vietnam war. By far the largest increase in imports of any benzenoid category in 1967, whether measured in absolute or relative terms, was tariff item 405.05, explosives, which rose a whopping 240 percent. Large increases in imports of adipic acid, phenol, phthalic anhydride, and styrene in the preceding year were a response to shortages in an industry whose output was rising as fast as possible, and total benzenoid imports in 1967 actually fell, thus reversing for this 1 year at least the current trend.

But even ignoring these special reasons, imports are still almost infinitesimal when compared with domestic output. For all benzenoids imports in 1966, the latest year for which figures are available, were 1.4 percent of domestic production, and only half of these were competitive with U.S. products. As a proportion of domestic output, our current level of imports is only one-eighth as high as it was during the latter half of the twenties and only one-third as high as it was during the great depression, when imports were extremely small throughout. From such a minuscule base, a 14-percent annual increase, even if continued indefinitely, would take half a century to make any significant impact on domestic production.

To take just one example: Over the past 6 years consumption of benzenoids—domestic sales plus imports—has risen at an annual rate of 6.67 percent. Assume that this rate continues into the future, and that imports rise, not at 14 percent, but at 30 percent. The result, over the next 10 years, would be to slow down the growth rate of the domestic industry from 6.53 to 5.38 percent. Under the most extreme assumptions possible, because the present level of imports is so microscopically low, no rationally conceivable increase in imports will reduce domestic production; it will merely slow down slightly from its present high rate of growth.

In my study, I have examined every branch of the benzenoid industry, with particular attention to dyes, where the problem seems to be most sensitive, and in which I have proceeded almost on a company-by-company basis, and I have been unable to document serious injury to the industry.

Imports are so small and projected increases so small relative to domestic output even though large percentagewise, that the benzenoid industry, with one of the highest profit rates in the Nation, aided by diversification, research, and ordinary business acumen, can easily meet this competition. There may indeed be one or two weak firms that may have difficulty, and for them the improved adjustment assistance provisions of this bill may be of real value.

THE BALANCE OF PAYMENTS

The balance-of-payments problem is also often obscured by emphasizing growth rates without reference to the base to which they apply. Let's use Mr. Gerstacker's figures. If chemical exports of $2.8 billion continue to grow at their present rate of 7 percent per year (and it is worth noting in passing that exports are expanding faster than domestic production), while imports of $1 billion grow at 14 percent, it is still true that the favorable trade balance, now $1.8 billion, will continue to increase into the foreseeable future. While the rate of import growth is faster, the base is so much lower that the amount of growth is less. Seven percent of $2.8 billion is $196 million; 14 percent of $1 billion is $140 million. This improves our trade balance by $56 million.

EXPORT POTENTIAL

The domestic industry, however, insists that the ASP bill will increase imports even faster, while not improving exports at all. Said Mr. Gerstacker on Friday, "There will be no significant gains in exports as a result of the additional cuts of 30 percent." (p. 8) Why? Mr. Gerstacker said it was true "for a number of reasons" (p. 8) but the only one he mentioned was "the rationalization of the indirect tax system in Europe," which is absolutely unrelated to the Kennedy negotiations.

Let us assume, and I believe it is a totally false assumption, but let us assume that harmonization will raise European barriers but just as much as a 30 percent tariff cut will lower them. Let us assume an illustrative European tariff rate of 20 percent at the present time. Let us assume that this bill is passed. The European duty will fall to 14 percent. Let us assume, as I said, that harmonization nullifies this tariff cut. The combined barrier goes back to 20 percent. Granted this will not help our exports.

But, let us assume alternatively that this bill is not passed. European duties will remain at 20 percent. Harmonization under this assumption will raise the combined barrier to 26 percent. This will obviously harm our exports significantly. Are we better off not passing the bill?

The inescapable conclusion is that regardless of what happens to rationalization or any other nonrelated matter, our chemical exports will face a 30 percent lower European trade barrier if this bill is passed than if it is not passed.

Du Pont seems to be the only company that has examined its export prospects in depth, and it seems to be in a peculiar position inasmuch as the great bulk of its present exports are in classifications for which no duty reductions were negotiated at Geneva. It is therefore not typical of chemical exporters as a class, for whom the weighted average reductions were 22 to 26 percent.

For the remaining portion of their exports they give several reasons for their pessimism. The largest exports go to their own plants abroad for further manufacture, and the volume depends on "expansion of sales in Europe of the finished product" (p. 7). It doesn't seem to occur to them that lower raw material costs can lower the price of the finished product and thereby promote sales. If they didn't lower such

prices, the duty reduction would return as pure profit. Either way the dollar value of our exports rises.

Some of their exports they say cannot expand because the local product is preferred. This may indeed hinder exports, just as on the other side it is likely to hinder imports although the industry tends to deny that it is of any significance when looked at from that point of view. Patent laws similarly work equally both ways.

A further large group of exports sell under competition says Du Pont, so that price reductions will be met by foreign producers. This, of course, is exactly what domestic spokesmen say will happen with respect to our imports. But if prices fall, sales will expand, resulting in a larger market for both domestic goods and imports.

Other products, says Du Pont, cannot expand because they are noncompetitive and therefore price is not a primary factor (p. 8). Coupled with the preceding excuse this means whether products are competitive or noncompetitive, price reductions can't increase sales. Therefore, tariff reductions can never increase sales. Therefore, U.S. tariff reductions will not increase imports into the United States. Therefore, the domestic industry has nothing to worry about from tariff cuts. It surely works both ways.

There are indeed many reasons why tariff reductions may not lead to a flood of exports. But for exactly the same reasons that they limit exports, they will limit imports. There is no reason that Du Pont gives that is not equally applicable to the United States. Exports may indeed rise by relatively little. Imports for exactly the same reasons can be expected to rise by little, and the balance between them is thereby reasonably preserved.

The schizophrenia of the industry in this connection may be highlighted by this matter of specialty products. Du Pont says that it can't expect increased exports for specialty products because they are not competitive and price is not a primary factor. In the same hearing Edward Cowherd of General Aniline & Film says that they are particularly subject to injury from imports because many of their products are specialty items, and are even more sensitive to price and volume changes than our regular line of products. (p. 3.) This is typical of an industry that argues any side of a case that seems to fit the immediate purpose without regard to facts or even consistency.

MONOPOLY

Another area where the industry does not seem to care much for consistency is in the realm of monopoly. They make much of the cartelization of European and Japanese firms without regard for the fact that U.S. firms are in the same boat. Thus, Mr. Barnard cites recent actions of the Germany Cartel Authority without apparently remembering that American Cyanamid, Bristol-Myers, and Chas. Pfizer have just been convicted of conspiracy to control the manufacture, distribution, and sale of broad-spectrum antibiotics and to fix artificially high prices for these drugs.

Even without conspiracy there is a high degree of monopoly in the benzenoid industry. Of the 1,628 dye intermediates manufactured in this country, 1,029 (or 63 percent) are made by a single firm. On the average each intermediate made in the United States is produced

by only 1.8 manufacturers. That certainly doesn't represent much competition. In dyes, 52 percent are made by just one firm, and in medicinals the figure is 70 percent, or to take an international comparison, there are only 45 U.S. dye firms while in Japan, cited several times on Friday as an example of cartelization, a much smaller market is shared by over 70 firms.

The figures also show that the higher the degree of concentration, the higher the average unit price of the product. It is no wonder that the drug companies show the highest profit of any U.S. industry and that the profits of the benzenoid industry as a whole are well above the U.S. average, with one company earning as much as 30.6 percent on net worth in 1966.

This high profit position suggests on the one hand that U.S. companies as a whole are well prepared to meet the relatively small amount of imports that would come in as a result of the passage of this bill, and on the other that with so little competition at home we certainly need a little more competition from abroad.

RESEARCH

The domestic industry cannot refrain from citing the many new products that come out of their research, and particularly dye research. Unfortunately for their case many of the examples that they cite come from European research. Thus Mr. Turchan cites sulfa drugs and DDT.

The first of the sulfa drugs was developed in 1931 by Gerhard Domagk, a German pathologist and bacteriologist in the Bayer research laboratories in Germany. His published reports on this drug were the first step in the development of chemotherapeutic medicine, and for this work he was awarded the Nobel Prize in 1939. Work continued in France and Britain, and it was several years before the United States began research on sulfa, and much of this work has been directed toward discovering variations of the sulfa formula that can be patented and thus provide a monopoly position and high price for the U.S. producer.

DDT was synthesized by Paul Mueller about 1935 in the J. R. Geigy laboratories in Switzerland. He also received a Nobel Prize for his work. Obviously U.S. tariff protection has absolutely nothing to do with these discoveries.

FREE ENTERPRISE

Finally, I believe a word may be in order about free enterprise. When Adam Smith spoke about laissez-faire, he was talking primarily about the absence of tariffs, which represented to him an unjustifiable interference by government in the freedom of the market and of each businessman to engage in whatever business seemed to him best. I quote Adam Smith:

> To give the monopoly of the home market to the produce of domestic industry, in any particular art or manufacture, is in some measure to direct private people in what manner they ought to employ their capitals, and must, in almost all cases, be either a useless or a hurtful regulation. If the produce of domestic can be brought there as cheap as that of foreign industry, the regulation is evidently useless. If it cannot, it must generally be hurtful. It is the maxim

of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy.

It ill behooves any believer in the free enterprise system to come crawling to the Government asking for this kind of interference in his affairs just because he can't stand on his own two feet and meet the competition as it comes.

Thank you very much.

The CHAIRMAN. Thank you, Dr. Haines. We thank all of you for bringing to us your statements. Any questions? Mr. Burke.

Mr. BURKE. Dr. Haines, Mr. Barnard testified on Friday he was unable to find any independent economic assessments supporting the Government's position that ASP's removal would have little effect on the domestic industry.

Have you found any such assessments?

Mr. HAINES. Yes, sir; I have indeed. There are quite a number that have been made and I am surprised that Mr. Barnard was unable to find them because some of them are quite well known in the chemical industry.

In the first place, the Little study that was done for SOCMA in 1962 and revised in 1965 reports that if all tariffs were eliminated we estimate that organic chemical imports can reach a level of about 10 percent of annual sales.

This of course is a very small figure. It is the result of a zero tariff, not a 50-percent reduction, and this study was introduced into testimony by SOCMA itself.

Second, is a very well-known study in the industry, very recent. by Dr. James G. Tewksberry, for Equity Research Associates, which is an independent investment analysis firm, entitled "The Kennedy Round and the Chemical Industry." This study examines the implication for profit prospects of the passage of the ASP bill specifically and, Tewksberry says that if this bill is passed chemical industry sales will rise from $37.4 billion in 1965 to $55 billion in 1972, a period of 7 years.

This represents a growth rate of 4.6 percent per year if ASP is passed. And this analyst says further with regard to the ASP bill, and I quote:

> The ASP package is virtually certain to pass Congress. In spite of government claims, it highly favors United States industry.

In other words, what he is saying is that the Government isn't strong enough in indicating the advantage to our domestic economy of the ASP bill.

To get some short-term predictions, Richard Ossinek, addressing SOCMA, on January 11, 1968 said pessimists expected that the profits in the chemical industry in 1968 would rise 8 percent. Optimists expected a 20-percent increase.

He said:

> We all unanimously agree that the chemical industry is on the threshold of an important revival of its earnings growth.

Jesse Werner, chairman and president of General Analine & Film, after assessing the pressures he expected from the Kennedy round and

the ASP bill, said that that company had no intention of getting out of the dyestuff business but, and I quote Jesse Werner:

We will have to strive for increased production at lower operating costs.

And he said that 1968 profits will show, and again I quote:

An appreciable rise over 1967 results.

This represents it seems to me a responsible business reaction to this bill.

Further, to come back to SOCMA itself, SOCMA testified before the Senate Finance Committee, just this spring, that the Kennedy round in their judgment would result in imports rising to 20 to 30 percent of consumption. And they said further that the ASP bill if passed would raise imports to 25 to 35 percent of consumption.

Now just to compare those two figures for a moment, because it is the ASP bill that is before us, they said (1) the Kennedy round will raise imports by 20 to 30 percent and (2) if the ASP bill is passed, imports will go up 25 to 35 percent.

In other words, the ASP bill will increase imports by 5 percent over what the Kennedy round would already increase them. This is not a large figure. On the other hand, if we assume the maximum—this is part of the study which I referred to originally—if we accept SOCMA's maximum figure of a 35-percent increase in imports by 1975, imports will increase overall by 3,300 percent.

That is a tremendously startling figure. But if we assume that consumption increases at the 1960–66 rate just goes up the same as it has been going up; that is, domestic consumption, not domestic sales, total consumption, imports plus domestic production; if we put those two figures together we find that by 1975 domestic sales will still have risen by 18 percent using SOCMA's maximum figure.

Therefore, there is no absolute damage to the industry. I grant that that is 18 percent over a 9-year period. That is not the annual rate. That is the total rate.

The annual rate is about 2 percent per year. It is not very much, but it is a rise, not a decline.

Mr. BURKE. Thank you. I would just like to ask one question of Professor Stobaugh. Why is the U.S. share of the world chemical exports dropping?

Mr. STOBAUGH. What is happening in the United States and the world chemical industries is that a lot of new products are being introduced, first in the United States, so for a while the United States is the only producer of the product. When they export that product, then, they have 100 percent of the world's share of exports.

Now, after a while production begins abroad and then sooner or later some of these countries that begin production abroad begin exporting so that the U.S. export share, where it started out as a 100-percent share of world exports, goes down some, as these other countries begin exporting.

The cycle is repeated, of course, and as the U.S. industry introduces other products, and then has 100 percent of the world's share and then, production and exports start abroad and the U.S. share drops. So the U.S. percentage share of world exports may be dropping but the absolute amount of U.S. exports is continuing to rise so that the U.S. net trade balance in chemicals is continuing to rise.

Therefore, the fact that the U.S. share of world exports is dropping does not mean that our chemical exports are in danger of declining.

Mr. BURKE. I thank you. That is all.

The CHAIRMAN. Any further questions?

Mr. BYRNES. Mr. Chairman.

The CHAIRMAN. Mr. Byrnes.

Mr. BYRNES. Mr. Hochschwender, on page 2 of your statement you cite an example of what happened in the case of one manufacturer where a domestic manufacturer had a price of $8 a pound for some product.

Mr. HOCHSCHWENDER. Right.

Mr. BYRNES. I can't understand how the American manufacturer in this case ended up anything but in the hole. Maybe there is something I am missing but, as I understand it, he was selling the product at a price of $3.25 a pound, including the duty of 30 percent.

Mr. HOCHSCHWENDER. $3.25 is the sales price of the importer.

Mr. BYRNES. With duty added.

Mr. HOCHSCHWENDER. With duty included; exactly.

Mr. BYRNES. And the duty was imposed on a base $2.40.

Mr. HOCHSCHWENDER. $2.40 was the value base, yes.

Mr. BYRNES. That would mean a 72-cent duty. If we subtract that from the $3.25 selling price, we would end up with the ability of this foreign company being able to offer it duty free for sale here for $2.53, including shipping cost and insurance.

Mr. HOCHSCHWENDER. Right.

Mr. BYRNES. If you then impose the duty on an ASP of $8, the new duty would be $2.40, wouldn't it?

Mr. HOCHSCHWENDER. Yes.

Mr. BYRNES. Using an $8 ASP.

Mr. HOCHSCHWENDER. Yes, using the $8 base.

Mr. BYRNES. So that with a duty of $2.40 you have a total price which he could offer it for of $4.93, is that correct?

Mr. HOCHSCHWENDER. Right.

Mr. BYRNES. But the American is trying to sell it for $8. How did he come out ahead on that? Can you sell something in a competitive field at $8 when somebody else is offering it for $4.93?

Mr. HOCHSCHWENDER. Sir, the point of this example that I hoped to make, as I said, is that the importer was nevertheless able to compete because of exactly the figures you just gave me.

Mr. BYRNES. In fact he can compete better, can't he, because before that he was selling at $3.25 and the U.S. value was $2.40, so the Americans at that point had an advantage of 85 cents.

Mr. HOCHSCHWENDER. Sir, I think there is a misunderstanding here. The $2.40, the Customs concept of U.S. value, has nothing to do with it. This is a noncompetitive product and it is the U.S. value duty which is assessed when there is no American selling price, when there is no production by a domestic manufacturer.

Mr. BYRNES. What is the duty when there is no U.S. manufacturer?

Mr. HOCHSCHWENDER. Well, it is the U.S. value which is provided by the customs laws.

Mr. BYRNES. If there is no manufacturer here what is the duty that is applied? Where the product isn't manufactured here, ASP doesn't apply because there is no U.S. product.

Mr. HOCHSCHWENDER. That is right.

Mr. BYRNES. What is the duty?

Mr. HOCHSCHWENDER. The duty is applied to the $2.40 and the $2.40 is arrived at by calculating back from the importer's sales price to his customer and that is how this $2.40 came about.

Mr. BYRNES. You say this is a U.S. value of $2.40.

Mr. HOCHSCHWENDER. The statute calls it U.S. value.

Mr. BYRNES. Even if we don't have a competitive product.

Mr. HOCHSCHWENDER. Yes.

Mr. BYRNES. If we are not manufacturing the product at all.

Mr. HOCHSCHWENDER. Yes, sir, exactly.

Mr. BYRNES. Where do they get the $2.40?

Mr. HOCHSCHWENDER. Beg pardon?

Mr. BYRNES. How do they arrive at the $2.40 base under that circumstance?

Mr. HOCHSCHWENDER. What Customs does is to obtain from the importer the price at which he sells it to the customer. Then Customs deducts from the price allowances for freight, for profit, for overhead, for cost of sales, and for the duty that has to be paid to arrive at a "U.S. value" that is approximately equivalent to the export value of the product.

Numerically it comes very close to the export value. Am I making myself clear?

Mr. BYRNES. Yes, I think you are, but you are not making yourself very clear as to why there is any advantage to any of the domestic industry under ASP to be able to establish an $8 value in this particular case because they are still out-pricing themselves by some $3.

I would think that that would be imposing a big disadvantage on themselves.

Mr. HOCHSCHWENDER. The person that reported this case to me also was puzzled about the advantage but the advantage could be for one of the two reasons which I suggest and which we find over and over again in the trade, namely, that the domestic manufacturer lists one price and then gives whopping discounts below this price to his customers.

Mr. BYRNES. Then isn't Customs supposed to take that into consideration in determining what is the American selling price? You would think there was a violation of the law in that case if he lists a price and it is just a fiction.

Mr. HOCHSCHWENDER. It could be. Professor Haines suggests he would like to say something along this line. Do you want me to continue or——

Mr. BYRNES. No, not if he has some explanation. How somebody can put an $8 American selling price on an item under the case you use and come out ahead is beyond me.

Mr. HAINES. Mr. Byrnes, I completely share your disbelief and amazement at how this can be done.

Mr. BYRNES. Just the mathematics.

Mr. HAINES. The mathematics is such that the imported product is selling for not much more than half of the domestic price.

Mr. BYRNES. Right.

Mr. HAINES. And, as you say, how can this happen?

Mr. BYRNES. How can any American sell it and compete against that?

Mr. HAINES. The facts show that in fact it happens all the time and I am not prepared to say why it happens but I can cite you innumerable cases where it has happened. In folic acid, for instance, according to calculations based on data that American Cyanamid has read into the record domestic folic acid sells for $120 a pound. The import sells for $64.75 a pound.

Now, those figures are perhaps 2 years old and maybe they are not the same today, but this has been going on for many years.

Mr. BYRNES. And they still want to pay that higher price?

Mr. HAINES. The foreign import is felt by some American manufacturers apparently not to be of a quality that they wish to hold or it may be that they have other ties with American——

Mr. BYRNES. Under this then Uncle Sam is getting a little revenue from ASP.

Mr. HAINES. He is getting a great deal of revenue from that particular product.

Mr. BYRNES. And it is not interfering with the market situation at all?

Mr. HAINES. It is interfering with the ability of the American consumer to buy vitamins at a reasonable price. Folic acid is a vitamin product. It can be produced abroad for $16. It is being sold in the United States at $120.

Mr. BYRNES. And it is being imported at $64.

Mr. HAINES. It is imported duty-paid at somewhere in the neighborhood of $64.

Mr. BYRNES. All around the range everyone is taking advantage of the consumer if that is the case.

Mr. HAINES. That is correct. The largest portion of that price of course is the tariff.

Mr. BYRNES. And all the Americans would have to do is do a better job of marketing or quality control and they would have the whole market themselves.

Mr. HAINES. The tariff is 25 percent.

Mr. BYRNES. They are giving the consumer a better break than the foreigner.

Mr. HAINES. You are getting a 25-percent tariff levied on a $120 price. That is $30 in tariff, which is twice the value of the product in the foreign market where it is produced.

Mr. BYRNES. I just don't understand this kind of mathematics. How can you keep out imports by simply increasing the differential between the domestic producers' market price and imports, thus increasing the domestic producers price disadvantage? I don't understand it.

Mr. HOCHSCHWENDER. May I give one more thought also in answer to your question?

Mr. BYRNES. Yes.

Mr. HOCHSCHWENDER. Going back to the statute that defines the American selling price, there do not have to be any sales of a product in order for it to be considered an American selling price. If the domestic manufacturer says to the customs examiner that he is willing to receive a certain price that is sufficient for the price to go on the books.

Mr. BYRNES. But you would have to admit that the American selling price doesn't necessarily improve the competitive position of the domestic producer.

Mr. HOCHSCHWENDER. It does not need to. It very often does.

Mr. BYRNES. By holding the price at $8 he is just knocking himself out of a market.

Mr. HOCHSCHWENDER. In that case you just got an inflationary element, that's all.

Mr. BYRNES. I would like to ask Mr. Stobaugh about another item. At several points in your testimony you talk about the advantage market availability for new products provides to the American producer. Doesn't the foreign producer also enjoy this same market?

I wonder why you use that phrase instead of the fact that the Americans put more effort on research and development. You keep talking in your statement about the fact that we have a bigger market here and that is why we have new products. I wonder whether it is the market or whether it is just that our people spend more on research.

Mr. STOUBAUGH. Let me say I did not mean to necessarily separate the idea of research and development expenditures from the large market and in my study I detailed the importance of R. & D. to some extent.

Mr. BYRNES. Just to insure that we are on the same wavelength, refer to page 7 of your statement. Your point there is that the wage differentials are offset. You say:

> These same studies indicate that new product development expenditures, resulting from a large domestic market, are much more important in explaining chemical exports than are unit wage rates.

Mr. STOBAUGH. Right.

Mr. BYRNES. You are talking about our exports.

Mr. STOBAUGH. Right. Here is what happens. This large market in the United States particularly the per capita income as well as having a lot of people to multiply the per capita income by, induces a lot of the R. & D. expenditures.

Mr. BYRNES. The German producers, though, also see this large market here.

Mr. STOBAUGH. The U.S. market is some five times as large as the German market and traditionally a manufacturer likes to introduce a product in his own home country. One of the main reasons for this is that there is a lot of communication required between the marketplace and the manufacturer when a new product is introduced. Typically the products that the Germans have introduced have been introduced in Germany.

The products that the U.S. manufacturers have introduced have typically been manufactured here first. For example, take Du Pont's announcement last week of a new synthetic fiber. Regardless of what wage rates are in Europe, Du Pont is going to build the first commercial plant for that fiber here in this country because this is where the market is.

Now, that is for two reasons. One, they need the communication with potential users and, two, they are reluctant to invest that much money abroad in order to serve a market here.

Mr. BYRNES. You are talking about an American company. I can understand that.

Mr. STOBAUGH. Let me continue on the American and then we can handle the others if you will. Is that OK?

Mr. BYRNES. Surely.

Mr. STOBAUGH. Thank you. What happens then is that Du Pont will build here first and others will build here first with their new product. Then they expand these plants very rapidly because the U.S. market expands rapidly and this is where they are making their intensive market effort.

As the plants expand that lowers production cost and another thing that happens is they get a lot of experience in operating the plant and that makes their costs go even lower. As a result the country that first commercialized a product has an export advantage for quite a while. There are a number of studies which show this, that the initial country, which is frequently a large market country and frequently the United States, does have this export advantage.

Now, sooner or later if a product is commercialized here, plants will be built abroad but, as I indicate in my testimony, even after that time the U.S. exports fill part of the capacity consumption imbalance abroad. To show the importance of this, there are a number of detailed empirical studies that have been made on this and they are mentioned in detail in my report. These studies show the importance of large market technical progress, the shift of U.S. exports to new products, and that the market size tends to determine which countries begin production of a product.

Larger market countries begin production of a product on the average before smaller market countries do, and another study shows that U.S. exports are concentrated in those industries that have high R. & D. expenditures.

There are about five U.S. industries that count for all of the U.S. export surplus. The other 14 major industries actually have a net import and they show that R. & D. effort is particularly important in the sales area, again showing the importance of the market.

To show two other things, kind of confirming this: One is that a recent Manufacturing Chemists Association bulletin listed six countries and listed wage rates for those countries—the United States, Germany, United Kingdom, Japan, France, and Italy.

Now, the reason I took those six is because if I had selected six I might not prove anything or confirm any theory. What I did was take the Manufacturing Chemists Association's list and correlated gross national product against chemical exports, and I got a very high correlation between the size of the market as measured by gross national product and chemical exports.

The bigger the market, the more exports are. U.S. exports are larger than Germany's for example. To check wage rates I listed the wage rates of those countries against chemical exports and what I found was that the countries with the highest wage rates actually had the highest amount of chemical exports. There was very high correlation there.

This indicates to me that in spite of the high wages here the United States is going to continue to be a major exporter of chemicals and particularly in its new product and large volume areas.

Mr. BYRNES. I just couldn't understand why a market exists where it does, and particularly on a new product. Our market here is available to the Germans, particularly on a new product because of no competition. You don't have the ASP coming into play.

Mr. STOBAUGH. Well, one of the things is when a person introduces a new product he introduces it in the market that he knows best and

that he sees. The Germans do not see the U.S. market as clearly as the U.S. manufacturers.

Therefore, when Germany introduces a new product—

Mr. BYRNES. They are not completely unsophisticated as to the American market. Don't tell me that.

Mr. STOBAUGH. I am not suggesting they are.

I am suggesting if you look at the German new product, such as Germany commercialized polystyrene, synthetic methanol, synthetic phenol, all of those were introduced in the German market first. Those that we commercialize we introduce in this market first.

So that there is a very strong tendency for manufacturers to introduce new products in their own market first.

Mr. BYRNES. They also can visualize other markets, but your point is here that the only people that really have the advantage of looking at the American market are the American manufacturers. I just couldn't see that emphasis frankly.

Mr. STOBAUGH. I certainly agree that new products are introduced in Europe even though some new products are invented in Europe but commercialized here because of the large market.

Some of those are commercialized by U.S. firms here. There are cases on record where product was discovered by a United Kingdom firm and they did not commercialize in the United Kingdom. They exported it to the United States. They waited until the United Kingdom market got larger and then commercialized it there.

In the meantime a U.S. firm learned what was going on. I don't know whether they got it from intelligence from England or whether they did independent work, but, anyway, they introduced the product here to the U.S. market.

Now, I am not suggesting that new products aren't introduced abroad because they are. What I am suggesting is that the U.S. market is five times as large as Germany's. It is one and a half times as large as the whole Common Market combined, and that large market and high-purchasing power gives the United States an inherent advantage on new product introduction and it is taking advantage of that inherent advantage.

Mr. BYRNES. I was under the impression that it is more a normal aspect of business in the United States to put a high proportion of their resources into research than it is in other areas of the world.

You seem to be putting so much emphasis on the point that it was the market that caused this, and yet it seemed to me that this expenditure results from business judgment here—particularly in the chemical area—that you should be concentrating to a high degree on innovation and development.

Do you want to respond?

Mr. STOBAUGH. I would like to say that I believe that it is the market that induces this large amount of research and development expenditure and that it is good business to spend the money.

Mr. BYRNES. I wondered why you deemphasized the normal tendency to spend substantial sums for research and development here, and simply said we have a big market and are, therefore, going to have more products.

Mr. STOBAUGH. It is certainly not my intention to and in my detailed report I go into quite some detail on the importance of research and development.

Mr. BYRNES. Mr. Stobaugh, on pages 9 and 10 of your testimony you point out that your studies show that the average cost for manufacturing dyes in Germany is 83 percent of the U.S. cost, but that the landed cost of the German dye exports in the United States, with the duty of 30 percent and transportation costs added results in a higher price for the imports.

Mr. STOBAUGH. Yes.

Mr. BYRNES. And that the landed cost would be 112 percent of the cost of the U.S. dye. Have you figured out what that would be in reverse? What would be the landed cost to our producers who desire to sell a similar product in the German market?

And you are talking here about the average cost. You are talking about the average cost, 83 percent, and you show that the average cost of landing it here is 112 percent of cost. Using these same figures what would be the competitive situation facing our producers selling in Germany?

Mr. STOBAUGH. Are you speaking of chemicals in general?

Mr. BYRNES. I am talking about the same thing you are talking about here.

Mr. STOBAUGH. Or are you speaking of dyes?

Mr. BYRNES. You are speaking of dyes.

Mr. STOBAUGH. Yes.

Mr. BYRNES. And you are talking in general about dyes; aren't you?

Mr. STOBAUGH. Right.

Mr. BYRNES. I just want to know what the same situation is in reverse.

Mr. STOBAUGH. First, I have not calculated the cost of sending U.S. dyes——

Mr. BYRNES. The thing that concerns us here is equity. Are we getting our people into an impossible situation as compared to the overall competitive situation? You show that the landed cost for German exports coming in here would be 112 percent of cost, on a base of 83 percent of U.S. cost.

Starting out with that American cost at 100 percent rather than 83 percent, where do our producers sit after their border taxes are applied and their tariff is applied to a base including freight insurance? We don't apply our duty on the freight and the insurance, but they do. They add the border tax on to that. Where do we sit as far as cost?

Mr. STOBAUGH. I believe my statement does not suggest that we are going to export large quantities of dyes to Germany. Therefore, I have not calculated the cost of landing U.S. dyes in Germany.

Mr. BYRNES. Go ahead. I would like to just get this on an equal basis. You show how they are going to have to pay 112 percent of cost to land it here and sell it. I wonder what we have to pay?

Mr. STOBAUGH. It was not my suggestion that we are going to increase our dye exports to Germany. It was my suggestion in this calculation that on the average a 30-percent tariff protection for the U.S. dye industry seems to offset the presumed cost advantage that Germany has in dyes and I used very conservative figures, as detailed in my report, in order to get a wide range between Germany and United States costs.

Mr. BYRNES. You could add another sentence because this also shows that we can assume Americans aren't going to be able to sell dyes on a competitive basis in Germany.

Mr. STOBAUGH. I believe what it shows on the average is that the United States will not be competitive with Germany on dyes on the average and that German exports to the United States will be larger than U.S. exports to Germany in dyes. Just as the case exists today it will continue to exist this way if the ASP package is approved or whether it is not approved.

The adoption of the ASP package will not affect that.

Mr. BYRNES. We will be just as noncompetitive after ASP as before.

Mr. STOBAUGH. We are competitive in some lines in dyes. For that reason we export some dyes to Germany, but on the average we are not as competitive. What I am suggesting is and what I am saying is that our advantage is in other product lines, other than dyes, and Germany has been a large market for our chemicals.

Styrene monomer is one I showed here.

Mr. BYRNES. Anyone going into a noncompetitive market has an advantage even with ASP really.

Mr. STOBAUGH. In the example I showed here with Germany importing large quantities of chemicals from the United States, chemicals that we presently have a comparative advantage in of the new products and the large volume chemicals, lower foreign tariffs are going to help us there and that was my suggestion, not that they are going to help us in dyes.

Mr. BYRNES. You always have an advantage; don't you, when you have that new product?

Mr. STOBAUGH. Yes.

Mr. BYRNES. Unless you have an embargo.

Mr. STOBAUGH. But tariff barriers affect your export of a new product. Let's take a case right now. The United States is exporting large quantities of cyclohexane to Germany and the Netherlands. The tariff there is zero. Let's assume that tariff were 50 percent.

What do you think our exports of cyclohexane would be? There wouldn't be any to the Common Market with a 50-percent tariff, for example. That is an example of the importance of tariffs.

Mr. BYRNES. And also the importance of border taxes, isn't it, which you don't want to talk about. I can understand that there is a barrier there.

Mr. STOBAUGH. The so-called border taxes will be what they are going to be regardless of the adoption or not of the ASP package. My contention is that adoption of the ASP package is going to increase the net U.S. trade balance and one of the ways it will do it will be to delay construction of plants in Europe of these new products while we continue to export and lower the foreign tariff, the longer we can keep exporting before they decide to build a new plant.

Mr. GRAUBARD. May I add something to that, Mr. Byrnes? It isn't that we do not want to talk about border taxes. As a matter of fact, I appeared before this committee in connection with the Kennedy round legislation before it was adopted and urged this committee to include in the statute at that time provision for remedying and dismantling, if we could, these nontariff barriers.

The fact is that the legislation did not include that item at that time and there was no power in our negotiators to negotiate in regard to such things as border taxes during this current round.

All we have said in this presentation to this committee is that this is another topic. We think it should be dealt with; but it has nothing whatsoever to do with the equity of removing the American selling price. We will be happy to answer any question if you think that our expertise with regard to border taxes is good enough to inform this committee. We will be happy to answer questions; but as a matter of fact, we do think that as pure logic it has nothing to do with the issue before this committee today.

Mr. BYRNES. Frankly, I think this committee is concerned about all of the restraints. If somebody uses one restraint that is important, and they are using border taxes. If ASP is a restraint, that is one that we are using.

I don't think that you can just look at our situation unrelated to what is taking place in other countries. I don't know that you can decide not to talk about what other countries are doing as we face up to a problem of trying to develop a competitive world market, which is what we are talking about; aren't we?

Mr. GRAUBARD. Mr. Byrnes, I carry no brief here for the value added tax, or the turnover tax, or whatever the border tax designation may be. The plain fact of the matter is, as pointed out by the First National City Bank of New York about 2 months ago in its monthly report, that the tax burden imposed by the Western European nations is considerably higher than that imposed by our own Government, very fortunately for us taxpayers. We are being asked when we ship goods abroad to have imposed upon that merchandise imported into Germany or into France exactly the same tax that is borne by the consumers in those nations for products manufactured in those nations.

Now, there has been a fundamental error underlying our dealing with these border taxes that goes way back and that is whether or not you can pass on a direct tax in contrast to an indirect tax.

There may have been a fundamental error made by our economists when I went to school, and that is a long, long time ago, and that error has been perpetrated; but we now have negotiations going on in Geneva. I think we should have a rectification of this and we should meet current economic theory today and we should do this not merely for the American selling price but for all issues.

I think that repeal of ASP should be carried out without regard to what the current negotiations may be in regard to elimination or minimization of these border taxes.

Mr. BYRNES. What are we going to have to pay, though? We are always talking about reciprocity here, and when we lose our bargaining strength, where does that put us? That is the problem that I see, when you want to put all the apples over there.

Mr. GRAUBARD. I requested this authority be placed in the bill 6 years ago, and therefore, perhaps I shouldn't speak with such virtue since this committee did not see fit to include that in the measure at that time.

Hindsight is fine, but I do urge that two wrongs make no right, that we should at least rectify the wrong of having ASP on the books of this country today in violation of a pledge we made a long time ago to work toward uniformity.

At the same time I think it is incumbent upon our representatives of the Government to work for equalization of our own trade prac-

tices with those of Europe's, including taxes, wherever possible, but the two don't have to depend one upon the other.

I would give you, for example, this question. Has anybody been urging that we repeal the excise tax on automobiles? I live in New York City. If I wanted to buy a Volkswagen not only would I have to pay an excise tax of 7 percent but a State and city sales tax of another 5 percent, making a total of 12 percent. That is a pretty big border tax, and yet I think it is justified on the basis of our own history in imposing taxes.

We used to have many more excise taxes than on automobiles and a few other products. I never heard any complaints, but perhaps I wasn't around to hear them, that we were being unfair by having border taxes.

All I am saying is that when a problem comes up with the magnitude that the excise taxes of Western Europe have come up these days, let's deal with them on a basis of equity and firmness and let's rectify them. Let's not ourselves stop from doing what is equitable on our side by repealing ASP.

Mr. BYRNES. I am not going to belabor this point except to say that as we have envisioned most of these operations as being on a reciprocal basis. You have to have something to give in order to get something, and I worry about the idea of not doing some of that bargaining instead of insisting on talking about one of our alleged nontariff barriers all by itself.

Therefore, you have to talk sometimes about apples and oranges at the same time.

Mr. GRAUBARD. I am sure we agree then, Mr. Byrnes, that this should have been included in the Kennedy round legislation.

Mr. BYRNES. I don't think there is any question about it and I disagree with you when you say that this Congress didn't tell the administration that they should. In fact, section 252 tells them that they were supposed to target in on these nontariff barriers.

We didn't limit ourselves; we made a specific direction to the negotiators to pay attention to those factors. Yet so far as I am concerned, I don't see very great evidence coming out of the Kennedy round that great progress was made in this area.

Mr. GRAUBARD. Then I am sure we do agree at least that we hope that these nontariff barriers will be speedily reduced.

Mr. BYRNES. That is all, Mr. Chairman.

The CHAIRMAN. We thank you, gentlemen, again for coming to the committee.

Mr. GRAUBARD. Thank you, sir.

The CHAIRMAN. Our next witness is Mr. Marshall. Mr. Marshall, we would like you to identify yourself for our record and then we will recognize you.

STATEMENT OF JAMES J. MARSHALL, PRESIDENT, AMERICAN ANILINE PRODUCTS, INC., AND IN BEHALF OF AD HOC COMMITTEE OF U.S. DYESTUFF PRODUCERS; ACCOMPANIED BY EUGENE L. STEWART, COUNSEL

Mr. MARSHALL. Mr. Chairman and members of the committee, I am James J. Marshall. I appear here as president of the American Ani-

line Products, Inc., and as spokesman for the ad hoc committee of U.S. dyestuff producers. I am accompanied by Eugene L. Stewart, our company's counsel.

In addition, representatives of the dyestuff producers who are members of the ad hoc committee are present in the hearing room in support of this appearance. Each of these companies is a small to medium size producer of dyes in the United States.

We appreciate very much the time which you have allotted to us for our testimony this morning. In the interest of conserving the committees' time in view of your time schedule, I shall not read my prepared testimony. Instead, I shall summarize its contents.

The CHAIRMAN. Mr. Marshall, without objection your entire statement will appear in the record.

Mr. MARSHALL. Thank you, sir. There is one simple, centrally important fact which you need to know in making up your mind about the proposal to repeal ASP. It is that almost the entire impact will be dealt to the U.S. dyestuff industry.

Ambassador Blumenthal said about as much to the German chemical industry in an address on December 8, 1966.

The amount of duty to be paid on imports is determined by multiplying the rate by the value. ASP is the rule for determining the value. The rate is a separate factor from ASP. The majority of imported dyes were subject, pre-Kennedy round, to the rate of 40 percent. This was cut to 20 percent, with no exceptions.

Few industries had each and every product in its line cut by the full 50 percent. We did.

The second part of the equation, rate times value equals duties, is also involved. The separate agreement on chemicals would change the "value" part of the equation by substituting values which the administration itself claims are about half of those presently used.

The effect would be to reduce still further the duties paid on imported dyestuffs, below the level to which those duties will be brought under the 50 percent duty cut, which I just discussed.

To understand the significance of the rates and value base provided for in the separate chemical agreement, you must be able to relate them to actual prices, foreign and domestic, and the duties collectable under the pre-Kennedy round ASP rates, for which the new rates based on the foreign producers' price would be substituted.

We have made such an analysis. Because the price information is in some cases confidential, this analysis is offered as a confidential exhibit. The results of that analysis can be publicly summarized, as follows: And I would respectfully call your attention to table No. 1.

The effect of the repeal of ASP and substituting the separate chemical agreement rates, based on foreign selling price, would fall most heavily on dyes. The average cut in duties for dyes would be 66 percent. Advanced dye intermediates, the second most important commercial class, would suffer a 60-percent cut.

Aside from certain carefully limited provisions which are not involved here, the Congress has never authorized the Executive to cut the duties protecting any substantial American industry by more than 50 percent.

Here we are, perhaps the most import-sensitive industry in the United States, singled out for a two-thirds cut in the amount of duties to be collected on competitive foreign imports. Why?

TABLE 1

Category of product	1965 pre-Kennedy round		Under separate agreement FSP rates		Average reduction in duty (percent)
	Average ASP per pound	Average ASP duty	Average FSP per pound	Average FSP duty	
Dyes:					
Acid	$2.71	$1.08	$1.20	$0.36	66.7
Basic	3.20	1.21	1.29	.39	67.8
Direct	2.46	.98	1.03	.31	68.4
Disperse	2.54	1.00	1.30	.39	61.0
Mordant	2.28	.91	.96	.28	69.2
Vat	1.94	.75	.96	.29	61.3
Average, 6 classes of dyes	2.52	0.99	1.12	.34	65.7
Azoics:					
Fast color bases	2.15	.47	.84	.25	46.8
Fast color salts	1.59	.35	.78	.23	34.3
Napthol AS and derivatives	3.18	.67	1.73	.52	22.4
Average, 3 classes of azoics	2.31	.50	1.12	.33	34.0
Intermediates:					
TSUS 403.48 (B)	.84	.20	.43	.08	60.0
TSUS 403.50 (B)	1.25	.28	.69	.12	57.1
TSUS 403.60 (B)	.29	.11	.17	.05	54.5
TSUS 403.60 (C)	.91	.21	.46	.09	65.4
TSUS 403.60 (G)	2.45	.67	1.40	.27	59.7
Average, 5 classes of intermediates	1.15	.30	.63	.12	60.0

Source: Exhibit 2, table 1.

Having agreed to enter into negotiations in relation to the President's power under the Trade Expansion Act, a few foreign nations after the bargaining commenced demanded extra-legal commitments which never should have been permitted by the U.S. negotiators.

The Executive, it seems to us, has now passed the buck to Congress.

To help you understand what will happen to us, we have made an analysis of the impact of the repeal of ASP and the substitution of the rates provided for in the "separate chemical agreement" based on FSP for the ASP rates.

We took our actual operating results in 1965—the latest data year in relation to which the Kennedy round agreements were made—and adjusted our sales income by the price reductions, product for product, which the reductions in duty would require if we were to hold our 1965 volume of sales against the sharply lower landed costs of foreign dyes.

The results are set forth in confidential exhibit tables VII and VIII. They may be summarized here publicly as follows:

First, as to the effect of the Kennedy round and supplementary agreement rates on our sales revenue. And I would ask, gentlemen, that you look at table No. 2.

These data mean ruin for our companies. Those who can lower their costs by importing from their own plants or other foreign sources will do so. The rest of us, and here I mean particularly the smaller, independent companies, will be forced in a comparatively short period of time after full implementation of the Kennedy round tariff reductions to close our plants, or become nonmanufacturing outlets for such foreign-produced dyes as we might be able to purchase outside of the closed circle of the European and Japanese cartels.

TABLE 2

Category of product	Percent loss of sales revenue in 1965, assuming price reductions to meet reduced landed cost of imported products under—	
	Post-Kennedy round ASP reduced duties	Supplementary chemical agreement duties at reduced rates based on FSP
Dyes:		
Acid	22.1	27.4
Basic	28.2	37.2
Direct	20.5	28.7
Disperse	10.1	14.6
Mordant	21.7	31.0
Vat	21.4	30.2
Total, all dyes	17.0	23.7
Azoic products:		
Fast color bases	21.1	18.8
Fast color salts	20.1	15.4
Naphthols	18.5	11.6
Total, azoic products	19.6	14.3
Intermediates	6.7	8.0
Total, all products	15.0	19.1

Source: Confidential exhibit, table VII.

Just so there is no misunderstanding of the dimensions of the impact on our earnings—and the comparable impact on the earnings of the other small, independent dye producers, let me summarize my company's 1965 profit and loss statement, before and after application of the Kennedy round and supplementary chemical agreement results.

If you would look please at table 3 and particularly the last line thereof, you will find that after the implementation referred to as a percent of our sales our net profit after tax comes up with the negative figure of 6.3 percent as a percentage of our shareholders' equity, a negative figure of 8.4 percent.

TABLE 3

	Net profit after taxes—	
	As percent of sales	As percent of shareholders' equity
Actual 1965 results	6.9	11.2
Adjusting revenue by imported chemcial landed cost reductions:		
50-percent ASP duty cut	(0.9)	(1.2)
Implementation of supplemental chemical agreement (reduced duties based on FSP)	(6.3)	(8.4)

Note: Figures in parentheses denote loss.

Source: Table VIII, confidential exhibit.

We would be close enough to the break-even point under the 50-percent reduction in ASP rates that we might be able through drastic adjustments to stay alive. Under the repeal of ASP and the reduced rates based on foreign selling price called for under the supplemental chemical agreement, we wouldn't have a chance. We would be finished as American manufacturers. The jobs of our operating employees would be lost forever.

For whose benefit is such a drastic, tragic result sought?

The dyestuff industry in the United States includes the American affiliates of the members of the European dyestuff cartel. These companies, to their maximum competitive advantage, balance U.S. production with imports of dyes and intermediates produced in Europe by their parents, and by 1965 had captured fully one-third of the American market.

A second major segment of the U.S. dyestuff industry is comprised of four large diversified chemical companies. We note the claim of the special representative that of the firms in the dye industry, four make more than half of all dyes.

Taking into account the third of the market held by the foreign producers, that would seem to leave 17 percent of the market to the many small dyestuff producers who, like American Aniline and the members of the ad hoc committee, are neither affiliates of the European cartel members nor of the four U.S. giants.

Let us be very clear about one point: The part of the U.S. market which the European and Japanese cartels can gain through elimination of ASP is not the 50 percent held by the four American giants.

They are international companies for the most part, and have the know-how and resources to shift the necessary portion of their production abroad. By exporting jobs and capital, they can conceivably hold their present share of this market, and possibly even increase it at the expense of the foreign cartels.

It is the small, nonalined companies, such as the members of the ad hoc committee, who will be destroyed by the repeal of ASP.

I. G. Farben dominated the world dyestuff trade before World War II, and its activities and that of its forebears led directly to the enactment of ASP by Congress at the behest of President Woodrow Wilson to insure continuity and growth of an American dyestuff industry.

I. G. Farben, formally, is gone. But the three chunks into which it was artificially divided by the postwar occupation authorities have the same talent for cooperation as did their parent.

You are now being asked to rewrite history, to condemn as bad that domestic policy which more than any other is directly responsible for the creation, growth, strength, and vitality of the American dyestuff industry. Before you call good, bad; and white, black; and jettison a proven method of neutralizing cartel power in the import trade in dyes as outmoded, study our confidential exhibit detailing the structure and operation of the foreign dyestuff cartels.

Has the ASP duty system been so restrictive of U.S. imports that foreign producers have been unable to expand their sales in the American market? Have ASP rates been more import-retarding than so-called conventional duty valuation in other sectors of manufactured products?

The answer to both questions is an emphatic "No." Let's look at the facts. Using the average of the 3 years, 1958–60 as a base period, we find that imports of dyes and pigments have risen more rapidly than

in other sectors of industry; and exports from the United States have lagged behind those in other industries because of the greater domination of dyestuff export markets by the foreign producers. The data may be summarized as follows: and is summarized if you will please look at table 4.

TABLE 4.—U.S. FOREIGN TRADE IN DYESTUFFS AND RELATED INDUSTRIES, 1958–66

[Dollar amounts in millions]

Industry	Average, 1958–60	1963	1966	Percent change 1958–60 to 1966
Synthetic organic dyes, pigments, lakes and toners (S.I.C. 28152):				
Imports, f.a.s. U.S. port	$17.2	$29.6	$60.7	+252.9
Exports, f.o.b. plant	18.6	26.6	31.2	+67.7
Balance of trade	+1.4	−3.0	−29.5	−2207.1
Intermediate coal-tar products (S.I.C. 2815):				
Imports, f.a.s. U.S. port	20.6	35.8	67.1	+225.7
Exports, f.o.b. plant	48.6	72.0	124.6	+156.4
Balance of trade	+28.0	+36.2	+57.5	+105.4
Chemicals and allied products (S.I.C. 28):				
Imports, f.a.s. U.S. port	438.5	550.9	899.6	+105.2
Exports, f.o.b. plant	1,590.9	1,944.9	2,968.3	+86.6
Balance of trade	+1,152.4	+1,394.0	+2,068.7	+79.5
Textile mill products (S.I.C. 22):				
Imports, f.a.s. U.S. port	700.9	946.7	1,229.6	+75.4
Exports, f.o.b. plant	296.7	276.3	388.2	+30.8
Balance of trade	−404.2	−670.4	−841.4	−108.2
Nondurable goods manufacturing:				
Imports, f.a.s. U.S. port	5,613.8	7,012.1	8,827.0	+57.2
Exports, f.o.b. plant	4,455.0	5,432.4	7,117.8	+59.8
Balance of trade	−1,158.8	−1,579.7	−1,709.2	−47.5
All manufacturing industries:				
Imports, f.a.s. U.S. port	10,751.0	13,694.5	19,533.4	+81.7
Exports, f.o.b. plant	13,120.8	16,096.5	24,199.8	+84.4
Balance of trade	+2,369.8	+2,402.0	+4,666.4	+96.9

Source: Trade Relations Council of the United States, Inc.

The central point of the advocates of ASP repeal, that the ASP duty system has an abnormally restrictive effect on imports, is thus demolished by the facts.

According to the Tariff Commission, two-thirds of the dyes sold in the United States are consumed by the domestic textile industry. The total invasion of the U.S. market for dyes for the textile industry includes both the dyes imported as dyes, and the dye content of textiles imported in a dyed or printed state.

The data pertinent to a determination of the share of the U.S. consumption of dyes accounted for by imported dyes are summarized as follows, in table No. 5.

TABLE 5.—RATIO OF IMPORTED DYES TO DOMESTIC CONSUMPTION

[In millions of pounds, and percent]

	1957	1961	1965	1967	Percent change, 1957–67
Domestic consumption of dyes: Total	120.9	153.9	182.0	200.8	+66.1
In textiles: Direct	80.5	102.5	121.2	133.9	----------
Indirect	2.6	2.4	4.4	5.8	----------
Total	83.1	104.9	125.6	139.7	+68.1
Imports of dyes: Total as dyes, all uses	3.6	6.0	10.8	11.8	+227.8
Of which, for textiles	2.4	4.0	7.2	7.9	+229.2
Indirect, in dyed for printed textiles	2.6	2.4	4.4	5.8	+123.1
Total, for textiles	5.0	6.4	11.6	13.7	+174.0
Ratio, imports to domestic consumption (percent):					
Total direct	3.0	3.9	5.9	5.9	----------
For textile use	6.0	6.1	9.2	9.8	----------

Source: Trade Relations Council of the United States, Inc., as compiled from official statistics of the U.S. Tariff Commission and the U.S. Department of Commerce, Bureau of the Census.

In the dye industry's major market, textiles, imported dyes increased their share of the market by 1967 from 6 percent to nearly 10 percent. On a fiber equivalent basis, imports of textiles in all forms accounted for about 5 percent of consumption in 1957 and increased their share of the U.S. market to nearly 10 percent in 1967.

Thus, the dye industry has suffered the same degree of import penetration in its principal market as textiles. But unlike the proper, though as yet inadequate, concern manifested by the Government for the textile industry, the dye industry has become the victim of a concerted attack by the executive branch of the Government.

To the full 50 percent cut in duties in the Kennedy round, your committee is asked to add further serious injury in the form of a repeal of ASP and a further reduction in rates of duty below the average level of the 50 percent cut already sustained.

The gross unfairness of the attack which the members of the European and Japanese dye cartels have launched against the U.S. industry is shown by a comparison of the share of world dye exports which each producer enjoys.

In 1967 West Germany supplied 39 percent of world exports of dyes and pigments; the EEC, 51 percent. Switzerland and the United Kingdom together accounted for 37 percent. The United States supplied 6.9 percent, Japan 5.1 percent.

The major point is that four countries—West Germany, Switzerland, United Kingdom, and Japan—together supplied 80 percent of world exports; the United States, less than 7 percent.

Please refer to table No. 6 which details statistically the information that I just gave you.

The fact is that the foreign cartels have the world export market for dyes and pigments very much to themselves. The U.S. industry is a very small factor, and is steadily being forced out of even this slender position in world markets.

Under these circumstances, the attempt being made by the nations representing the foreign cartels to knock the base out from under the

TABLE 6.—WORLD EXPORTS OF DYES AND PIGMENTS (SITC 531)

[In metric tons]

Exporting country	1966	Percent of whole	6 months, 1967	Percent of whole
West Germany	51,880	38.5	26,738	39.3
Other EEC	16,524	12.3	8,046	11.8
Subtotal	68,404	50.8	34,784	51.1
Switzerland	28,238	21.0	13,213	19.4
United Kingdom	21,355	15.9	11,309	16.6
Other EFTA	1,304	1.0	621	.9
Subtotal	50,897	37.9	25,143	36.9
Japan	5,275	3.9	3,471	5.1
United States	9,966	7.4	4,702	6.9
Total	134,542	100.0	68,100	100.0

Sources: OECD, "Commodity Trade: Exports," 1966; OECD, "Commodity Trade: Exports," January-June, 1967.

U.S. dye and pigments industry through repeal of ASP and substitution of reduced converted rates based on foreign selling price to us is an outrage.

Advocates of ASP repeal base their case on the allegation that American producers can cut off imports by arbitrarily raising the duty on a product by raising the price.

This argument completely ignores the reality of the market place where a price increase of $1 per pound would be required to raise the duty by 20 cents and would itself make the U.S. product noncompetitive, if it were not already so. It also ignores the operation in the United States of strong antitrust laws and the vigilant attention of the U.S. Department of Justice to prevent price fixing.

In contrast with the few producers located in the principal foreign countries exporting dyes to the United States, there are more than 50 producers of dyes in the United States, each competing vigorously under antitrust ground rules for a place in the American market.

The real crux of the matter is that the members of the foreign cartels wish to secure for themselves the power to reduce U.S. duties under a system in which dutiable value would be based upon their foreign export price.

If ASP is repealed, the foreign cartels will be able to carry on a campaign under which for each 30-cent reduction in their foreign export price, the U.S. Government would contribute a further reduction in landed cost of 9 cents.

To acquiesce to the demands of the foreign cartels, sponsored by their governments, at this stage of history would be knowingly and purposefully to sacrifice as expendable the businesses, plants, investments, and employment of the small U.S. dye companies.

The sole basis for the health and welfare of the U.S. dye industry and its employees lies in continued access to U.S. produced dyes to the U.S. market. This access will be destroyed by the repeal of the ASP system.

In the name of justice and fair play, therefore, we call upon this committee and the Congress to reject the proposal to repeal ASP as to dyes, pigments, and dye intermediates.

This concludes my statement, Mr. Chairman. I thank you very much.

(Mr. Marshall's prepared statement follows:)

STATEMENT OF JAMES J. MARSHALL, PRESIDENT, AMERICAN ANILINE PRODUCTS, INC., AND ON BEHALF OF THE AD HOC COMMITTEE OF U.S. DYESTUFF PRODUCERS; ACCOMPANIED BY EUGENE L. STEWART, COUNSEL

Mr. Chairman and members of the committee, I am James J. Marshall. I appear here both as President of American Aniline Products, Inc., and as spokesman for an Ad Hoc Committee of U.S. Dyestuff Producers. The firms which are members of this Committee are listed in Exhibit 1 to my statement. Each is a medium to small sized producer of dyes in the United States. None is affiliated with foreign producers of dyes, or with the few large multiproduct U.S. companies which also produce dyes in this country.

We are speaking with one voice as a group because it is on these small, independent U.S. producers that the full, destructive impact of the elimination of ASP would most quickly fall.

We are asking this Committee to save the American dyestuff industry, our companies, and our employees' jobs from certain destruction by voting down the Administration's request for repeal of ASP, Title IV of H.R. 17551.

Here are our reasons, stated as concisely as the time allotted to this appearance will permit.

I. THE SUPPLEMENTAL CHEMICAL AGREEMENT WILL HAVE ITS PRINCIPAL EFFECT ON THE U. S. DYESTUFF INDUSTRY, WHICH, BECAUSE OF ITS HIGHLY LABOR-INTENSIVE, BATCH-PROCESSING MANUFACTURING OPERATIONS, IS ACUTELY VULNERABLE TO FOREIGN COMPETITION

Your Committee has heard a lot of testimony from the Administration and the broad chemical industry about the supplemental chemical agreement entered into by U.S. negotiators at Geneva. No doubt it seems like a complex matter to you. There is one simple, centrally important fact which you need to know in making up your mind about the effect, if you were to approve the proposal to repeal ASP. It is that almost the entire impact will be dealt to the U.S. dyestuff industry.

Ambassador Blumental said as much to the German chemical industry in an address on December 8, 1966:[1]

"The Tariff Commission has found that the tariff effect of ASP protection is significant only for dyes, certain dye intermediates, and a few drugs and other specialty products. These are typically labor intensive, higher priced, batch-produced products. And since labor costs are relatively high in the United States, this batch process area of chemical production is an especially sensitive one for us."

II. THE DYESTUFF INDUSTRY HAS ALREADY HAD ITS DUTIES CUT THE FULL 50% INTENDED BY THIS COMMITTEE AS THE MAXIMUM PERMISSIBLE REDUCTION FOR ANY INDUSTRY

The amount of duty to be paid on imports is determined by multiplying the rate by the value. ASP is the rule for determining the value. The *rate* is a separate factor from ASP. The majority of imported dyes were subject, pre-Kennedy Round, to the rate of 40%. This was cut to 20%. No exceptions.

A group of 86 dyes was subject, pre-Kennedy Round, to the rate of 32%. This was cut to 16%. No exceptions. Two dyes, sulphur black and synthetic indigo, were dutiable at a compound rate, 3¢ per pound plus 20%. These were cut to 1.5¢ per pound plus 10%.

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[1] Address by Ambassador Blumenthal before the European Chemical Industry, Kronberg, Germany, December 8, 1966, p. 7.

A special group of dyestuff components called fast color salts, fast color bases, and Naphthol AS and derivatives—which collectively are referred to as "Azoics"—were subject, pre-Kennedy Round, to the rate of 3.5¢ per pound plus 20%. These were cut to 1.7¢ per pound plus 10%. No exceptions. Synthetic organic pigments—known as "lakes and toners"—were dutiable, pre-Kennedy Round, at 40%. They were cut to 20%. No exceptions.

Finally, advanced chemical compounds made in dyestuff plants, known as advanced intermediates, were also cut by 50%. Most of these were dutiable, pre-Kennedy Round, at 3.5¢ per pound plus 25%. These were cut to 1.7¢ per pound plus 12.5%. A group of 23 advanced intermediates were dutiable, by name, pre-Kennedy Round, at 3¢ per pound plus 20%. These were cut to 1.5¢ plus 10%. A second group of 30 advanced intermediates, and their salts, were dutiable, pre-Kennedy Round, at 2.8¢ per pound plus 20%. These were cut to 1.4¢ per pound plus 10%. No exceptions.

Few industries had each and every product in its line cut by the full 50%. We did.

Let us not lose sight of the fact that the Congress is here being asked by the Administration to ratify an action which was taken in the course of trade agreement negotiations under claim of authority in the Trade Expansion Act. It used every bit of its authority in cutting duties on dyestuffs by 50%. Now it asks that still further reductions in duty be approved, a price being asked of no other industry.

The second part of the equation, rate times value equals duties, is involved. The separate agreement on chemicals would change the "value" part of the equation by substituting values which the Administration itself claims are about half of those presently used. The effect would be to reduce still further the duties paid on imported dyestuffs, *below* the level to which those duties will be brought under the 50% *duty* cut, which I just discussed. What is the size of this additional cut?

III. THE AGREEMENT ON CHEMICALS IF APPROVED BY CONGRESS WOULD REDUCE DUTIES COLLECTED ON DYES AN AVERAGE OF 66%, ASSUMING THAT THE FOREIGN DYE CARTEL DID NOT LOWER ITS SELLING PRICES TO TAKE ADVANTAGE OF THE FACT THAT THE REPEAL OF ASP WOULD BASE U.S. CUSTOMS VALUE ON THE CARTEL'S PRICES

The agreement on chemicals, which would be ratified by enactment of Title IV of H.R. 17551, provides essentially for repeal of ASP, and the substitution of new rates based on the export price of imports for the 50% reduced ASP rates. For dyes, pigments, and azoics, the new rate of duty would be 30%. For advanced dye intermediates, the new rates, based on export price of imports, would range from 1.5¢ per pound plus 10% to 2.4¢ per pound plus 19%. The great majority of the advanced intermediates would be dutiable at 1.5¢ per pound plus 18% ad valorem.

To understand the significance of the rates and value base provided for in the separate chemical agreement, you must be able to relate them to actual prices, foreign and domestic, and the duties which are collectable under the pre-Kennedy Round ASP rates, for which the new rates based on the foreign producers' prices (let's refer to that as FSP—foreign selling price—in contrast to ASP—American selling price) would be substituted.

We have made such an analysis, based on American Aniline's records of American and foreign selling prices for a large number of commercially important dyes, azoics, and advanced intermediates. Because the price information is in some cases confidential, this analysis is offered as a confidential exhibit. The analysis is based on 1965 prices, ASP and FSP, since that is the last year in relation to which data the Kennedy Round agreements were negotiated.

The method used is to determine in comparison with the duties actually collectable under 1965 ASP rates, the duties that would have been collectable, product for product, had the separate agreement rates based on FSP been in

effect in 1965. The results of that analysis can be publicly summarized, as follows:

TABLE 1

Category of product	1965 Pre-Kennedy round		Under separate agreement FSP rates		Average reduction in duty (percent)
	Average ASP per pound	Average ASP duty	Average FSP per pound	Average FSP duty	
Dyes:					
Acid	$2.71	$1.08	$1.20	$0.36	66.7
Basic	3.20	1.21	1.29	.39	67.8
Direct	2.46	.98	1.03	.31	68.4
Disperse	2.54	1.00	1.30	.39	61.0
Mordant	2.28	.91	.96	.28	69.2
Vat	1.94	.75	.96	.29	61.3
Average, 6 classes of dyes	2.52	0.99	1.12	.34	65.7
Azoics:					
Fast color bases	2.15	.47	.84	.25	46.8
Fast color salts	1.59	.35	.78	.23	34.3
Napthol AS and derivatives	3.18	.67	1.73	.52	22.4
Average, 3 classes of azoics	2.31	.50	1.12	.33	34.0
Intermediates:					
TSUS 403.48 (B)	.84	.20	.43	.08	60.0
TSUS 403.50 (B)	1.25	.28	.69	.12	57.1
TSUS 403.60 (B)	.29	.11	.17	.05	54.5
TSUS 403.60 (C)	.91	.21	.46	.09	65.4
TSUS 403.60 (G)	2.45	.67	1.40	.27	59.7
Average, 5 classes of intermediates	1.15	.30	.63	.12	60.0

Source: Exhibit 2, table 1.

The effect of the repeal of ASP and substituting the "separate chemical agreement" rates, based on FSP, for the pre-Kennedy Round rates, based on ASP, would fall most heavily on dyes. The average cut in duties for dyes would be 66%. Advanced dye intermediates, the second most important commercial class, would suffer a 60% cut. The azoics, which were more sharply reduced in duty than other products prior to the Kennedy Round, would take an average cut of 34%.

Aside from certain carefully limited provisions which are not involved here, the Congress has never authorized the Executive to cut the duties protecting any substantial American industry by more than 50%. Here we are, perhaps the most import-sensitive industry in the United States, singled out for a two-thirds cut in the amount of duties to be collected on competitive foreign imports. Why? Not for the reasons given by the Administration.

For 46 years, through three decades of active trade agreement negotiations, the ASP basis of dyestuff duties has served as a stable base for the application of steadily reduced rates of duties. The rates are now low enough that the members of the European chemical cartel sensed an opportunity to take over the American market with the duty-controlling power which a shift of the value base from the American industry's domestic prices to their own export prices would confer. Their governments made ASP an issue for their benefit, and by superior negotiating techniques at Geneva created the *fiction of inequities* in the operation of ASP which the U.S. negotiators unfortunately adopted.

Having agreed to enter into negotiations in relation to the President's power under the Trade Expansion Act, these foreign nations after the bargaining commenced demanded extra-legal commitments which never should have been permitted by the U.S. negotiators. They had a perfect defense against such tactics by citing their lack of authority to negotiate such a subject. Instead, they retreated before the determined propaganda of the Europeans and the Japanese.

The Executive has now passed the buck to Congress. *We ask the Congress to reinforce the integrity of the foreign trade regulating delegation process by repudiating the extra-legal "separate chemical agreement."*

IV. REPEAL OF ASP AND SUBSTITUTION OF THE FSP REDUCED RATES FOR THE ASP DUTY RATES WOULD BRING THE FINANCIAL RESULTS OF DOMESTIC DYESTUFF PRODUCTION SHARPLY BELOW THE BREAK-EVEN LEVEL, AND FORCE ALL BUT THE LARGE U.S.-BASED AND FOREIGN-BASED INTERNATIONAL, DIVERSIFIED COMPANIES OUT OF BUSINESS

To help you understand what will happen to us, we have made an analysis of the impact of the repeal of ASP and the substitution of the rates provided for in the "separate chemical agreement" based on FSP for the ASP rates. We took our actual operating results in 1965—the latest data year in relation to which the Kennedy Round agreements were made—and adjusted our sales income by the price reductions, product for product, which the reductions in duty detailed in our confidential exhibit Tables I through VI would require if we were to hold our 1965 volume of sales against the sharply lower landed costs of foreign dyes. The results are set forth in confidential exhibit Tables VII and VIII. They may be summarized here publicly as follows:

First, as to the effect of the Kennedy Round and supplementary agreement rates on our sales revenue:

TABLE 2

Category of product	Percent loss of sales revenue in 1965, assuming price reductions to meet reduced landed cost of imported products under—	
	Post-Kennedy round ASP reduced duties	Supplementary chemical agreement duties at reduced rates based on FSP
Dyes:		
Acid	22.1	27.4
Basic	28.2	37.2
Direct	20.5	28.7
Disperse	10.1	14.6
Mordant	21.7	31.0
Vat	21.4	30.2
Total, all dyes	17.0	23.7
Azoic products:		
Fast color bases	21.1	18.8
Fast color salts	20.1	15.4
Naphthols	18.5	11.6
Total, azoic products	19.6	14.3
Intermediates	6.7	8.0
Total, all products	15.0	19.1

Source: Confidential exhibit, table VII.

Gentlemen, my company does not operate at a level of earnings where we can suffer a 15% or a 19% loss of revenue and keep our head above water. I am certain that no other member of the Ad Hoc Committee can suffer a loss of either 15% or 19% of income at the 1965 level of operations and recover all costs.

These data mean ruin for our companies. Those who can lower their costs by importing from their own plants or other foreign sources will do so. The rest of us, and here I mean particularly the smaller, independent companies, will be forced in a comparatively short period of time after full implementation of the Kennedy Round tariff reductions to close our plants, or become nonmanufacturing outlets for such foreign-produced dyes as we can purchase outside of the closed circle of the European and Japanese cartels.

Just so there is no misunderstanding of the dimensions of the impact on our earnings—and the comparable impact on the earnings of the other small, independent dye producers, let me summarize my company's 1965 profit and loss statement, before and after application of the Kennedy Round and supplementary chemical agreement results. The details are given in my confidential exhibit, Table VIII.

TABLE 3

	Net profit after taxes—	
	As percent of sales	As percent of shareholders' equity
Actual 1965 results	6.9	11.2
Adjusting revenue by imported chemcial landed cost reductions:		
50-percent ASP duty cut	(0.9)	(1.2)
Implementation of supplemental chemical agreement (reduced duties based on FSP)	(6.3)	(8.4)

Note: Figures in parentheses denote loss.

Source: Table VIII, confidential exhibit.

We would be close enough to the break-even point under the 50% reduction in ASP rates that we might be able through drastic adjustments to stay alive. Under the repeal of ASP and the reduced rates based on FSP called for under the supplemental chemical agreement, we wouldn't have a chance. We would be finished as American manufacturers. The jobs of our operating employees would be lost forever.

For whose benefit is such a drastic, tragic result sought?

V. REPEAL OF ASP AND ADOPTION OF THE REDUCED CONVERTED RATES BASED ON FSP FOR IMPORTS OF DYES, PIGMENTS, AND ADVANCED INTERMEDIATES WILL BENEFIT ONLY THE EUROPEAN AND JAPANESE CHEMICAL CARTELS, A FEW U.S.-BASED INTERNATONAL COMPANIES WHO MIGHT TRANSFER THEIR PRODUCTION AND JOBS OVERSEAS, AND NO ONE ELSE

The dyestuff industry in the United States includes the American affiliates of the members of the European dyestuff cartel (Hoechst, Bayer, Badische, and Casella of Germany; Ciba, Sandoz, and Geigy of Switzerland; and I.C.I. of England). These companies to their maximum competitive advantage balance U.S. production with imports of dyes and intermediates produced in Europe by their parents, and by 1965 had captured fully one-third of the American market.[2]

A second major segment of the U.S. dyestuff industry is comprised of four large diversified chemical companies (du Pont, Allied Chemical, American Cyanamid, and General Aniline & Film). We note the claim of the Special Representative that of the firms in the dye industry, "four make more than half of all dyes."[3] Taking into account the third of the market held by the foreign producers, that would seem to leave 17% of the market to the many small dyestuff producers who, like American Aniline and the members of the Ad Hoc Committee, are neither affiliates of the European cartel members, nor of the four U.S. giants.

Let us be very clear about one point: the part of the U.S. market which the European and Japanese cartels can gain through elimination of ASP is not the 50% held by the four American giants. They are international companies for the most part, and have the know-how and resources to shift the necessary portion of their production abroad. By exporting jobs and capital, they can conceivably hold their present share of this market, and possibly even increase it at the expense of the foreign cartels.

It is the small, nonaligned companies, such as the members of the Ad Hoc Committee, who will be destroyed by the repeal of ASP. American Aniline is perhaps one of the largest of this group of small companies. Our product line is broad, covering every significant sector of the dye and dye intermediate trade.

[2] U.S. Tariff Commission, Report to the Special Representative for Trade Negotiations, July 25, 1966, p. 19.

[3] Memo, Office of the Special Representative for Trade Negotiations, undated, distributed to members of Congress in 1967, p. 7.

What happens to us is typical of what will happen to the rest of the smaller companies.

This reference to the foreign cartels is not idle talk. We have detailed in our confidential exhibits the fact of the operation of the big three in Germany—the components of I. G. Farben pre-World War II—as a production and export cartel; the fact of the tie-in of the big three in Switzerland—Ciba, Giegy, and Sandoz—through corporate affiliation with the German cartel; and the fact of the production and export marketing cartel of the big three Japanese dye producers, and the tie-in of their group through a corporate affiliation with one of the members of the German cartel.

We have documented the post-World War II attempt of the Swiss cartel to monopolize trade in the dye trade in the United States, and the recent conviction of the German cartel by its government for monopolization of the German market.

I. G. Farben dominated the world dyestuff trade before World War II, and its activities and that of its forebears led directly to the enactment of ASP by Congress at the behest of President Woodrow Wilson to insure continuity and growth of an American dyestuff industry. I. G. Farben, formally, is gone. But the three chunks into which it was artificially divided by the postwar occupation authorities have the same talent for coöperation as their parent.

The Swiss are essentially dependent upon the Germans for basic intermediates, and for sufferance so that the Swiss can pursue the development and marketing of specialized dyes which do not conflict with German chemical industry economic interests.

These are the interests which successfully pressured their Governments into the determined onslaught against the American Selling Price. They once dominated the American market to the detriment of our national defense capabilities, and to the detriment of the American textile industry which was utterly dependent upon the marketing whim and caprice of the German chemical colossus.

You are now being asked to rewrite history, to condemn as bad that domestic policy which more than any other is directly responsible for the creation, growth, strength, and vitality of the American dyestuff industry. Before you call good, bad, and white, black, and jettison a proven method of neutralizing cartel power in the import trade in dyes as "outmoded" (as the Administration would have you do), study the contents of our confidential exhibit detailing the structure and operation of the foreign dyestuff cartels. Check your judgment with the Antitrust Division of the Department of Justice, which should be able to supply you with details of the history, old and new, of the anticompetitive activity of the European chemical cartel, especially in dyes.

The cartel question aside, before you take such drastic action as is involved in the destruction of the independent segment of the American dye industry, shouldn't you consider the basic question of whether the *existing* system permits a rapid and continued expansion of U.S. foreign trade in dyes?

VI. FOREIGN DYES AND PIGMENTS HAVE GREATER AND MORE FACILE ACCESS TO THE U.S. MARKET THAN IMPORTED PRODUCTS IN OTHER SECTORS OF MANUFACTURING, AS SHOWN BY MORE RAPID IMPORT INCREASES AND LESS RAPID EXPORT GAINS IN DYES AND PIGMENTS THAN ALL MANUFACTURING, NONDURABLE GOODS MANUFACTURING, AND CHEMICALS AND ALLIED PRODUCTS MANUFACTURING

Has the ASP duty system been so restrictive of U.S. imports that foreign producers have been unable to expand their sales in the American market? Have ASP rates been more import-retarding than so-called conventional duty valuation in other sectors of manufactured products?

The answer to both questions is an emphatic "no." Let's look at the facts. Using the average of the three years 1958–1960 as a base period, we find that the foreign industry has had by far the best of both worlds in dyes and pigments: imports of dyes and pigments have risen more rapidly than in other sectors of industry; and exports from the U.S. have lagged behind those in other industries because

of the greater domination of dyestuff export markets by the foreign producers. The data may be summarized as follows:

TABLE 4.—U.S. FOREIGN TRADE IN DYESTUFFS AND RELATED INDUSTRIES, 1958–66

[Dollar amounts in millions]

Industry	Average, 1958–60	1963	1966	Percent Change 1958–60 to 1966
Synthetic organic dyes, pigments, lakes and toners (S.I.C. 28152):				
Imports, f.a.s. U.S. port	$17.2	$29.6	$60.7	+252.9
Exports, f.o.b. plant	18.6	26.6	31.2	+67.7
Balance of trade	+1.4	−3.0	−29.5	−2207.1
Intermediate coal-tar products (S.I.C. 2815):				
Imports, f.a.s. U.S. port	20.6	35.8	67.1	+225.7
Exports, f.o.b. plant	48.6	72.0	124.6	+156.4
Balance of trade	+28.0	+36.2	+57.5	+105.4
Chemicals and allied products (S.I.C. 28):				
Imports, f.a.s. U.S. port	438.5	550.9	899.6	+105.2
Exports, f.o.b. plant	1,590.9	1,944.9	2,968.3	+86.6
Balance of trade	+1,152.4	+1,394.0	+2,068.7	+79.5
Textile mill products (S.I.C. 22):				
Imports, f.a.s. U.S. port	700.9	946.7	1,229.6	+75.4
Exports, f.o.b. plant	296.7	276.3	388.2	+30.8
Balance of trade	−404.2	−670.4	−841.4	−108.2
Nondurable goods manufacturing:				
Imports, f.a.s. U.S. port	5,613.8	7,012.1	8,827.0	+57.2
Exports, f.o.b. plant	4,455.0	5,432.4	7,117.8	+59.8
Balance of trade	−1,158.8	−1,579.7	−1,709.2	−47.5
All manufacturing industries:				
Imports, f.a.s. U.S. port	10,751.0	13,694.5	19,533.4	+81.7
Exports, f.o.b. plant	13,120.8	16,096.5	24,199.8	+84.4
Balance of trade	+2,369.8	+2,402.0	+4,666.4	+96.9

Source: Trade Relations Council of the United States, Inc.

On a comparative basis, these data show that the foreign producers of dyes and pigments have very strong growth rates in the U.S. market. The central point of the advocates of ASP repeal, that the ASP duty system has an abnormally restrictive effect on imports, is thus demolished by the facts.

What is the significance of this import growth rate in terms of absolute penetration of the U.S. market?

VII. FOREIGN-PRODUCED DYES ACCOUNTED IN 1967 FOR 9.8% OF TOTAL DOMESTIC CONSUMPTION OF DYES IN TEXTILES, A MARKET PENETRATION BY IMPORTS COMPARABLE TO THAT IN TEXTILES

According to the Tariff Commission, two-thirds of the dyes sold in the United States are consumed by the domestic textile industry.[4] This coincides with trade information. The total invasion of the U.S. market for dyes for the textile industry includes both the dyes imported as dyes, and the dye content of textiles imported in a dyed or printed state.

By comparing the production of textiles in terms of the pounds of fiber consumed at the mill, and the consumption of dyes by the textile industry in pounds, year by year, it is possible to determine the average dye content of textiles consumed in the American market generally. This factor can then be applied to the pound equivalent of textiles imported in a dyed state, and an

[4] U.S. Tariff Commission, *Synthetic Organic Chemicals, U.S. Production and Sales, 1965*, T.C. Publication 206 (Washington 1967), p. 15.

approximation made of the amount of dyes imported as part of finished textile goods. This latter represents the indirect importation of dyes.

The data pertinent to a determination of the share of the U.S. consumption of dyes accounted for by imported dyes are summarized as follows:

TABLE 5.—RATIO OF IMPORTED DYES TO DOMESTIC CONSUMPTION

[In millions of pounds, and percent]

	1957	1961	1965	1967	Percent change, 1957–67
Domestic consumption of dyes:					
Total	120.9	153.9	182.0	200.8	+66.1
In textiles:					
Direct	80.5	102.5	121.2	133.9	----------
Indirect	2.6	2.4	4.4	5.8	----------
Total	83.1	104.9	125.6	139.7	+68.1
Imports of dyes:					
Total as dyes, all uses	3.6	6.0	10.8	11.8	+227.8
Of which, for textiles	2.4	4.0	7.2	7.9	+229.2
Indirect, in dyed for printed textiles	2.6	2.4	4.4	5.8	+123.1
Total, for textiles	5.0	6.4	11.6	13.7	+174.0
Ratio, imports to domestic consumption (percent):					
Total direct	3.0	3.9	5.9	5.9	----------
For textile use	6.0	6.1	9.2	9.8	----------

Source: Trade Relations Council of the United States, Inc., as compiled from official statistics of the U.S. Tariff Commission and the U.S. Department of Commerce, Bureau of the Census.

Total imports of dyes have doubled their share of total U.S. consumption of dyes for all uses, rising from 3% to nearly 6%. In the dye industry's major market, textiles, imported dyes increased their share of the market by 1967 from 6% to nearly 10%. On a fiber equivalent basis, imports of textiles in all forms accounted for about 5% of consumption in 1957, and increased their share of the U.S. market to nearly 10% in 1967.[5]

Thus, the dye industry has suffered the same degree of import penetration in its principal market as textiles. But unlike the proper, though as yet inadequate, concern manifested by the Government for the textile industry, in view of the import problem (as suggested by the Long-Term Cotton Textile Arrangement, the small reductions in duty on most categories of textile mill products and apparel in the Kennedy Round, and the bills pending before this Committee with the distinguished sponsorship of the Chairman and 200 other members of Congress), the dye industry has become the victim of a concerted attack by the Executive Branch of the Government. To the full 50% cut in duties in the Kennedy Round, your Committee is asked to add further serious injury in the form of a repeal of ASP and a further reduction in rates of duty below the average level of the 50% cut already sustained.

It is clear that the ASP system of import duties for dyes permits imports to enter the American market in a rising volume which, in the directly related field of textiles, has been found to be market-disruptive. Does the American industry have comparable access to the markets of its foreign competitors?

[5] The data are as follows:

[In millions of pounds of fiber]

	1957	1967
Domestic consumption	6,031.7	9,333.7
Imports	281.4	894.2

Source: Trade Relations Council of the United States, Inc.

VIII. THE U.S. DYE INDUSTRY HAS A SMALL AND DECLINING SHARE OF WORLD EXPORTS BY THE PRINCIPAL DYE PRODUCING NATIONS AND IS VIRTUALLY EXCLUDED FROM THE MARKETS OF THE EUROPEAN AND JAPANESE CARTELS

The gross unfairness of the attack which the members of the European and Japanese dye cartels have launched against the U.S. industry is shown by a comparison of the share of world dye exports which each producer enjoys.

In 1967, West Germany supplied 39% of world exports of dyes and pigments; the EEC, 51%. Switzerland and the United Kingdom together accounted for 37%. The United States supplied 6.9%; Japan, 5.1%.

The major point is that four countries—West Germany, Switzerland, United Kingdom, and Japan—together supplied 80% of world exports; the United States, less than 7%.

TABLE 6.—WORLD EXPORTS OF DYES AND PIGMENTS (SITC 531)

[In metric tons]

Exporting country	1966	Percent of whole	6 months, 1967	Percent of whole
West Germany	51,880	38.5	26,738	39.3
Other EEC	16,524	12.3	8,046	11.8
Subtotal	68,404	50.8	34,784	51.1
Switzerland	28,238	21.0	13,213	19.4
United Kingdom	21,355	15.9	11,309	16.6
Other EFTA	1,304	1.0	621	.9
Subtotal	50,897	37.9	25,143	36.9
Japan	5,275	3.9	3,471	5.1
United States	9,966	7.4	4,702	6.9
Total	134,542	100.0	68,100	100.0

Sources: OECD, "Commodity Trade: Exports," 1966; OECD, "Commodity Trade: Exports," January–June, 1967.

In dollar terms, the United States share of world exports of dyes and pigments has declined from 8.5% in 1962 to 7.2% in 1966. The United States supplied only 2.6% of world exports of dyes and pigments to France in 1966; 1.9% to Germany. The U.S. share of the world's exports of dyes and pigments to Switzerland dropped from 14% in 1963 to 9% in 1966; from 11% of the exports to the United Kingdom in 1964 to 8% in 1966. The United States accounted for 13% of world dye and pigment exports to Japan in 1962, but only 8% in 1966.[6]

In fact, the U.S. share of world exports of dyes dropped between 1962 and 1966 to 14 out of 17 Latin American nations; to 14 out of 17 Western European nations; to 6 out of 11 Middle East nations; to 3 out of 4 African nations for which complete data are available; and to 7 out of 12 Asian nations.

The biggest export market for the United States is Canada, but even there the U.S. share of exports to the Canadian market has slipped from 60% in 1963 to 55% in 1966.

The fact is that the foreign cartels have the world export market for dyes and pigments very much to themselves. The U.S. industry is a very small factor, and is steadily being forced out of even this slender position in world markets.

Under these circumstances, the extraordinary attempt being made by the nations representing the foreign cartels with the cooperation of the Administration to knock the base out from under the U.S. dye and pigments industry through repeal of ASP and substitution of reduced converted rates based on FSP is an outrage.

The result of such action is clear without doubt: The U.S. market for dyes and pigments will be turned over entirely to foreign production in a short span of time. Our company and other smaller producers will be ruined. Our employees will be thrown out of the well-paying jobs and the seniority status they now hold. In the name of what? Access to the U.S. market? No. Relief from an insufficient participation in the world export market? Assuredly no. Why then?

[6] U.S. Department of Commerce, Bureau of International Commerce, Market Share Reports, 1962–66 (April 1968), SITC 531.0.

IX. CONTRARY TO THE OUTWARD FLOW OF CAPITAL FOR PLANT INVESTMENT STIMULATED BY U.S. FOREIGN TRADE POLICY, THE ASP SYSTEM OF DUTIES ON DYES AND PIGMENTS HAS PROMOTED A FLOW OF CAPITAL INVESTMENT FROM EUROPE TO THE UNITED STATES. THIS BENEFICIAL RESULT IS STRENGTHENED BY THE INCENTIVE PROVIDED BY THE ASP SYSTEM FOR INNOVATION TO CREATE SPECIALTY DYES NOT COMPETITIVE WITH U.S. PRODUCTION

The ASP is attacked as being "outmoded." The fact is that it has had a more beneficial effect on the U.S. balance of payments than other elements of our foreign economic policy. It has stimulated a flow of capital from Europe to the United States in sharp contrast to the outward flow of capital from the United States which has taken place during the Dillon and Kennedy Rounds of trade agreement negotiations.

At the end of 1966, U.S. investment in the Common Market totaled $7.6 billion; 70% of the investment has been made since 1960.[7]

In the dyestuff business, there has been no outward flow of capital to Europe to build U.S.-owned plants. On the contrary, the German and Swiss companies have invested nearly $225 million in dyestuff and pharmaceutical plants *in the United States*, which serve as the base for annual sales of about $460 million in this country, and the employment of about 9,400 workers in these U.S. plants.

The Administration is alarmed about the international position of the dollar to the point of placing an absolute prohibition on an increase in direct investment abroad. Here is a fragment of our trade policy which is encouraging investment in the United States, and the creation of jobs here. ASP may be "outmoded" by comparison with the flight of capital, runaway plants, and transfer of jobs outside of the United States which are occurring in many sectors of U.S. industry which are "protected" by a more "enlightened" system of basing U.S. duties on the Foreign Sales Price. But on the basis of honest-to-goodness inputs of capital investment and jobs in America, it is virtually unique.

Furthermore, the ASP system encourages innovation by foreign producers. If they export products which are not like a similar competitive article produced in the United States, duty is assessed not on the ASP but upon United States value, which is virtually identical with export value. The foreign producers have been astute in taking advantage of this feature of U.S. law, and the entire dye and textile markets have benefited.

In 1966, for example, 7.3 million pounds of imported dyes were held to be noncompetitive, and thus not dutiable at ASP value. A smaller volume, 6.2 million pounds of imported dyes, was found dutiable as competitive with U.S. production at the ASP values. The specialty status of the noncompetitive dyes is shown by the fact that the average unit value of these imports, $2.38 per pound, was considerably higher than that of the competitive dye imports, at $1.33 per pound.[8]

We think these features of ASP are worth stressing; they are seldom mentioned by our opponents. Yet, each has a positive value to the American economy.

Against the background of tragic injury to American plants and jobs which will occur if ASP is repealed, are not these presently operating features which cause capital to flow *into* the United States, and which create jobs, a significant reason to retain ASP?

CONCLUSION

The foreign chemical industry and other advocates of ASP repeal base their case on the allegation that American producers can cut off imports by arbitrarily raising the duty on a product by raising the price. This argument conveniently ignores the reality of the market place where a price increase of $1 per pound would be required to raise the duty by 20¢ and would itself make the U.S. product noncompetitive, if it were not already so. It also ignores the operation in the United States of strong antitrust laws and the vigilant attention of the U.S. Department of Justice to prevent price fixing.

In contrast with the few producers located in the principal foreign countries exporting dyes to the United States, there are more than 50 producers of dyes in the United States, competing vigorously under antitrust ground rules for a place in the American market.

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[7] Department of State Bulletin, November 27, 1967, p. 712.

[8] U.S. Tariff Commission, *Imports of Benzenoid Chemicals and Products, 1966*, T.C. Publication 216 (September 1967), p. 30.

The real crux of the matter is that the members of the foreign cartels wish to secure *for themselves* the power *to reduce* U.S. duties under a system in which dutiable value would be based upon their foreign export price.

If ASP is repealed, the foreign cartels will be able to carry on a campaign under which for each 30-cent reduction in their foreign export price, the United States Government would contribute a further reduction in landed costs of 9 cents. This power over U.S. duties is a key element in the program of the foreign dye cartels to take over that part of the American market for dyes now supplied by the small independent companies such as American Aniline and the members of the Ad Hoc Committee of U.S. Dyestuff Producers.

The President and the Congress understood these facts of life when the ASP system was established in 1922, reaffirmed in 1930, and preserved against efforts to eliminate it through "customs simplification" in 1951.

To acquiesce to the demands of the foreign cartels, sponsored by their governments, and unwittingly supported by the Administration, at this stage of history would be knowingly and purposefully to sacrifice as expendable the businesses, plants, investments, and employment of the small U.S. dye companies.

By every test in the domain of results by which a liberal trade policy can be judged, there is no need to repeal ASP and thus sacrifice the independent American dyestuff industry: The growth rate of imports exceeds that of most other American industries. Furthermore, the rising import penetration of the domestic market in dyes is equal to that in textiles, a recognized symbol of excessive import competition. The manufacture of dyes is, moreover, equally or more labor-intensive than the manufacture of textiles, the industry which the dye manufacturers exist primarily to serve and with whose fate the welfare of the dye industry is inextricably bound.

The foreign dye cartels clearly dominate world trade in dyes and pigments, while the United States dye industry is virtually excluded from the world export trade, holding a slight and steadily diminishing share of total exports to the vast majority of the markets of the world.

The decision before this Committee, therefore, turns essentially upon the concepts of justice, equity, and fair play. Our past trade agreement reductions in rates of duty have unquestionably granted equitable access to the foreign producers to the U.S. market; their stronger competitive position and their export-promotive and import-regulating practices deny a comparable fair share of the world export market to the United States industry.

The sole basis for the health and welfare of the U.S. dye industry and its employees lies in continued access for U.S.-produced dyes to the U.S. market. This access will be destroyed by the repeal of ASP.

In the name of justice and fair play, therefore, we call upon this Committee and the Congress to reject the proposal to repeal ASP as to dyes, pigments, and dye intermediates.

Thank you. This concludes my statement.

EXHIBIT 1.—*Ad Hoc Committee of U.S. Dyestuff Producers*

American Aniline Products, Inc., Paterson, New Jersey.
Atlantic Chemical Corporation, Nutley, New Jersey.
Berncolors-Poughkeepsie, Inc., Poughkeepsie, New York.
Blackman Uhler Chemical Co., Spartanburg, South Carolina.
The Harshaw Chemical Company, Cleveland, Ohio.
Industrial Dyestuff Company, East Providence, Rhode Island.
Lakeway Chemicals, Inc., Muskegon, Michigan.
Nyanza, Inc., Lawrence, Massachusetts.
Patent Chemicals, Inc., Paterson, New Jersey.
Pfister Chemical Works, Inc., Ridgefield, New Jersey.
Southern Dyestuff Company, Charlotte, North Carolina.
Young Aniline Works, Inc., Baltimore, Maryland.

EXHIBIT 2

TABLE 1.—REDUCTION IN DUTY ON DYES, AZOICS, AND ADVANCED INTERMEDIATES INVOLVED IN THE REPEAL OF ASP AND SUBSTITUTION OF THE GATT "SEPARATE CHEMICAL AGREEMENT" RATES BASED ON EXPORT PRICES (FSP) FOR PRE-KENNEDY ROUND RATES BASED ON ASP

[Price and duty in dollars per pound]

Category of product	Pre-Kennedy round, 1965		Post-Kennedy round				
	Average ASP	Average ASP duty	Average FSP	Average ASP duty	Average FSP duty under separate agreement	Average percent of duty reduction, based on—	
						ASP	FSP
Dyes:							
Disperse blacks	$1.52	$0.61	$0.87	$0.30	$0.26	50	57.4
Disperse blues	3.69	1.42	1.91	.74	.57	50	59.9
Disperse oranges	1.88	.75	.99	.38	.30	50	60.0
Disperse reds	2.42	.94	1.31	.47	.39	50	58.5
Disperse violets	3.53	1.41	1.74	.71	.52	50	63.1
Disperse yellows	2.24	.89	.99	.45	.30	50	66.3
Average of disperse dyes	2.54	1.00	1.30	.51	.39	50	61.0
Acid blacks	2.27	.91	1.10	.45	.33	50	63.7
Acid blues	3.63	1.42	1.53	.71	.46	50	67.6
Acid browns	2.50	1.01	1.12	.50	.33	50	67.3
Acid greens	3.62	1.45	1.69	.72	.51	50	64.8
Acid oranges	2.17	.87	.95	.43	.29	50	66.7
Acid reds	2.55	1.02	1.11	.51	.33	50	67.6
Acid violets	2.65	1.06	1.15	.53	.34	50	67.9
Acid yellows	2.29	.92	.93	.46	.28	50	69.6
Average of acid dyes	2.71	1.08	1.20	.54	.36	50	66.7
Mordant blacks	1.99	.79	.86	.40	.26	50	67.1
Mordant blues	3.38	1.35	1.41	.68	.42	50	68.9
Mordant browns	2.42	.97	1.01	.48	.30	50	69.1
Mordant oranges	2.04	.82	.85	.41	.25	50	69.5
Mordant reds	2.10	.84	.88	.42	.26	50	69.0
Mordant yellows	1.72	.69	.72	.34	.21	50	69.6
Average of mordant dyes	2.28	.91	.96	.46	.28	50	69.2
Direct blacks	1.52	.59	.64	.30	.19	50	67.8
Direct blues	1.88	.75	.78	.37	.24	50	68.0
Direct browns	2.12	.85	.90	.43	.27	50	68.2
Direct greens	2.96	1.18	1.24	.59	.37	50	68.6
Direct oranges	2.74	1.10	1.17	.54	.38	50	65.5
Direct reds	2.86	1.12	1.17	.57	.35	50	68.8
Direct violets	3.36	1.35	1.42	.67	.43	50	68.1
Direct yellows	2.22	.87	.94	.44	.28	50	67.8
Average of direct dyes	2.46	.98	1.03	.49	.31	50	68.4
Basic blues	3.74	1.42	1.45	.71	.43	50	69.7
Basic browns	1.41	.57	.56	.28	.17	50	70.2
Basic greens	2.87	1.15	1.07	.58	.32	50	72.2
Basic oranges	3.18	1.13	1.19	.57	.36	50	68.1
Basic reds	4.47	1.79	1.78	.89	.53	50	70.4
Basic violets	2.60	1.04	1.07	.52	.32	50	69.2
Basic yellows	4.10	1.40	1.89	.70	.57	50	59.3
Average of basic dyes	3.20	1.21	1.29	.61	.39	50	67.8
Vat blacks	1.29	.51	.61	.26	.18	50	64.7
Vat blues	1.73	.61	.78	.32	.24	50	60.7
Vat browns	1.90	.73	.91	.37	.27	50	63.0
Vat greens	.98	.39	.43	.20	.13	50	66.7
Vat oranges	2.47	.96	1.29	.48	.39	50	59.4
Vat reds	3.44	1.38	1.66	.49	.50	50	63.8
Vat violets	2.59	1.04	1.51	.52	.46	50	55.8
Vat yellows	1.08	.38	.50	.19	.15	50	60.5
Average of vat dyes	1.94	.75	.96	.35	.29	50	61.3
Average, 6 classes of dyes	2.52	.99	1.12	.49	.34	50	65.7

See footnotes at end of table.

TABLE 1.—REDUCTION IN DUTY ON DYES, AZOICS, AND ADVANCED INTERMEDIATES INVOLVED IN THE REPEAL OF ASP AND SUBSTITUTION OF THE GATT "SEPARATE CHEMICAL AGREEMENT" RATES BASED ON EXPORT PRICES (FSP) FOR PRE-KENNEDY ROUND RATES BASED ON ASP—Continued

[Price and duty in dollars per pound]

Category of product	Pre-Kennedy round, 1965		Average FSP	Post-Kennedy round			
	Average ASP	Average ASP duty		Average ASP duty	Average FSP duty under separate agreement	Average percent of duty reduction, based on—	
						ASP	FSP
Azoics:							
Bases	$2.15	$0.47	$0.84	$0.23	$0.25	50	46.8
Salts	1.59	.35	.78	.18	.23	50	34.3
Naphthol AS and derivatives	3.18	.67	1.73	.33	.52	50	22.4
Average, 3 classes of azoics	2.31	.50	1.12	.25	.33	50	34.0
Intermediates:							
Subgroups dutiable under—							
TSUS 403.48B	.84	.20	.43	.10	.08	50	60.0
TSUS 403.50B	1.25	.28	.69	.14	.12	50	57.1
TSUS 403.60B	.29	.11	.17	.05	.05	50	54.5
TSUS 403.60C	.91	.26	.46	.13	.09	50	65.4
TSUS 403.60G	2.45	.67	1.40	.32	.27	50	59.7
Average, 5 classes of intermediates	1.15	.30	.63	.15	.12	50	60.0

Source: Confidential exhibit, tables I, III, and V.

TABLE 2.—COMPETITIVE RELATIONSHIP BETWEEN 410 FOREIGN AND U.S. PRODUCED DYES AND INTERMEDIATES AT EXISTING AND PROPOSED RATES OF DUTY

Category of product	Number of products analyzed	At existing rates of duty: [1] Number with landed cost at or below ASP		At proposed rates of duty: [2] Number with landed cost at or below ASP	
		Without markup	With 20 percent markup	Without markup	With 20 percent markup
Dyes:					
Disperse	40	33	7	40	38
Acid	89	87	48	86	83
Mordant	16	15	5	16	15
Direct	95	95	44	95	95
Basic	20	20	17	20	20
Vat	32	29	13	32	31
Total	292	279	134	289	282
Azoics:					
Bases	16	16	16	16	16
Salts	22	22	20	20	19
Naphthols	21	20	18	20	19
Total	59	48	54	59	54
Intermediates	59	50	23	59	50
Total, all products analyzed	410	387	211	407	386

[1] 1965 pre-Kennedy round.
[2] Post-Kennedy round, under "Separate Chemical Agreement."

Source: Confidential exhibit, table II, IV, and VI.

The CHAIRMAN. Thank you, Mr. Marshall, for bringing to us your views. Are there any questions? Mr. Curtis.

Mr. CURTIS. First, I want to thank the witness for a very good statement and backup documents. I want to observe that you are hitting at one of the most serious and difficult nontariff trade barriers we have; namely, the differential between our antitrust laws and the lack of this concept among our trade partners.

However, the Rome Treaty did provide for the beginning of the development of antitrust laws in the European Common Market. I have been trying to follow this development without too much success.

I might say I regret not having followed up a couple of years ago when I requested that this committee put in our hearings some of the studies of the development of antitrust laws in the European Common Market. It should have been in our committee hearings, and because of the objection of one member wasn't put in. But having said this, this only accentuates rather than takes away from the thrust of what you are presenting here.

I am going to study this brief along with some of these other presentations and see what I can make of them. Then I would like to add this comment. I wish that there was more concentration among the witnesses by those who disagree with various points to direct attention at the arguments and facts that have been advanced by those who reach different conclusions.

I mean this both ways. I would hope that your industry would find time to prepare a rebuttal—maybe you have—of those who have advocated the opposite point of view. (See p. 4761.)

I find that both groups have gotten good statistics, but they are on different bases to a large degree, and there needs to be reconciliation. I think there is a lot of truth in what has been presented by both groups, but I think also there are many, many areas where these seeming differences can be reconciled.

Certainly this committee is going to have to try to do this in executive session. How much better it would be if the witnesses who do have different viewpoints would prepare considered rebuttals of the testimony presented by those who disagree with them, so, Mr. Chairman, if it did meet with the approval of this group I hope you would prepare such a rebuttal. I would appreciate it. Likewise, those on the other side could prepare rebuttals or maybe I would use a less antagonistic word and say reconciliation. I would like to see where we can reconcile these different figures, these different estimates, to see what the base is that lies behind them.

Mr. MARSHALL. Only one comment, Mr. Curtis. We are presenting a brief on behalf of the dyes, pigments, and dye intermediates industry. I think your commentary on statistical differences is quite sound, but the previous witnesses testified generally along the lines that I liked, that we are the most import sensitive of all industry. They brought that out themselves.

The reconciliation, I can assure you, was accidental, but I was glad to hear it.

Mr. CURTIS. I would say, and I want to be sure, you are also pointing out that if they come out with less concern about the industry it was because of the large companies and not with the emphasis on the small independent groups that you represent. Am I correct in that observation?

Mr. MARSHALL. I would think so, sir; yes.

Mr. CURTIS. Thank you.

The CHAIRMAN. Mr. Schneebeli.

Mr. SCHNEEBELI. Mr. Marshall, in your full statement you refer to an incentive which the ASP system seems to foster in having these foreign dye producers create some specialty noncompetitive dye to our

U.S. production. Would you give me an example of what you are referring to as an incentive to produce noncompetitive products?

Mr. MARSHALL. Yes, Mr. Schneebeli; may I ask Mr. Stewart to answer that question?

Mr. SCHNEEBELI. Certainly. He is an expert here. I am glad to see him again before our committee.

Mr. STEWART. Very briefly, the determination of whether an imported chemical, and we talk here specifically about dyes, pigments, and dye intermediates, is competitive, is a judgment made by the Bureau of Customs essentially on chemical formulation grounds.

In 1966, according to the Tariff Commission, of the total imports of dyes the majority by quantity, 7.2 million pounds, were deemed by Customs to be noncompetitive. However, the judgment of the marketplace as to whether an import dye found to be noncompetitive and, therefore, not subject to American selling price, is fully interchangeable in a commercial sense with American-produced dyes, is quite another matter.

We have prepared, to illustrate this should we be asked, Mr. Schneebeli, four cards which show fabric or yarn dyed with dyes that were imported and classed noncompetitive, and fabric and yarn dyed with American-produced dyes.

On each card, in addition to the visual evidence of your eyes, you will find the results of a test by a spectrophotometer which shows the light reflected by the fabric or yarn, and you will find this scientific evidence shows that the quality and performance of the dyes are virtually identical.

Without objection, I would appreciate an opportunity to give these as an exhibit to the committee to be made a part of this hearing.

Mr. SCHNEEBELI. Mr. Chairman, I would ask for that permission.

The CHAIRMAN. Without objection, exhibit material will be held for the use of the committee in its determinations.

Mr. SCHNEEBELI. Mr. Stewart, by "noncompetitive" do you mean something that can't be produced in this country?

Mr. STEWART. No; it means that at any particular moment of time the foreign producer has the opportunity to adopt names and chemical formulations for an article commercially competitive with one which is presently being produced in the United States, but which, under the circumstances for technical reasons, can be treated by the Bureau of Customs as noncompetitive and, as our testimony shows and as the prior witness admitted, at least half—we say more than half—of all imported benzenoid chemicals are held to be noncompetitive and not subject to the American selling price, though they are competing directly in the market with other American-produced products.

Mr. CURTIS. Would the gentleman yield there?

Mr. SCHNEEBELI. Go ahead.

Mr. CURTIS. Is it your interpretation that the Bureau of Customs is carrying out the letter of the law, or that it has stretched the intent of the law?

Mr. STEWART. We make no complaint about the administration of the law by the Bureau of Customs. What we are saying is that the system

as enacted by Congress provides for flexibility, and it does stimulate innovation by the foreign producers, and they have taken advantage of this and they have achieved a status in which most of their exports are treated in fact as noncompetitive.

Mr. CURTIS. I am not sure of the language we actually used. Did we use the term "competitive"?

Mr. STEWART. Yes, the statute uses the term "similar competitive article" and that is defined as a product which achieves substantially the same result or a substantially equal result when used in substantially the same manner.

Mr. CURTIS. I would suggest that I thought your criticism was directed along the line that in actuality the products were competitive, so this would be a problem of administration rather than the law itself, wouldn't it?

Mr. STEWART. We don't really think so, Mr. Curtis. We think the law is fairly administered by the Bureau of Customs and the quality of its administration provides great flexibility for the importers to avoid the use of American selling price at least on the majority of their imports.

Mr. CURTIS. Could we change the words so that they would be different?

Mr. STEWART. We would not recommend that. We think that this element of flexibility is desirable.

Mr. CURTIS. I thank the gentleman for yielding. I don't quite understand the point that you are making.

Mr. STEWART. The point is that the American selling price as a term has been used as a symbol of a very protectionist so-called system of appraising U.S. imports of benzenoid chemicals. The fact is that the majority of the imports are not subject to duty on the basis of the American selling price because the system has built in this important element of flexibility which allows the results of innovation to come in without being appraised on the basis of American selling price.

Mr. SCHNEEBELI. I don't know who wants to answer this question. Have you gotten any figures or made any projections as to how our domestic industry is going to fare under the new Kennedy round under the ASP approach?

Mr. MARSHALL. In the nature of a projection within my company, nor the ad hoc committee, has done work along that line. It so happens that Mr. Stewart has made such a projection for dyes and pigments and for another important group of products known as textile assistants. He did this in his capacity as general counsel for the Trade Relations Council of the United States of which our company is a member, which is why I am aware of it.

Mr. SCHNEEBELI. Do you have such figures?

Mr. STEWART. Yes, I have, Mr. Schneebeli, and I think it does contain important statistical information that bears on the subject matter of ASP and I would like to offer it for the record.

Mr. SCHNEEBELI. I would like to ask permission to put that in the record.

The CHAIRMAN. Without objection it will be made a part of the record.

(The information referred to follows:)

ADDRESS BY EUGENE L. STEWART, GENERAL COUNSEL, TRADE RELATIONS COUNCIL, TO THE CHEMICAL MARKETING RESEARCH ASSOCIATION, AT THE PLAZA HOTEL, NEW YORK, NEW YORK, MAY 2, 1968

OPPORTUNITIES AND DILEMMAS IN WORLDWIDE CHEMICAL MARKETS

The Impact of U.S. Foreign Trade in Textiles on Benzenoid Dyes, Pigments, and Textile Assistants

Mr. Chairman, allow me to begin by expressing again the appreciation of the Trade Relations Council for your kind invitation to participate in this interesting program.

A brief word about the Council may be of interest to your members. The membership of the Trade Relations Council represents a broad cross section of American industry, including manufacturing firms in the textile and chemical industries. The principal activity of the Council consists of an intensive and continuing study of employment, output, and foreign trade data of U.S. manufacturing industries.

We have established a computerized data bank at Georegtown University which contains all available U.S. Government data pertaining to the economic growth and foreign trade performance of U.S. industries. The Council undertakes to perform a service to Government and industry by periodically publishing studies based upon an analysis of these data drawing heavily upon the potential for analysis implied in the electronic data retrieval system which I have described.

Accordingly, it is entirely consistent with the service role of the Trade Relations Council for me to have an opportunity to take part in this program and to present some facts which may be of interest to the knowledgeable marketing personnel in your group who are concerned with both the textile and chemical markets of the United States.

It is scarcely necessary for me to remind the members of this group that market growth and development respond to a variety of economic changes. Increasingly in U.S. markets for manufactured goods, the alteration of the competitive relationship between domestic and foreign goods through governmental action in the tariff and trade area may have significant—even profound—effects both on market growth and participation in the growth of the markets by U.S. manufacturing firms. This is especially the case in textiles and benzenoid chemicals.

As a prelude to the substance of my remarks, let me remind you of some of the key facts concerning recent governmental actions which promise significantly to alter the competitive relationship between domestic and foreign textiles and benzenoid chemicals in the United States market. I refer, of course, to the Kennedy Round and particularly to the actions of the U.S. negotiators in agreeing to U.S. tariff reductions for the benefit of foreign suppliers of the U.S. market.

Cotton textile articles were rdeuced an average of 21%, man-made fiber textile products 15%, and wool textile products only 2%. These reductions were unevenly distributed, however, and the implications of that distribution are important for the sale of chemicals to the textile industry. As contrasted with the average reduction of 21%, cotton fabric and apparel were reduced 25% and miscellaneous finished cotton textile products were reduced 33%.

In man-made fiber textile products, fabric was reduced 18%, made-up articles 29%, and miscellaneous products 30%. Apparel articles were reduced least of all—6% on the average; but this needs to be understood in the context of current import trends which find apparel and finished textile product imports, both of cotton and of man-made fibers, rising at a far more rapid rate than that of other textile products.

Compared with the fate of the chemical industry in the Kennedy Round, the textile industry was handled in very gingerly fashion by our Government; and as everyone knows, the chief deterrent, for the present at least, to rising imports of cotton textiles is not the rate of duty but the continued operation of the Long-Term Cotton Textile Arrangement which aims but does not succeed in limiting imports of cotton textiles to an average increase of not more than 5% per year.

Benzenoid chemicals in batch process categories are, of course, more labor intensive than textile products. U.S. import duties on these chemicals were reduced a full 50% and the Administration has proposed an additional act, subject to Congressional approval, of changing the basis of customs valuation for benzenoid chemicals, the average effect of which would be to further reduce the amount of duties collected on import-sensitive categories such as dyes and pigments by approximately 30%.

Without question the balance of competition between foreign and domestically produced chemicals of the types sold to the textile industry are in the process of being drastically altered to the advantage of foreign producers. Not so well appreciated is the fact that the domestic market for these products, which will become a more fiercely contested battleground than ever before in view of the tariffs cuts just mentioned, is itself being severely contracted by the rapidly rising volume of textile imports in all fiber categories.

We begin our talk, then, by a brief look at current trends in the domestic consumption of textile products. We have expressed domestic consumption in pounds of fiber or fiber equivalent in order to eliminate the distortions produced by attempting to compare imported articles at low-wage foreign invoice values with domestic shipments at their comparatively inflated high-wage domestic prices.

Chart 1 sets forth the actual growth of domestic and mill consumption of textile fibers as well as that of imports and exports for the past 15 years and offers a projection of the probable trend for the next 12 years.

The facts of chief significance which emerge from this chart are these:

1. During the past 15 years domestic consumption of textiles has increased 50%, but exports have risen only 22% and mill consumption by 39%.

2. The largest component of growth in the past 15 years has gone to imported products which have increased in volume by nearly 400%.

3. By 1980 we expect domestic consumption of textiles to increase an additional 45%. We expect exports to rise by 96%. The dramatic fact is that we have projected mill consumption to grow by only 1% during the next dozen years. The reason for this is that our projections show that imports of textile articles will increase fivefold during the next 12 years, capturing virtually all of the growth in domestic consumption in the United States.

The data for these observations are attached as Table I.

What are the implications of these trends for U.S. manufacturers of dyes, pigments, and textile assistants, important classes of chemicals which are directly dependent upon the continued existence and growth of the U.S. textile industry?

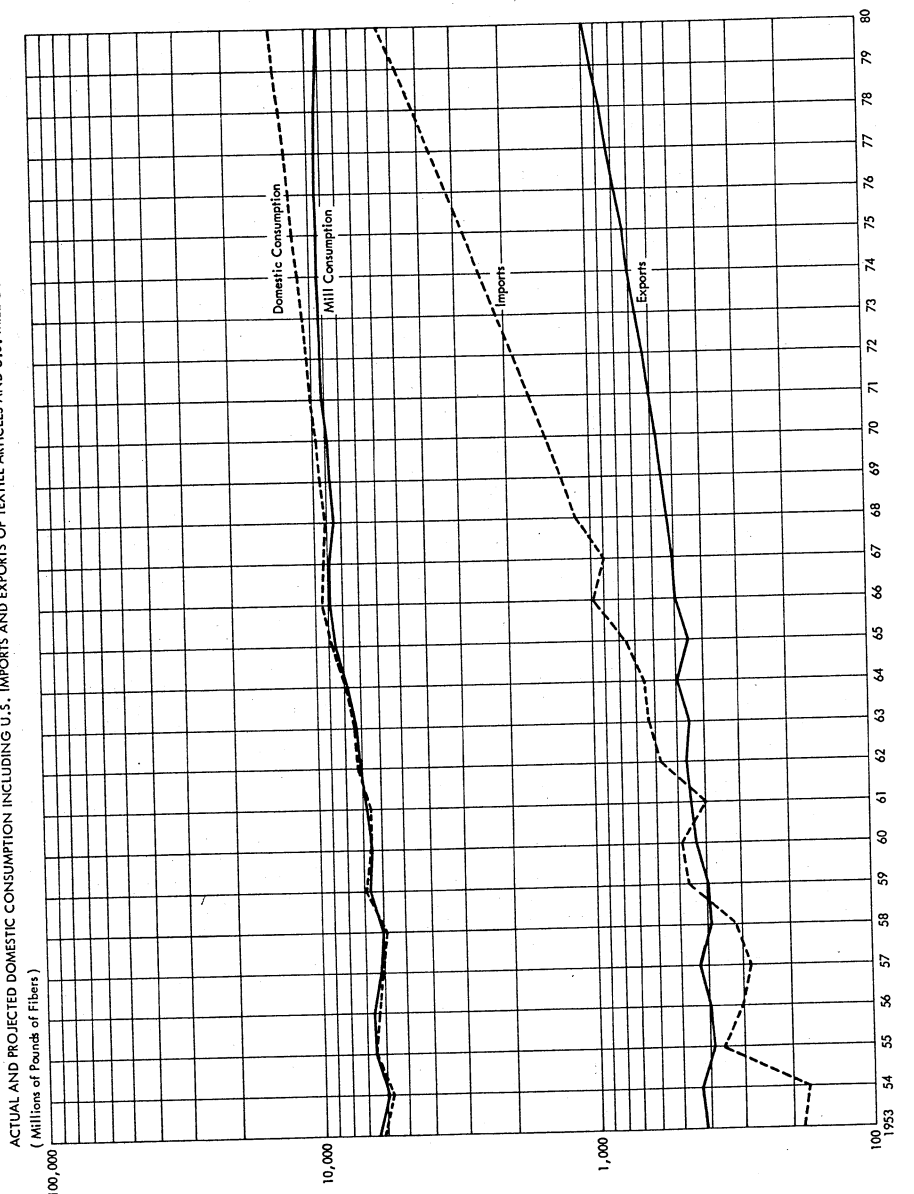
Let us consider first the position of U.S. dyestuff producers.

To the extent that imported textiles consist of gray goods, if we set aside for the moment the question of what effect this would have on the economic health of the U.S. textile mill products industry, there is no loss to the potential U.S. market for dyes. Foreign-produced gray goods must be dyed no less than domestically produced goods. To the extent that the textile imports consist of dyed or printed fabric and apparel and other made-up goods, however, the imports represent a loss of market potential to U.S. dyestuff producers.

In our analysis, therefore, we have transferred imports of gray goods over to the category of demand-generating activity, along with domestic mill activity, as measured by mill consumption of fiber. Our investigations have shown, how-

5.

Chart 1

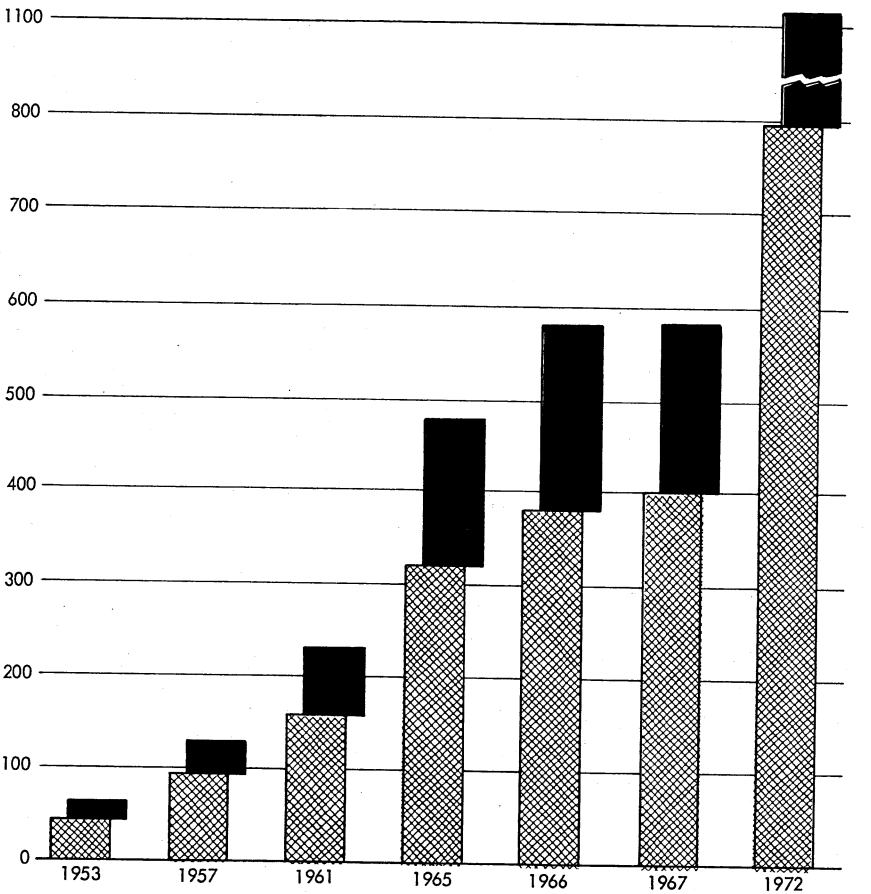

ACTUAL AND PROJECTED DOMESTIC CONSUMPTION INCLUDING U.S. IMPORTS AND EXPORTS OF TEXTILE ARTICLES AND U.S. MILL CONSUMPTION OF TEXTILE FIBERS
(Millions of Pounds of Fibers)
100,000
10,000
1,000
100
1953
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
Domestic Consumption
Mill Consumption
Imports
Exports

ever, that unfortunately the greater portion of imported textile articles consists of the products which represent a loss of market potential for the dye industry rather than of gray goods. This is shown by the following chart.

8.

Chart 2

IMPORTS OF GRAY GOODS AND OTHER FABRIC AND TEXTILE MAUNFACTURES
(In Millions of Pounds of Fiber Equivalent)



The data on which this chart is based may be summarized as follows:

TABLE 1.—IMPORTS OF GRAY GOODS AND OTHER FABRIC AND TEXTILE MANUFACTURES

[In millions of pounds of fiber equivalent]

	Gray goods	Other fabric and textile manufactures	Total
1953	20.5	43.5	64.0
1957	36.0	92.8	128.8
1961	74.3	157.5	231.8
1965	158.2	318.5	476.7
1966	201.6	379.2	580.8
1967	182.4	399.3	581.7
1972	338.5	794.7	1,133.2
1976	580.4	1,589.5	2,169.9
1980	1,089.2	3,567.1	4,656.3
Percent change:			
1953–67	+789.8	+817.9	+808.9
1967–80	+5,313.2	+793.3	+700.5

Source: Trade Relations Council of the United States, Inc.

U.S. producers of dyes seeking to supply the needs of the domestic textile industry have been faced with rapidly shifting foreign and domestic market trends of their own. These changes may be summarized as follows:

1. Between 1953 and 1967. both total domestic consumption of dyes and the consumption of dyes by the domestic textile industry increased by 39%.

2. U.S. dye producers boosted their exports by 35% during this 15-year period.

3. The big shift, however, occurred in imports which rose by 328% between 1953 and 1967.

4. As a result, shipments by U.S. dyestuff producers rose only 36% in 15 years—3% less than the growth of our domestic dye market.

Now, as of January 1, all U.S. dye imports are subject to a 10% reduction in duty, and an additional 10% duty cut will be placed in effect on January 1 of each of the next 4 years. Taking these duty cuts into consideration and projecting a modified exponential trend of the experience of the past 15 years, we see the following as the situation by 1980:

1. Domestic consumption of dyes will increase only 9% in the next 12 years, both in total and by the textile industry.

2. U.S. dye exports will rise by 63%.

3. Imports of dyes will increase nearly sevenfold and represent in 1980, 72% of domestic consumption in textiles.

4. As a consequence, domestic shipments by U.S. producers of dyes will decline absolutely by 34%—nearly 3% a year.

The outlook for the dyestuff producers is disturbing. to say the last, as shown by Chart 3.

The data on which this chart is based are set forth on Table II of the Appendix.

But the displacement of U.S. dye sales by direct dye imports is not the story which holds our attention today, important as it may be. Rather, we are interested in what the impact of textile imports may be on the dye market.

We have undertaken to measure this by correlating the quantity of dyes consumed domestically by the textile industry with the amount of fiber consumed by textile mills in producing the articles which are dyed and finished in the course of their travels from textile mill to consumer. By reducing imports of fabric other than gray goods and textile manufactures beyond the fabric state to their fiber equivalent in pounds, we are able to apply a factor representing the average per cent of dyes used per pound of textile fiber consumed in textile manufacture.

By this procedure we have derived, as shown in Table III in the Appendix, the quantity of dyes contained in imported textile products. This indirect importation of dyes represents a loss of market potential to the domestic dye industry no less than the direct imports. The impressive proportion of indirect to direct dye imports is shown in Chart 4.

11.

Chart 3

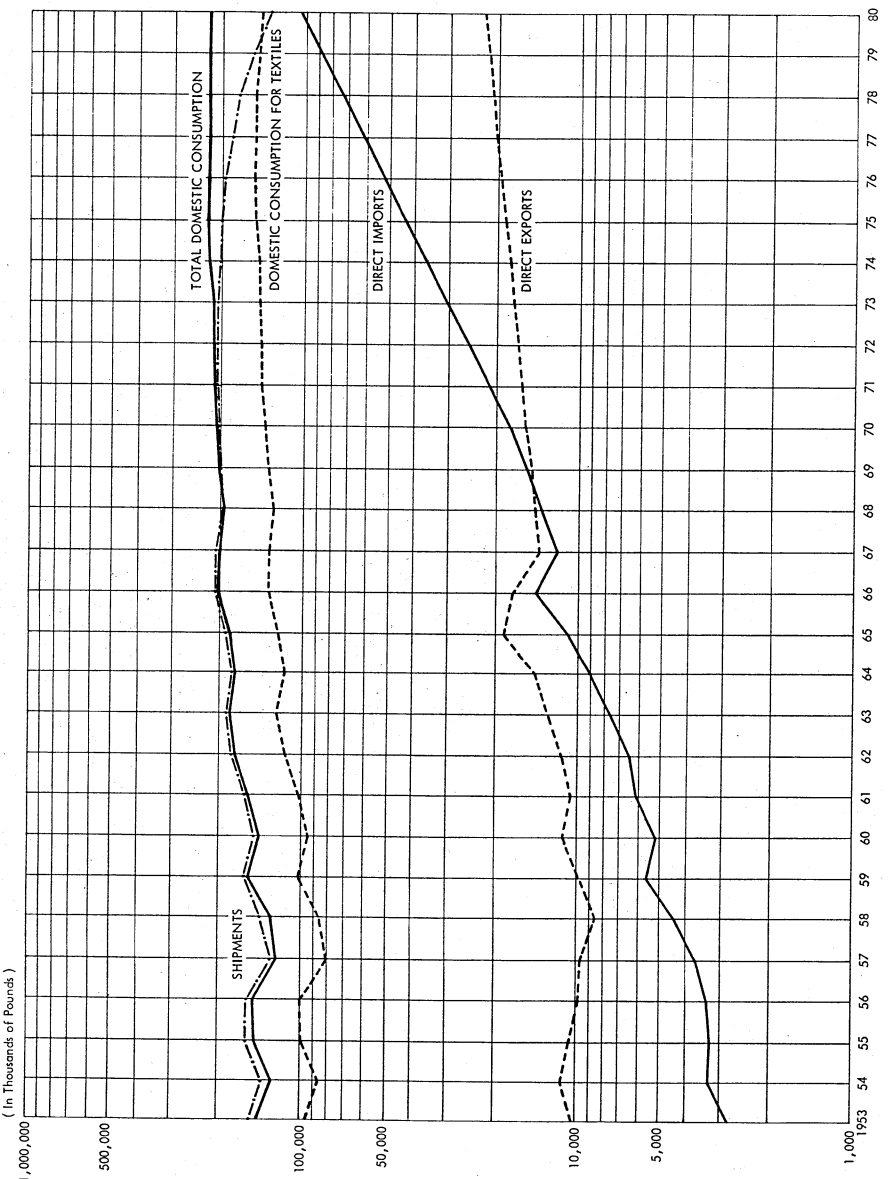
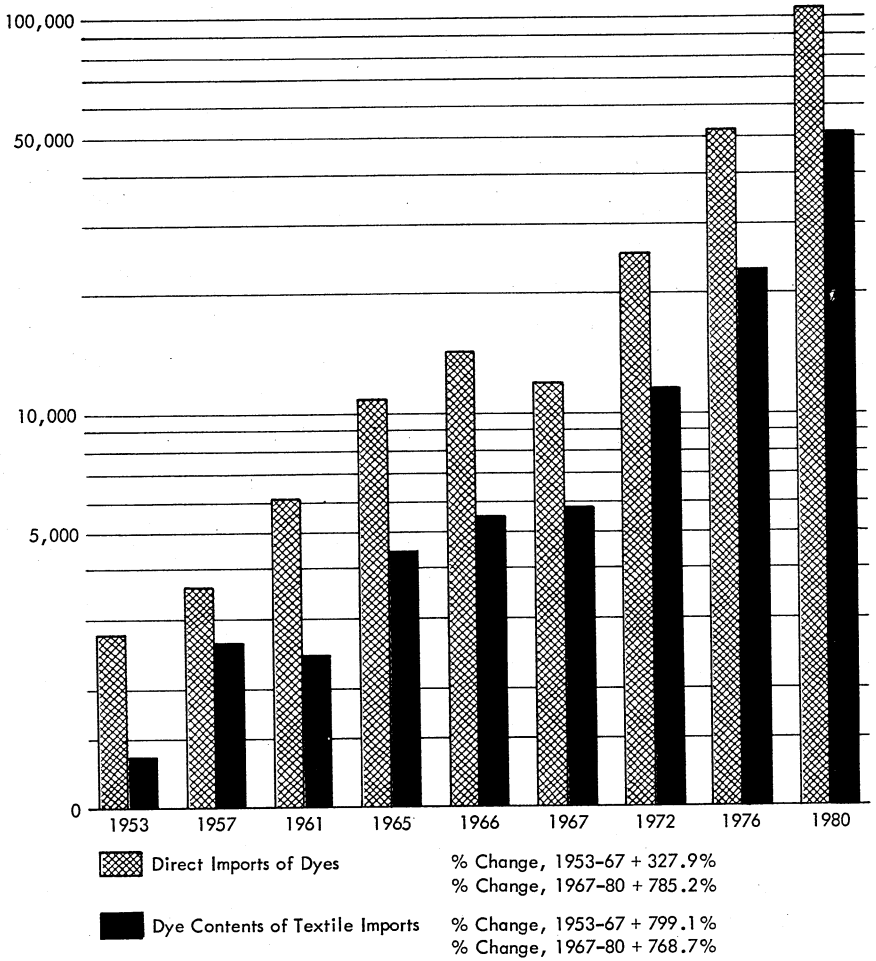

ACTUAL AND PROJECTED DOMESTIC CONSUMPTION OF DYES
(In Thousands of Pounds)
1,000,000
500,000
100,000
50,000
10,000
5,000
1,000
1953
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
TOTAL DOMESTIC CONSUMPTION
DOMESTIC CONSUMPTION FOR TEXTILES
DIRECT IMPORTS
DIRECT EXPORTS
SHIPMENTS

Chart 4

INDIRECT VS. DIRECT IMPORTS OF DYES
(In Thousands of Pounds)



Import competition is only one side of the story. To take a balanced view of the matter we need to consider with equal care the market potential created by the export activities of both the U.S. dye producers and the textile industry whose exported products create demand for dyes.

Using the same technique—that is, observing the relationship of dyes consumed to textile fibers consumed by the textile industry in each of the past 15 years—we have measured the probable dye content of U.S. exports of textile articles and have added these quantities to the direct export shipments of dyes by dye producers. Comparing these aggregate data with the similar measurement of direct and indirect dye imports, we have struck a balance of trade for dyes.

(I should say parenthetically that the Government uses this same technique in measuring the impact of textile imports on the domestic textile industry by con-

verting the textile content of all forms of textiles into square yard equivalents and comparing that total to the production of the textile mill products industry in square yards.)

Our direct and indirect balance of trade data for dyes show that the very impressive favorable trade balance of nearly 12 million pounds which was generated by the combined efforts of the dye and textile industries in 1953 has been steadily eroded to the point where in 1967 it had virtually disappeared. This year the balance will turn into a deficit—we estimate in the order of 1½ million pounds. By 1980 this deficit will balloon to the awesome proportions of an estimated 127 million pounds. The data tracing this dramatic shift in the direct and indirect trade balance in dyes is set forth in Table IV in the Appendix.

Perhaps these data will be more meaningful to you market experts if they are converted into dollars at the average unit selling price for dyes in the American market. So converted, the favorable balance in 1953 was worth a net of $13.1 million to the U.S. dye industry, and only $805,000 in 1967.

This year the direct and indirect trade deficit in dyes will likely be a deficit representing a loss of $2.6 million in potential sales in the U.S. dye-textile market. This deficit will rapidly increase to $30 million by 1972, the year of the last Kennedy Round tariff cut.

We estimate that the direct and indirect trade deficit in dyes will zoom to nearly $315 million by 1980. This figure is not without significance as the total sales of U.S.-produced dyes in 1966 were valued at $331.5 million.

When rising U.S. imports of cotton textiles reached a level equivalent to 5.2% of domestic consumption, the Kennedy Administration made very determined efforts to bring the situation under control. Worth-while innovation produced the Short-Term and Long-Term Cotton Textile Arrangements. Whatever the faults in administration of these agreements, they have had the salutary effect of smoothing out the upward slope of textile import increases to a lower and more uniform rate than the more chaotic fluctuations which characterized the cotton textile trade prior to 1962.

In 1965, direct imports of dyes passed the 5.2% benchmark of market disruption established through intergovernmental negotiations in the cotton textile case. If import penetration is measured in dyes as it was in cotton textiles by taking into account the indirect imports as well as the direct imports, the market penetration passed the 5.2% benchmark in 1961.

There are various methods for measuring market penetration by imports. By any test dye imports have reached and passed the level of market disruption and call for far more positive Government action than the harassment which the 50% tariff cut and the threatened repeal of the American Selling Price constitute for the U.S. dye industry. Various market penetration ratios for dyes are summarized in the following table.

TABLE 2.—RATIO OF IMPORTS TO DOMESTIC CONSUMPTION IN DYES (BASED ON UNITS)

	Direct imports to—		Direct and indirect imports to—	
	Total direct consumption	Direct consumption of dyes in textiles	Total direct consumption and indirect consumption in textiles	Total direct and indirect consumption in textiles
1953	1.9	2.9	2.4	3.5
1957	2.8	4.5	5.1	7.5
1961	3.9	5.9	5.4	8.0
1965	5.9	8.9	8.1	12.1
1966	7.0	10.6	9.5	14.0
1967	5.9	8.8	8.5	12.6
1972	11.8	17.7	16.3	23.8
1976	22.5	33.8	29.6	42.4
1980	47.8	71.7	57.6	79.0

Source: Trade Relations Council of the United States, Inc.

Let me conclude my remarks about the impact of textile imports on dyes by stating that in combination with direct imports of dyes, foreign products will take over the U.S. market for dyes to such an extent that within the next decade the great majority of all dyes used in textile articles purchased by U.S. consumers will be of foreign origin.

Whether you call them dry colors, pigments, or lakes and toners, the complex batch process benzenoid chemicals used in coloring print cloth are affected by textile imports, though to a considerably less degree than dyes. This stems in part from the fact that whereas two-thirds of dye sales are to the textile industry, perhaps only 8 to 10% of pigment sales are made to the textile industry.

Nevertheless, foreign producers of pigments have understood the importance of the U.S. textile market. Whereas domestic consumption of pigments in textiles, we estimate, has remained comparatively static during the past 15 years, ranging from 2.7 million pounds in 1953 to 2.6 million pounds in 1967, imports have zoomed upward at a dusty rate, increasing from 398,000 pounds in 1953 to 1.9 million pounds in 1967, nearly a fourfold increase.

Our projection of an exponential trend for imports of pigments, adjusted in relation to the 50% tariff cut on pigments made by our Government in the Kennedy Round, leads us to believe that by 1980 U.S. imports will reach 15 million pounds, cutting sharply into total domestic shipments of pigments to all trades and reducing total domestic consumption far below today's level of between 30 and 40 million pounds. The pertinent data are summarized for you in Table V of the Appendix.

As is evident from Table V, the United States has enjoyed a substantial trade surplus in dry colors. At the average unit sales prices reported by the U.S. Tariff Commission, we calculate that the net direct and indirect trade balance in pigments increased from $4.4 million in 1953 to $8.9 million last year. We believe that the value of the direct and indirect favorable trade balance in pigments will reach its peak this year at $9.3 million.

Under the impact of the 50% reduction in duty granted in the Kennedy Round, the five successive annual tariff cuts of 10% each which commenced on January 1, 1968, will reverse this trend both as to the direct trade balance and as to the indirect balance of trade in pigments contained in textile products. A quick decline in that trade balance will set in and be virtually eliminated by 1975, according to our estimates. In fact, we believe that by 1980 the net direct and indirect balance of trade in pigments will represent a loss of $34 million in sales to U.S. producers of pigments.

As for market penetration, the ratio of imports to domestic consumption in all uses of pigments in 1967 was 5.9%, and if the pigments imported as part of textile product imports are counted, this penetration ratio moves up to 6.2%. Under our projections, by the last year of the Kennedy Round cuts in 1972 we estimate that the market penetration of imports of pigments will have risen to 9.1%, or to 9.5% if the pigment content of textile article imports is counted.

According to our projections, by 1980 the ratio of imports to domestic consumption of pigments will exceed 50%.

Let me conclude by making a few observations about the impact of imports on the U.S. market for a somewhat vaguely defined class of chemicals known as textile assistants. Consisting of sulfonated oils and fats, softeners, soluble oils and greases, and other articles used as wetting agent, waterproofing emulsions, and mordants, this class of products comprises a market within the textile industry of considerable importance to the chemical industry.

Domestic consumption of these chemicals this year will be valued at nearly $200 mililon. In addition, U.S. producers export roughly $40 million of textile assistants annually. Thus far imports are small by comparison, but they have risen from a value of $101,000 in 1953 to nearly $6 million in 1967. Our projections show that U.S. direct exports will probably exceed U.S. direct imports of textile assistants throughout the next 12 years. The pertinent data are shown in Table VI of the Appendix.

When indirect imports of textile assistants—that is, the content of these chemicals contained in or represented by imports of finished textiles—are reckoned, they will change this very favorable trade picture into a deficit by 1978.

Currently the favorable direct trade balance is in the order of 37 million pounds, and the indirect trade balance is a deficit of 2 million pounds. The indirect deficit is growing rapidly because of the large increase in imports of finished textile fabrics and made-up goods. Admittedly, it is difficult under the

import and export classifications to measure this precisely but we have attempted to do so in Table VII of the Appendix.

Nothwithstanding the comparatively brighter prospects for the textile assistants market than for dyes, the penetration of the domestic market by imports, both direct and indirect, passed the 5.2% market disruption level in 1965, as shown by the following summary:

TABLE 3.—*Ratio of direct and indirect imports to total direct consumption plus indirect consumption in textiles*

1953	0.7
1957	1.5
1961	2.7
1965	6.3
1966	7.8
1967	7.0
1972	12.9
1976	23.2
1980	43.5

CONCLUSION

The impact of textile imports on important chemical markets for dyes, pigments, and textile assistants can best be summed up by stating the value at U.S. market prices of the market opportunities which have been displaced by direct and indirect imports of these products. From a favorable balance of trade valued at $25.9 million in U.S. market prices in 1953, the U.S. chemical industry will suffer a deficit or absolute loss of market opportunities valued at $7.7 million in 1972, the year the Kennedy Round Tariff cuts become fully effective, which will then rapidly increase to the rather staggering figure of $373 million in lost market opportunities by 1980.

This very substantial loss of your domestic market need not occur, should not occur, and would not occur if the United States had a trade policy which was sensitive to the realities of competition between products produced abroad by sophisticated manufactuers whose labor and capital resources are fully as sophisticated as those of their higher-cost, higher-wage U.S. competitors.

The day is soon arriving when the marketing profession, so impressively represented at this conference, will take a greater interest in the political action required to achieve a rational foreign trade policy in the interest of U.S. business which, in the final analysis, is also in the national interest.

APPENDIX

TABLE I.—ACTUAL DOMESTIC CONSUMPTION OF TEXTILE ARTICLES, 1953–67, AND PROJECTED DOMESTIC CONSUMPTION, 1968–80, INCLUDING ACTUAL AND PROJECTED U.S. IMPORTS AND EXPORTS OF TEXTILE ARTICLES, AND OF U.S. MILL CONSUMPTION OF TEXTILE FIBERS

[In millions of pounds of fiber or fiber equivalent]

	Domestic consumption	Imports	Exports	Mill consumption
1953	6,192.5	181.5	416.9	6,427.9
1957	6,031.7	281.4	437.4	6,187.7
1961	6,564.0	399.9	446.8	6,610.9
1965	8,759.2	755.0	453.5	8,457.7
1966	9,425.4	984.8	499.7	8,940.3
1967	9,333.7	894.2	506.6	8,946.1
1972	10,420.1	1,852.2	633.4	9,201.3
1976	11,884.1	3,141.7	782.2	9,524.6
1980	13,552.4	5,480.6	992.9	9,064.7
Percent change:				
1953–67	+50.1	+392.7	+21.5	+39.2
1967–80	+45.2	+512.9	+96.0	+1.3

Source: Trade Relations Council of the United States, Inc.

TABLE II.—ACTUAL AND PROJECTED DOMESTIC CONSUMPTION OF DYES

[In thousands of pounds]

	Shipments	Imports	Exports	Domestic consumption	
				Total	For textiles
1953	151,675	2,765	30,216	144,224	96,066
1957	126,963	3,631	9,664	120,930	80,539
1961	158,351	6,016	10,497	153,870	102,477
1965	189,965	10,753	18,669	182,049	121,245
1966	204,135	14,133	17,272	200,996	133,863
1967	206,436	11,832	13,780	200,809	133,873
1972	204,233	25,138	16,613	212,758	141,839
1976	195,677	51,311	19,293	227,695	151,797
1980	136,638	104,740	22,405	281,973	145,982
Percent change:					
1953–67	+36.1	+327.9	+34.9	+39.2	+39.4
1967–80	−33.8	+785.2	+62.6	+9.0	+9.0

Source: Trade Relations Council of the United States, Inc.

TABLE III.—DYE CONTENT OF TEXTILE IMPORTS COMPARED WITH DIRECT IMPORTS OF DYES

[In thousands of pounds]

	Dye content of textile imports	Direct imports of dyes	Total indirect and direct imports of dyes
1953	644	2,765	3,409
1957	2,623	3,631	6,254
1961	2,410	6,016	8,426
1965	4,427	10,753	15,180
1966	5,422	14,133	19,555
1967	5,790	11,832	17,622
1972	11,364	25,138	36,502
1976	22,730	51,311	74,041
1980	50,296	104,740	155,036
Percent change:			
1953–67	+799.1	+327.9	+416.9
1967–80	+768.7	+785.2	+779.8

Source: Trade Relations Council of the United States, Inc.

TABLE IV.—DIRECT AND INDIRECT U.S. TRADE BALANCE IN DYES

[In thousands of pounds]

	Direct	Indirect	Total
1953	+7,451	+4,465	+11,916
1957	+6,032	+1,311	+7,343
1961	+4,481	+1,989	+6,470
1965	+7,916	−622	+7,254
1966	+3,139	−1,194	+1,945
1967	+1,948	−1,466	+482
1972	−8,525	−7,168	−15,693
1976	−32,018	−18,145	−50,163
1980	−82,335	−45,102	−127,437
Percent change:			
1953–67	−73.9	−137.2	−96.0
1953–80	−1,250.0	−1,110.1	−1,069.5

Source: Trade Relations Council of the United States, Inc.

TABLE V.—ACTUAL AND PROJECTED U.S. CONSUMPTION, IMPORTS, AND SHIPMENTS OF PIGMENTS

[In thousands of pounds]

	U.S. consumption	Imports	Shipments
1953	33,881	398	36,661
1957	26,879	164	29,588
1961	27,254	278	29,472
1965	34,634	797	38,024
1966	39,627	1,010	43,316
1967	32,662	1,922	36,297
1972	42,859	3,906	45,215
1976	39,671	7,649	38,912
1980	26,787	14,981	19,388
Percent change:			
1953–67	−3.6	+382.9	−1.0
1967–80	−18.0	+679.4	−46.6

Source: Trade Relations Council of the United States, Inc.

TABLE VI.—ACTUAL AND PROJECTED U.S. CONSUMPTION, IMPORTS, AND SHIPMENTS OF TEXTILE ASSISTANTS

[In thousands of pounds]

	U.S. consumption	Imports	Shipments
1953	176,642	101	196,331
1957	169,834	147	196,319
1961	128,524	541	156,704
1965	176,845	5,119	210,074
1966	189,641	7,770	222,356
1967	197,578	5,982	234,337
1972	223,173	13,184	266,042
1976	238,842	27,853	280,620
1980	245,373	58,842	273,029
Percent change:			
1953–67	+11.9	+5,822.8	+19.4
1967–80	+24.2	+883.7	+16.5

Source: Trade Relations Council of the United States, Inc.

TABLE VII.—DIRECT AND INDIRECT U.S. TRADE BALANCE IN TEXTILE ASSISTANTS

[In thousands of pounds]

	Direct	Indirect	Total
1953	+19,689	+8,206	+27,895
1957	+26,485	+5,772	+32,257
1961	+28,180	+2,496	+30,676
1965	+33,229	−996	+32,233
1966	+32,715	−1,898	+30,817
1967	+36,759	−2,164	+34,595
1972	+42,869	−11,280	+31,589
1976	+41,778	−28,551	+13,227
1980	+27,656	−75,809	−48,153
Percent change:			
1953–67	+86.7	−127.4	+24.0
1967–80	−24.8	−3,403.2	−239.2

Source: Trade Relations Council of the United States, Inc.

Mr. SCHNEEBELI. Incidentally, are we talking about this small segment of 17 percent of the total industry as small producers, nonalined producers?

Mr. MARSHALL. Yes, sir.

Mr. SCHNEEBELI. How many employees would you say roughly that these 50 producers employ?

Mr. MARSHALL. Well, the 50 includes the bigger companies too, Mr. Schneebeli.

Mr. SCHNEEBELI. Then of the small producers how many?

Mr. MARSHALL. But in the group represented by the ad hoc committee I believe a figure of perhaps 3,000 or so would be appropriate.

Mr. SCHNEEBELI. And where are most of these industry companies located?

Mr. MARSHALL. In New Jersey, Pennsylvania, New York, Rhode Island, Ohio, Michigan, Massachusetts, Maryland, Georgia, North Carolina, and South Carolina.

Mr. SCHNEEBELI. But mostly the Middle Atlantic States.

Mr. MARSHALL. Yes, sir.

Mr. SCHNEEBELI. We have been talking generally about the size of the chemical imports. What percentage of our total imports is in the chemical and dye field?

Mr. MARSHALL. If you will bear with us, Mr. Stewart has some statistics on that which I would rather he presented if you don't mind.

Mr. STEWART. Mr. Schneebeli, in the year 1966, according to the Tariff Commission, total imports of benzenoid chemicals were valued at $88 million. Of this some $46 million were held to be competitive. This is more than 50 percent on a value basis, but it was less than 50 percent on a quantity basis.

In that year the total imports of chemicals were about $796 million. Therefore, the competitive imports, benzenoid chemical imports of all classes, not merely dyes, were in the order of some 5 to 6 percent.

In that same year total imports of all manufactured goods were $14.4 billion. Therefore, the imports of competitive benzenoid chemicals dutiable on the basis of the American selling price were only about three-tenths of 1 percent of total U.S. imports of manufactures in 1966.

Mr. SCHNEEBELI. Very small percentage of your total chemical imports.

Mr. STEWART. It does not seem in view of its size to rate the amount of attention and concern it has been given.

Mr. SCHEEBELI. 9,000 to 10,000 employees?

Mr. MARSHALL. Something on the order of 3,000 employees from the small companies; 9,000 to 10,000 for the rest of the industry.

Mr. SCHNEEBELI. The bigger companies can absorb this loss of business but you fellows are out of business with the elimination of ASP Is that the idea?

Mr. MARSHALL. I wouldn't want to assume the action of the bigger companies because I don't know. I do know for a fact that it would put us out, and the others of the ad hoc committee out of business.

Mr. SCHNEEBELI. So then they are unhappy about it and you are even more unhappy.

Mr. MARSHALL. I think so.

The CHAIRMAN. Any further questions?

Again we thank you, Mr. Marshall.

Mr. MARSHALL. Thank you, Mr. Chairman.

(The following memorandum was received by the committee:)

MEMORANDUM BY SYNTHETIC ORGANIC CHEMICAL MANUFACTURERS ASSOCIATION (SOCMA) CONCERNING TESTIMONY GIVEN IN SUPPORT OF THE "SEPARATE" PACKAGE AGREEMENT

During the course of the hearings it was suggested that it might be helpful to the Committee if the parties involved in the ASP issue respond to the testimony presented on the other side of the issue.

SOCMA stands on the testimony and supporting documents it presented to the Committee. Time will not permit a detailed rebuttal of the testimony presented in support of the "separate" package agreement. Many of the deficiencies in fact and logic in the testimony presented in support of adoption of the "separate" package agreement were exposed by the members of the Committee in their questioning. Other such deficiencies are obvious on the face of the testimony and therefore do not warrant comment. However, there are some important deficiencies in fact and logic in this testimony which we believe it may be helpful to the Committee for SOCMA to offer some comment.

1. *Independent Economic Assessments in Support of the Government Position.*—In its testimony SOCMA cited a number of independent economic assessments including several from European sources indicating the serious adverse economic effect the chemical "deals" would have upon the domestic chemical industry. We then stated:

"While we have been unable to find any similar independent economic assessments supporting the Government's position [on probable economic effect] we would, of course, be pleased to have the Government cite some for us and for the Committee." (SOCMA testimony, p. 74)

In response to a question from the Committee concerning this statement, Mr. Haines, testifying on behalf of the Organic Chemicals Group of the American Importers Association, proceeded to cite "quite a number" of "independent economic assessments supporting the Government position." The "economic assessments" cited by Mr. Haines consisted of a sentence here and a sentence there taken out of context and with their meaning liberally interpreted by Mr. Haines.

Only one of these "assessments" purported to be an "independent economic assessment" of the chemical "deals"—the assessment made by Dr. James G. Tewksbury entitled "The Kennedy Round and the Chemical Industry". Mr. Haines chose to quote only two sentences out of this 14 page report. The rest of this assessment clearly and forcefully negates the implication obtained by taking these sentences out of context. A representative sampling of Dr. Tewksbury's report is as follows:

This paper will also suggest that the longer term economic consequences of free trade could be very serious for the U.S. as a whole as well as for U.S. chemical companies. If remedial action is not taken, U.S. balance of payments and employment may suffer severe losses. The fundamental problem is simple: the U.S. chemical industry will not be cost competitive. High labor costs in the U.S. will no longer be offset by high productivity, technological superiority, or other favorable factors. Add to this intentionally discriminatory trade practices and other disadvantages faced by the U.S. chemical industry vs. foreign competition, and the result is clear. Not only will exports decline, but major new inroads will be made by imports. In effect, the bleak economic consequence of free trade will be to export our high standard of living. (p. 1)

(d) *A Frightening Possibility.*—In the preceding sections, it has been pointed out that the U.S. faces many competitive disadvantages in world trade, with little or nothing to compensate. Average tariffs will be around 10% after Kennedy Round cuts, which is hardly enough to counter the combined effect of disadvantages.

If the trend towards free trade continues, and no action is taken to counter U.S. disadvantages in world trade, the likely consequences are frightening indeed. *In chemicals alone the current favorable balance of trade exceeds one-and-a-half billion dollars. If problems are unchecked this could easily turn into an unfavorable balance of twice that amount.* The net damage to U.S. balance of payments would approach five billion dollars per year, *a truly staggering sum.* Employment would be proportionately hard hit. It goes without saying that profit consequences would be extreme. (p. 12) [Emphasis supplied]

In order that the Committee may have the benefit of Dr. Tewksbury's complete "assessment", we are submitting a copy herewith for the Committee's file.

2. *ASP as a Method of Valuation.*—Mr. Haines states on page 2 of his testimony that:

"Mr. Simonetti, Acting Appraiser and former Chief Assistant Appraiser of Merchandise of the Customs Bureau has testified before the Tariff Commission that in fact this is so and that ASP is unfortunately more difficult to establish than, for instance, 'export value' ".

It is true that Mr. Simonetti's testimony was presented before the Tariff Commission and the Trade Information Committee to this effect in April of 1964, but Mr. Simonetti was not a "Acting Appraiser . . . for the Customs Bureau" at the time. Mr. Simonetti had retired from the Treasury Department in 1962 and specifically stated that he was appearing before the Tariff Commission and the Trade Information Committee "on behalf of the Organic Chemicals Group of the National Council of American Importers, Inc." [the predecessor to the Organic Chemicals Group of the American Importers Association]. Mr. Haines' statement concerning Mr. Simonetti was hardly the unbiased view of a Customs official it purported to be.

3. *Effect of "Separate" Package on Tariff Levels.*—On page 3 of Mr. Haines' testimony, he attempts to contest SOCMA's assertion that "the tariffs on competitive products, those we do make, would be reduced by considerably more than 50%," (SOCMA Statement, p. 41) Mr. Haines states "this is not true."

However, Mr. Haines then goes on to substantiate exactly what SOCMA said, as follows: "taking only competitive products, those we do make, the ASP package will lower average duties by 6.1%. This is a long way from the 'more than 50%' claimed by SOCMA." SOCMA did not contend that the ASP "separate" package lowered duties by "more than 50%." It is perfectly clear from the SOCMA testimony that the ASP "separate" package resulted in a *total* reduction in excess of 50%. (SOCMA statement, pp. 36–41.) When Mr. Haines says that the ASP package will lower average duties by 6.1%, he is referring to a reduction of 6.1% on top of the 50% reduction made in the Kennedy Round. While SOCMA does not accept Mr. Haines' 6.1% figure it certainly does support SOCMA's statement that the reduction would be "more than 50%".

The fact of the matter remains that as a result of the "separate" package, the total reduction on competitive products is that: "the tariffs on competitive products, those we do make, would be reduced by considerably more than 50%" . . . and . . . "because of the failure to make the competitive-noncompetitive distinction the duty on non-competitive products, those which are not made in the United States, would actually be raised above what has already been agreed to in the Kennedy Round." (SOCMA Statement, p. 41.)

As we went on to point out on the same page cited by Mr. Haines:

"In other words, the Congress is actually being asked to raise the duties on those products that we do not make and at the same time asked to reduce by more than 50% the duties on the products that are made in this country. What kind of economic sense does this make?" (SOCMA Statement, p. 41.)

4. *Position Taken by Respective Parties to the Agreement Substantiates the SOCMA Position.*—Mr. Haines takes the position that the "separate" package results in an increase in duties (Haines Statement, p. 3). Mr. Stobaugh and Mr. Hochschwender who also testified on behalf of the American Importers Association took similar positions. (Stobauch Statement, p. 8; Hochschwender Statement, pp. 4–5).

If we accept this interpretation of the Organic Chemicals Group of the American Importers Association that duties are in fact being raised, it will be the first time in history that "importers" have supported a duty increase, while a "domestic industry" has opposed such a move.

Why this weird turn about in the respective positions of the "importers" and the "domestic industry"? The answer is fully documented in SOCMA's testimony.

(1) The "importers" will receive tariff reductions considerably in excess of 50% on the competitive products produced by the domestic industry. This will provide them with a substantial competitive advantage which will enable them to take over an increasingly larger share of the domestic market in the area which will hurt the domestic industry and its employees the most—namely with respect to the products already produced in the United States.

(2) At the same time, the "importers" will suffer little or no harm as a result of the increase in duties on non-competitive products over the duties agreed to in the Kennedy Round. Since they have no U.S. competition on these products they can be expected to pass these duty increases on to the consumer.

The Organic Chemicals Group of the American Importers Association have purposely sought to confuse duty increases on non-competitive imports and substantial duty decreases on competitive imports. While the duty increases will have little effect upon non-competitive imports, the duty cuts on competitive products will result in substantially increased imports. The attempt to imply that the duty increases on non-competitive products offset additional duty decreases on competitive products is extremely misleading. We believe the Committee would prefer to see the situation as it really is—as outlined in the SOCMA statement.

5. *Economic Effects.*—Mr. Stobaugh's testimony on the effects of the adoption of the "separate" package (Stobaugh Statement, p. 7) proceeds on several false assumptions.

First, Mr. Stobaugh assumes that there is no duty reduction as a result of the "separate" package. Here again he relies upon the averaging together of competitive and non-competitive products to come to this conclusion. We have already pointed out the invalidity of this approach in paragraphs 3 and 4 above. Consequently, his analysis does not show any increase in imports because he disregards the fact that substantial additional reductions in excess of 50% would be made on the vast majority of products produced in the United States.

Second, Mr. Stobaugh admits that his projections are based on "the assumption that the U.S. chemical industry will have access to petroleum raw materials at world market prices." (Stobaugh Statement, p. 3) As Mr. Stobaugh must know, the U.S. chemical industry currently has access to less than 15% of its petroleum raw materials at world market prices.

Third, Mr. Stobaugh counts on the ASP package to result in increased exports of new products and those made by continuous-process, large-scale plants. He appears to assume that the U.S. is the only country developing new products and with a sufficiently large market to support continuous-process, large-scale plants.

This is certainly not the case. The EEC is now one market and is certainly of sufficient size to support large-scale plants. Indeed, some of the largest chemical plants in the world are currently being built there. While the U.S. industry is proud of the new products it has developed, it certainly has no monopoly on innovation in the chemical field.

6. *Monopoly.*—Mr. Haines and Mr. Gates for the Government, sought to imply that monopoly conditions existed with respect to large numbers of synthetic organic chemicals. In a memorandum submitted by the Government, on pages 599–601 of the hearings, the Government lists the number of synthetic organic chemicals producted in 1966, by product category, and by number of producing firms. The Government table shows that 83% of these individual synthetic organic chemicals are produced by three firms or less, and that 58% are produced by only one firm. The Government does state in its accompanying memorandum that "in the aggregate such products [i.e. those produced by one firm] *probably* do not account for an equally large proportion of total production on sales of benzenoid chemicals." (Emphasis supplied). This is certainly an understatement.

While the synthetic organic chemicals manufactured by three firms or less accounted for approximately 83% of the total number of such chemicals produced in the United States, these chemicals accounted for only about 25% of the total value. Value figures for those products produced by only one firm are not available, however, we would estimate that it would be less than 10% of the total value. This is certainly not surprising in an industry such as the chemicals, with a wide range of small market products.

It is also interesting to note that a substantial portion of the products being produced by one firm are being produced in the United States by U.S subsidiaries of foreign chemical producers, including members of the Organic Chemicals Group of the American Importers Association. For example, we found that in dyes, foreign producers accounted for almost 30% of the total number of dyes produced in the United States by only one firm, almost 10% of the total number of pigments produced by only one firm, and almost 12% of the total number of intermediates by only one firm. This, of course, includes only products manufactured in the United States by subsidiaries of foreign chemical producers. It does not include the noncompetitive imports brought in by these firms for which they are the only producer abroad. If these products are included, we estimate that the percentages cited above would at least be doubled.

7. *Who is the Organic Chemicals Group of the American Importers Association?*—The Organic Chemicals Group of the American Importers Association did not see fit to submit for the record a list of its member companies. However, we believe the record should reflect that its members are made up for the most part of U.S. subsidiaries of major foreign chemical producers. We believe it would be helpful that a list of the member companies of this group be submitted for the record in order that their true interests be reflected. It might go a long way toward explaining their testimony.

8. *Border Taxes and Export Rebates.*—The testimony in support of the "separate" package agreement completely disregards the border tax-export rebate issue. Even without considering the disadvantages to United States trade of the border tax-export rebate mechanism which have been pointed out by the President, the lack of reciprocity and adverse economic consequences of these chemical "deals" are obvious. When foreign border taxes and export rebates, and the increases therein, are taken into account, the result is disasterous.

(The following was received by the committee:)

OIL, CHEMICAL AND ATOMIC WORKERS INTERNATIONAL UNION,
Lock Haven, Pa., June 27, 1968.

Hon. WILBUR D. MILLS,
Chairman, House Ways and Means Committee,
House of Representatives, Washington, D.C.

DEAR MR. MILLS: We, the Local 8–673 of the Oil, Chemical and Atomic Workers International Union (AFL–CIO) representing 260 employees at the Lock Haven, Pennsylvania plant of American Aniline Products, Inc., agree with and endorse the contents of the statement of American Aniline Products, Inc., on behalf of the Ad Hoc Committee of U.S. Dyestuff Producers to be presented to your committee in public hearings on July 1, 1968 by Mr. J. J. Marshall, President of American Aniline Products, Inc.

Sincerely,

ARCHIE B. LEVI, *President.*
LYNN ROBINSON, *Vice President.*
FRED M. BRUNGARD, *Financial Secretary.*
KENNETH BYCE, *Secretary.*
CHARLES T. MITCHELL, *Chief Steward.*

The CHAIRMAN. Mr. Baird. Mr. Baird, if you will identify yourself for the record we will be glad to recognize you.

STATEMENT OF JOSEPH M. BAIRD, CHAIRMAN OF THE BOARD, BAIRD CHEMICAL INDUSTRIES

Mr. BAIRD. Mr. Chairman, I am Joseph Baird, chairman of the board of Baird Chemical Industries. Inc., of New York City. My purpose in appearing before your committee in these hearings is to urge the House and the Congress (1) to reject all demands for legislation restricting imports, and (2) to enact the Administration's Trade Expansion Act extension bill, including the provision calling for cessation of the American selling price method of customs valuation with respect to benzenoid chemicals.

The CHAIRMAN. Mr. Baird, if you have to omit any parts of your statement to comply with our time situation do so with the knowledge that the entire statement plus the material appended will appear in the record.

Mr. BAIRD. Yes, Mr. Chairman. My statement is just three pages.

The CHAIRMAN. All right. Go right ahead.

Mr. BAIRD. I believe that consistently freer trade and vigorous adjustment to rising import competition and to expanding export opportunities are essential ingredients of sound economic growth, a

healthy free enterprise system, and efforts to achieve our highest objectives at home and abroad.

I think I can best elaborate my views on trade policy and be most useful to your committee in its study of these issues if I concentrated the balance of my testimony on the question of chemicals, ASP.

Removal of the ASP trade barrier restricting imports of benzenoid chemicals is a major feature of the bill to extend the Trade Expansion Act. I urge the Congress to pass the administraion bill as quickly as possible. Action on ASP is a major feature of the effort that should be made to carry out the concessions agreed to in the Kennedy round negotiations. It is even more than that. It is also a major indicator of U.S. credibility when our Government, many Members of Congress, and many private interests emphasize the importance of nontariff barriers. If ASP on benzenoids is not discontinued, in accordance with the arrangements agreed to at the recent negotiations, future efforts to negotiate the removal of nontariff barriers may be much more difficult than now seems likely.

One of my companies is engaged in producing and importing chemicals. Another one has been exporting chemicals for almost 20 years. The manufacturing and importing company has plants in Peoria, Ill., and Ossining, N.Y. During the first 6 months of this year imports amounted to less than one-third of this company's sales, but they are gradually becoming a smaller percentage of its total business.

Less than 1 percent of the company's imports are covered by ASP customs regulations. Notwithstanding the company's deep interest in strengthening its international business, our most vigorous interest today is in the success of the substantial investment we have made in our own manufacturing operations.

The products we produce are substantially more important to the company's profits than are the chemicals we import. Some of the items we manufacture are protected by ASP. Nevertheless, our company opposes continuation of ASP. It is possible that we may lose some business to import competition if ASP is removed. But we expect to adjust successfully. We shall strive to improve our productivity, and we expect to offset through increased exports—exports of chemicals we ourselves produce as well as those we purchase from other American manufacturers—whatever business we may lose to increased imports. We can compete in foreign markets and shall be able to do so even more successfully if continued progress is made in reducing trade barriers surrounding the many markets to which we export.

The chemical industry as a whole has very convincing capabilities for adjusting to competition from any part of the globe. In my view, the industry's persistent claims of "gloom and doom" in ASP is removed, are totally out of keeping with the industry's persistent progress technologically, financially, and in overall resourcefulness.

I urge the chemical industry to bring its trade policy views up to date and into line with its technical and marketing achievements and capabilities.

Those who insist on high tariffs for chemicals and/or ASP escalation of official tariff rates are out of step with the realities of the industry's position and market opportunities. They overlook also the industry's huge stake in U.S. exports of end products that include chemicals. The steel industry, for example, is similarly in error when it overlooks its

huge stake in exports of machinery and other end products incorporating steel. Every industry ought to raise its sights to the many dimensions of the Nation's stake in freer trade and take sober account of the damage that would result from new trade restrictions or from failure to maintain momentum toward freer world trade.

If Members of Congress have any concern over the ability of the chemical industry to adjust successfully to removal of ASP, the most constructive step they can take is (a) to vote for implementation of the concession the United States made on this trade barrier in the recent negotiations, and (b) to ask that the Department of Commerce follow closely the effects of this action on the chemical industry and cooperate with the industry on ways to facilitate the industry's adjustment if serious difficulties are encountered. I do not expect any serious difficulties.

After almost 50 years of special protection the time has come for the chemical industry to ask itself why benzenoid chemicals are so unique that the manufacturers should be favored over all other producing groups. The time has come for the industry to appreciate fully the imperatives of the national interest and the realities of its own capabilities and opportunities.

I am appending to this testimony, for inclusion in the published proceedings, two recent addresses I delivered on this subject before business audiences.

Thank you.

(The information referred to follows:)

A TRADE POLICY PREMISE FOR THE CHEMICAL INDUSTRY

(By Joseph M. Baird, Chairman, Baird Chemical Industries, Inc., New York, N.Y.)

Decisions, decisions! Decisions are not made in a vacuum. There has to be both short-range and long-range planning. Long-range planning particularly focuses management attention upon such vitally important questions as the future situation in the world marketplace; technology developments in the world; changes likely in our balance-of-payments; inflation at home and abroad, and many other factors.

Among the other factors are the freedom of foreign access to the American market and, on the other side of the coin, U.S. access to foreign markets. Market access should be assessed not only in terms of existing trade barriers but also in terms of the possible trade policy posotions of the United States.

Possible trade policy positions may be divided into three categories, in ascending order of merit;

The first is additional import restrictions such as import quotas and other barriers to the flow of trade across our borders. Such additional barriers would most certainly invite retaliation by our trading partners, even while the Kennedy Round concessions are being implemented.

The second possibility is reduced trade barriers brought about by the Kennedy Round concessions, with such reductions not complicated or compromised by new trade restrictions.

The third and the most desirable possibility is the fulfillment of the Kennedy Round agreements—this to be followed by new negotiations with the economically advanced countries of the free world in order to arrive at complete free trade.

If new trade barriers are imposed or are threatened, the challenge to business ingenuity will be less than what reasonably could be expected in a climate of freer trade expectations. Anxiety about import competition would not be as great, and the limits to which business executives would have to extend themselves—in innovation, efficiency and sales promotion—would not be as extensive. Opportunities for export expansion would be correspondingly smaller, with simi-

lar effects on the need for businessmen to raise the sights of their export operations. Uncertainty over the possibility that new trade barriers may be established may not be as harmful as the actual imposition of these barriers, but it is nevertheless less stimulating and less productive a trade policy premise than would be a coherent, dependable policy of consistently freer world trade.

The least desirable of the trade policy positions—new trade restrictions, the threat of new restrictions, or a climate of uncertainty on these counts even as steps are being taken to implement the Kennedy Round agreements—most regrettably happens to be the present state of our national trade policy. The impact this has had on business decisions cannot be described in any detail, except on a case-by-case basis, and such information is not publicly at hand. But there can be no doubt that American industry and agriculture are not being stimulated to go all out, as they would be by the very exacting forces of a genuinely open competitive market. The free enterprise system is not really being unleashed.

A host of formidable industries have instead unleashed massive political pressures to get imports controlled, either through limitations on foreign exports or U.S. import quotas. They are also busy as bees at many a State House seeking enactment of highly restrictive Buy American laws. These industries are plugging the wrong kind of trade policy premise into their decision-making. They and the legislators who yield to their pressures apparently do not understand the imperatives of business and national success in today's greatly changed world economy. They have apparently forgotten some of the business principles that helped build the American economy to its current preeminence in the world's economic life. If the very discouraging trade policy premises these industries prefer for themselves (which are certainly not in their *enlightened* self-interest) are adopted via legislation as trade policy guidelines which would affect all American producers in one way or another—directly or indirectly, both in our home market or in export markets—then the resultant problems would be added to these disastrous changes in our trade policy. The difficulties brought about by a show of protectionism would range from the extent of inflation at home to the credibility of American foreign trade, and monetary policies.

Such possibilities are gruesome enough without considering the implications for our national security. Many of those who demand import controls claim that the industries involved are essential to our national security. If this is the case, and it certainly is for some of these industries, then we may indeed be afflicted with national-security weakness. However, it is a weakness we should associate, not with the rising imports about which these interests complain so loudly and loosely, but rather with the appalling shortsightedness of the executives who run these enterprises. Turning to government for help may in some cases be necessary to cope successfully with increasingly difficult foreign competition. But when the help sought is concentrated on government restriction of that competition, we have cogent reasons to question the adequacy of those executives as custodians of production resources so essential not only to this country's economic well-being but also its security.

The second trade policy premise—fulfillment of the Kennedy Round agreements while avoiding additional trade restrictions—ought to be the premise which every American businessman (some, of course, more enthusiastically than others) adopts as a fixed premise—one to which he must somehow adapt his tactics and strategy in a very dynamic market. At this time it ought to be the minimum assumption as far as established policy is concerned, and until a definitive long-range policy is formulated by the Congress. But the strong pressures for import restrictions have seriously weakened even this moderate trade policy guideline so soon after the long and laborious Kennedy Round negotiations ended in what may fairly be called a successful and significant achievement.

We still face a difficult road ahead if only to get the Kennedy Round agreements implemented. The chemical industry is in the front ranks of those who block the way. It ought to be in the front ranks of those who seek full implementation of these agreements and, more than that, it should be urging new negotiations with a view to the removal of all remaining trade barriers between the economically advanced countries.

Free trade, the completely free movement of goods and capital between the developed countries, should be the trade policy premise every American producer should today plus into his decision-making equation. He should not expect free trade in the next year or two for the products in which he is interested, but rather expect that in the course of the next decade or so, trade in the products he makes will be included in the list of items not restricted by tariffs or non-tariff barriers. This is not just a hypothetical exercise. It is the trade policy goal toward which

we have been moving for over three decades, even if not consistently, and toward which the logic of our overall national interest will direct our efforts. Because of the chemical industry's ranking on the technological totem pole of American industry, the industry should expect that free trade may come sooner for chemicals than for many other products.

One of the great strengths and, indeed, a special characteristic of the chemical industry and of the American economy in general is the ability to adjust to the challenges of change. The chemical industry has done this very well, but for some reason it puts on a public display of weakness when confronted with the prospect of new trade negotiations and with the lower tariffs and trade barrier concessions that have been negotiated. This reaction dates all the way back to the beginning of our liberal trade policy more than three decades ago. It is an industry position that grows increasingly strange with the passage of time. In the industry one can find executives who privately understand and endorse a national policy of freer trade and the need for the chemical industry to adjust to the reduction of trade barriers. They have confidence in the industry's ability to adjust to, and benefit from, free trade whenever it comes. But the industry as a whole and practically all chemical executives in their public positions have not brought their trade policy views up-to-date and into step with the industry's impressive strides in technology, economies of scale, and all-round resourcefulness.

The chemical industry as a whole strongly resists the recently negotiated elimination of the anachronistic "American selling price" method of customs valuation on imports of many benzenoid chemicals. This is a special and indeed unique import barrier that was established back in 1922. As the modern chemical industry grew by leaps and bounds, chemical executives in companies enjoying ASP protection should have assumed that this trade barrier would some day be withdrawn. Such an assumption should have taken increasingly deeper root when the trade agreements program became well-established national policy and particularly as the program gained momentum after World War II. Such an assumption should have been a major part of the trade policy premise benzenoid chemical producers plugged into their decision-making.

The negotiated elimination of ASP as part of a trade agreement in the national interest now confronts some producers with the immediate need to adjust to a contingency they should long ago have expected and planned for. If those who oppose the removal of ASP say they have not been making an effort to adjust to such a contingency, they expose themselves to strong criticism for serious negligence. If they claim they have been making such an effort but are not yet ready for such a change in U.S. import policy, they invite amazement that their companies' or divisions' technical and market strength lags so far behind the rest of the industry's dramatic performance.

As we all know U.S. tariffs have been coming down rather dramatically. As measured by the ratio of duties collected to the overall value of dutiable imports, the average U.S. tariff on dutiable goods dropped from 46.7% in 1934 to 12% in 1961—a little less than 75%. And with duties at the low point our imports of chemicals totalled only $1,090 million in 1967 as compared to exports of $3,209 million.

As tariffs have come down some chemical producers have claimed that they were being hurt. It is said by some economists that a tariff reduction does little good until it hurts. Let me illustrate this point:

Let us suppose that a not-too-important to our national security chemical is selling in Europe, and exported, for $1.00 a pound, but because of a $0.30 a pound tariff in the U.S. it sells here for $1.30. Now, let us conceive a gradual reduction of this 30% tariff. The price of the chemical in the U.S. goes down from $1.30 to $1.25 to $1.20 to $1.15. All through this whole process let us assume American production does not decline. American producers might be hurt in the sense that they would make less profits but they do not lay off workers and they do not go out of business. In this sense the American producers are not hurt.

Now, let us try to analyze what really has happened as the price came down. American producers keep producing just as much, but they get less for it. Meanwhile the American consuming industries are paying less for it. So, the loss of the producers in making less profit is balanced by the gain of the American consumers in getting the chemical cheaper. There is no significant gain for the American economy up to this point, so now let us mark the price down below $1.15. Let us assume that the tariff is eliminated and the price

goes down to $1.00. At this level producers are driven out of business. Their getting driven out of business means that, perhaps with government assistance, they use their capital elsewhere and their workers, perhaps with government help also, are retrained and find other employment—both of which are better than continuing to produce and sell at the unacceptance of perhaps unprofitable price of $1.00. So the alternative uses of whatever goes to make the chemical in America are worth at least $1.15 but when the tariff is eliminated, the consumers make a gain because they can buy the foreign product at $1.00—when these same consumers used to pay $1.15 for the chemical and the producers used to get $1.15.

Now, the producers are getting $1.15, or perhaps more, for something else, while the consumers are getting the chemical for $1.00. There is a clear gain of that whole difference between the point where the producers are pushed into making another chemical or into some other activity and the price at which the chemical can be imported. This is where the real gain for American living standards is. This is the way reduced tariffs increase world trade. This is the way free trade promotes the effective use of the world's resources and technology and provides a link between nations based on enhanced well being. This is the way we are able to produce those products we are in a position to make cheaply in order to trade for raw materials we lack and for those goods we are not adept at producing cheaply. This way provides an increase in the flow of goods for American consumers. In this way, as our trade frees up, our industries are stimulated by increased opportunities. The results are bringing a dynamic new era of growth for the U.S. and, directly and indirectly, the chemical industry. This is the way the American economy and American living standards would profit further from the elimination of ASP and free trade.

As a trade policy premise for the chemical industry, elimination of ASP is long overdue. More than that, this contingency has now been overtaken by the need for a premise even more far-reaching—the expectation of free trade. It has become timely and practical.

Those chemical executives who, upon sober and well-researched assessment, feel they will not be able to cope successfully with the consequences of such a national policy and will need government help, should call on government, not to restrict import competition, but to help them adjust to that competition. Government, in turn, should keep itself well informed on the progress of all segments of the chemical industry and on any serious problems that may arise. If government help becomes necessary for individual companies and its workers, it should be through an adjustment assistance program. In this connection, the adjustment assistance criteria of the Trade Expansion Act should be made realistic and administratively practical. Such assistance should be related to the special problems of the particular producers and their employees. If the problem encountered is industry-wide, government help should take the form of a chemicals trade policy that emphasizes domestic remedies—not quotas or other barriers. Import control measures may be considered only in an emergency and then a very temporary adjunct of a domestic remedy. The special import controls the Government has provided for the chemical industry for nearly half a century have never been part of a clearly enunciated chemicals policy.

Our national trade policy should serve the total national interest. The total national interest must include a strong chemical industry. The trade policy premise of complete free trade which I urgently commend to the chemical industry is the one best calculated to give new strength and opportunities not only to the chemical industry but to the nation at large. We should recognize its inevitability and plan accordingly.

TEXT OF SPEECH DELIVERED BY JOSEPH M. BAIRD, CHAIRMAN OF THE BOARD, BAIRD CHEMICAL INDUSTRIES, INC.

Forty-five years ago Congress gave the benzenoid chemical industry the most protection against import competition any American industry had ever received. It has rejected specific legislation of this type for any other industry fearful of rising imports. By legislating the ASP method of customs valuation for benzenoid imports, Congress in effect delegated an important degree of tariff setting to the benzenoid producers themselves. It left to them (any one of them) the basic role of determining the "American selling price" of a competing domestic product and, by the same token, left it to the domestic producers to decide when to announce for customs purposes that a competing U.S. product was on the

market, regardless of whether the particular product at that stage needed special protection against foreign competition. Applying the ASP device to the official ad valorem tariffs escalated those duties to substantally higher levels of protection than the nominal tariffs provided, sometimes double the regular tariff and even more.

This special protection, highly controversial even in 1922 when the high-tariff Fordney-McCumber Act was enacted and the need to develop a strong coal tar chemical industry was clear to all who had gone through the experience of World War I, has been maintained intact while the American chemical industry, including its synthetic-organic sector, has become the strongest in the world. ASP protection has also remained intact notwithstanding U.S. policy of the last 33 years to reduce trade barriers in the nation's best interests.

It was logical and appropriate to deal with this trade barrier in the recently concluded Kennedy Round of trade negotiations, and to negotiate its elimination as part of a reciprocal package. It is logical and appropriate to expect the chemical industry by this time to know its own strength and how best to adjust to the withdrawal of this extraordinary trade restriction. However, in the light of the chemical industry's position on trade policy throughout the trade agreements program of the past 33 years (the industry's persistent forecasts of injury, even doom), it unfortunately comes as no surprise that the industry's trade associations and most of its producers object—at least publicly—to the tariff cuts of the Kennedy Round and to the special package in which the elimination of ASP as a protective device was negotiated.

In view of what is crystal clear about the industry's strength and the nation's trade-policy imperatives, compared with the narrow view our industry has taken of both itself and the national interest, it is logical and appropriate to question the judgment of those in the chemical industry who still oppose ASP elimination and who are exerting strong pressures on Congress to reject the Administration proposal. The Administration is seeking the Congressional implementation of the special package of concessions in which ASP would be discontinued in exchange for additional concessions by European countries in chemical tariffs and in non-tariff barriers on automobiles and tobacco.

This opposition brings discredit on the chemical industry and, if successful, it will bring even more serious discredit on the United States and the credibility of our announced belief in freer world commerce. An industry that genuinely believes in the free enterprise system, in the need for freer and expanding trade in the nation's most enlightened self-interest, and in the importance of a strong, resilient, and expanding national economy—such an industry would have been making a determined effort, at least since World War II, to prepare itself for the time when, as part of a negotiated arrangement, ASP would be discontinued. If those who have been opposing ASP elimination say they have not been making such an effort, they invite serious criticism for most regrettable negligence. If they claim that in any event the industry is not ready for such a change in U.S. import policy, they invite amazement that their views on trade policy and their assessment on the industry's technical, financial, and market strength has lagged so far and for so long behind the dramatic advance the industry has made in actual performance.

In addition to its well-developed economic and technical strength, the chemical industry has many advantages over its foreign competition. For example, it has on its doorstep the largest free-trade domestic market anywhere in the world, featuring enormous opportunities for economies of scale. Close ties between producer and consumer, in matters such as technical services, significantly enhance the strength of U.S. chemical producers in their home market. Lower U.S. tariffs will certainly improve the competitive position of foreign exporters to the United States. But reductions of foreign tariffs will in turn help open new market possibilities for U.S. chemical producers and, incidentally, for other American industries that are directly or indirectly consumers of the products of the U.S. chemical industry.

U.S. refusal to eliminate ASP would not only do away with the concessions which other countries are ready to make in exchange; it would also impair for some time to come the effectiveness of the efforts the United States must continue to make to induce foreign governments to reduce their import restrictions and certainly abstain from new ones. SOCMA and others who object to ASP elimination sometimes point to foreign non-tariff barriers that will continue to block U.S. exports of chemicals, thus offsetting whatever tariff cuts are made in any of the Kennedy Round arrangements. This concern is justifiable. Retaining ASP, however, is not, in whole or in part, a justifiable response to such problems.

Retaining ASP, with all that it has come to symbolize about U.S. policy, would be certain to inspire foreign recourse to protectionism. It would certainly deprive the United States of leverage with which to discourage such measures abroad and to persuade those governments to devote their trade policy ingenuity to further liberalization.

Those in the chemical industry who today oppose elimination of ASP also need to be reminded that discontinuing ASP means only discontinuing a *practice of customs valuation* sharply at odds with U.S. trade policy principles and those of the world trade community as reflected in the General Agreement on Tariffs and Trade. U.S. tariffs on the affected products will be converted to tariffs generally reflecting ASP levels of protection. The converted tariffs will then be cut to levels not in excess of 20 percent ad valorem in most cases; the major exceptions will include 30 percent for dyes, pigments and azoics, and 25 percent for certain sulfa drugs. After more than three decades of a freer-trade policy, such tariff levels set by a trade agreement which the Administration has called "the most comprehensive assault on barriers to international trade that has ever taken place" remain high, especially for an industry as formidable as the chemical industry.

If a thorough and comprehensive re-assessment of the ASP issue, taking account of all the factors mentioned above (as a minimum), leaves some chemical executives still burdened with worry over the effects of ASP elimination on their companies and the industry, it seems to me that their energies with respect to this issue should be directed, not at opposing the elimination of ASP, but at (1) gearing their overall operations to ensuring a successful adjustment to this contingency, and (2) urging our government (a) to remove such barriers as may tend to impair such an adjustment (for example, phase out import restrictions on oil and other raw materials), and (b) to keep under continuing review the effects of ASP elimination, standing ready to discuss with industry executives and associations ways and means of facilitating the adjustment. In this connection, the industry should support the Administration's effort to get the adjustment assistance criteria of the Trade Expansion Act liberalized.

The problems of adjustment and especially the things that have to be done to facilitate adjustment are conspiciously lacking in the industry's statements and protestations on ASP. The time has come to countenance the removal of this trade barrier abomination—in the interests of U.S. consumers, U.S. trade policy goals, the national security stake in a strong economy, and of the chemical industry itself. In adapting itself to this historic change, the chemical industry will be doing things that build new strength for itself and the nation as a whole.

The CHAIRMAN. The entire material will be made a part of the record, Mr. Baird. Any questions of Mr. Baird?

Mr. CURTIS. Just briefly.

The CHAIRMAN. Mr. Curtis.

Mr. CURTIS. Your company isn't one of these big four that they are talking about?

Mr. BAIRD. No, sir.

Mr. CURTIS. About how many employees do you have

Mr. BAIRD. Seventy-five.

Mr. CURTIS. Thank you.

The CHAIRMAN. Any further questions? Again we thank you, Mr. Baird.

Mr. BAIRD. Thank you.

(The following letters and statements were received, for the record, by the committee:)

DEPARTMENT OF STATE,
Washington, D.C., July 2, 1968.

HON. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: The Department of State has received from the Embassy of Switzerland a statement of the views of the Swiss Union of Commerce and

Industry. The Embassy has requested that the statement be transmitted to the Committee on Ways and Means for its consideration for possible inclusion in the record of the current hearings on tariff and trade proposals. In forwarding the statement, the Embassy of Switzerland said that this transmittal did not imply an official position of the Embassy and it was not responsible for the contents of the statement.

I am pleased to forward three copies of the enclosed statement for your consideration.

Sincerely yours,

WILLIAM B. MACOMBER, Jr.,
Assistant Secretary for Congressional Relations.

Enclosure:

STATEMENT OF MICHAEL P. DANIELS, COUNSEL, SWISS UNION OF COMMERCE AND INDUSTRY, ZURICH, SWITZERLAND

This statement is filed on behalf of the Swiss Union of Commerce and Industry, the principal association of business in Switzerland. This statement is particularly concerned with the abolition of American Selling Price valuation on benzenoid chemicals as provided for in a protocol negotiated in Geneva in 1967 which would be implemented by the Administration Trade Bill, H.R. 17551.

The importance of the ASP issue

In this crucial period in the world economy, the American Selling Price issue has taken on a significance beyond the immediate economic interests involved. It has become the focus of attention for the entire field of non-tariff barriers to international trade and in a very real sense is the gateway to further meaningful negotiations in the non-tariff area.

Successive rounds of tariff negotiation since the end of World War II have significantly reduced tariff barriers to international trade. The world trading community is now faced with the difficult problems presented by non-tariff barriers which are of a greater importance as impediments to a free exchange of goods.

The United States, as the world's largest exporting nation, has an important stake in the elimination of such non-tariff barriers to trade. The problem facing the United States and its trading partners is the process and the institutions through which such barriers may be removed.

In difficult negotiations, with the success of the entire Kennedy Round at stake, the United States agreed to the abolition of American Selling Price, a notorious non-tariff barrier, in exchange for reciprocal concessions by other nations. It is clear that without abolition of American Selling Price a bargain in the chemical sector would have been impossible and without chemicals the entire negotiation on industrial products in the Kennedy Round undoubtedly would not have been consummated. It is a testiment to the good faith and earnestness not only of the United States negotiators, but those of other countries as well, that the difficulties which stood in the way of an ASP negotiation were overcome and an acceptable bargain was struck.

The essential feature of the United States position was that any agreement was subject to ratification by the United States Congress, since there was no prior authorization for abolition through negotiation. The United States insisted upon, and finally won at the 11th hour, the agreement of its trading partners to this principle, and the ASP package so negotiated is now before the United States Congress for ratification.

Given the nature of the important remaining non-tariff barriers to trade, involving as they do fiscal policy, health, safety, consumer protection, the national security and business organization, it appears that future negotiation on non-tariff barriers by the United States will most probably be on an ad referendum basis. Legislative bodies are not, by their nature, able to negotiate. The problem for the United States, therefore, if it is interested in the elimination of other non-tariff barriers to trade, is to demonstrate that its negotiators, although not armed with prior authority to negotiate on specifics, nonetheless can return to the Congress of the United States and achieve ratification of fair bargains arrived at through negotiation. This is not to say that it is incumbent upon the Congress to swallow whatever its negotiators bring back for ratification. It does imply, however, an obligation to accept fair bargains and to appreciate that in the negotiating process there must be give and take.

The ASP package negotiated at Geneva clearly meets the standards for acceptance. It was a fully reciprocal bargain with a balance of concessions. The reciprocal nature of the ASP package will be described below.

Failure of ratification would indicate to our trading partners a serious disability on the part of the United States to enter into such negotiations and would impede progress in the elimination of other non-tariff barriers to trade. Any future negotiation, furthermore, would again run into the ASP barrier, accentuated by failure of ratification of the Geneva protocol. Thus efforts to eliminate foreign non-tariff barriers to the products of American farms and factories would be frustrated if ASP is not abolished.

These remarks are not intended to suggest that Congress is under constraint to accept the ASP package if it is not satisfied that it is a fair and reciprocal deal. It is, on the other hand, a realistic appraisal of the consequences should the ASP package be rejected. It is inconceivable that serious negotiation on problems of vital importance to United States agricultural and industrial exports could materialize should ASP not be abolished. We suggest that these consequences be kept in mind as Congress proceeds to deliberate ASP.

ASP is an objectionable non-tariff barrier to trade

The peripheral issues raised by those opposed to the abolition of American Selling Price should not be allowed to obscure the central issue: ASP is an indefensable barrier to international trade and inconsistent with internationally accepted standards of valuation. It would be illegal for the United States to maintain this system under the GATT were it not for a waiver allowing practices existing prior to the GATT. ASP is an anomaly in American valuation law and contrary to the policy of the Congress expressed in reforms of the Customs laws over the last two decades which were designed to achieve simplicity, ease of administration and certainty of application.

The intricacies of the ASP system of valuation should also not be allowed to obscure the extraordinarily high rates of duty resulting from application of this system of valuation. The nominal rates in the benzenoid sector are high in comparison to rates of duty on other manufactures. Astronomical heights result from the application of these nominal rates on the basis of American Selling Price valuation. The Tariff Commission found that duties under ASP range as high as 172 percent. Even this figure understates the true heights of duty which are involved since the 172 percent rate is an average rate for 11 dyes, some of which are as high as 300 percent. Furthermore, there is no question but that ASP in some instances could reach even higher rates of duty not revealed by the Tariff Commission study since such rates are completely prohibitive of any trade.

An examination of the legislative history clearly reveals that one purpose of the sponsors of this system in 1922 was to obscure the high rates of duty involved, to make them more palatable to the public and Congressional conscience.

What makes ASP a non-tariff barrier (as distinguished from the very high tariff achieved under the system) are the uncertainties involved in arriving at a rate under the system and the fact that such rates are subject to manipulation by the American producer of competitive benzenoid chemicals.

The essence of the ASP system is that the valuation basis to which ad valorum rates are applied is not the transaction price of the imported chemical (as in the case of normal valuation) but rather the price at which an American producer is willing to sell a competitive product in the American market. The uncertainties for the importer or foreign exporter are:

1. whether a competitive product is being offered by an American producer, and
2. the price at which such product is being offered. In actual practice a foreign manufacturer or American importer may not know for months after a transaction has been contracted whether or not American selling price will be applied and the level of duty. This uncertainty inhibits commercial transactions which require a measure of securtiy and certainty in order to be consummated.

The oportunities for manipulation are manifest. There are innumerable actual examples of such manipulation. The offer to sell may not be bona fide and the price at which such offer is made may be fictitious. Out of the thousands and thousands of benzenoid chemicals potentially covered by the American selling price system, a very large proportion are items produced by only one company, giving the American manufacturer tremendous leeway in setting his offered price and therefore controlling the duty of imported competitive products.

The difficulties in ascertaining competitiveness and the American selling price by Customs is a time-consuming, complicated and uncertain procedure. Indeed, the Customs in 1951 proposed, in the interest of a more efficient administration of the Customs, that American Selling Price be abolished.

In view of these features of American Selling Price, it is small wonder that foreign nations have strongly objected to its continuation and were willing to pay handsomely in concessions for its elimination.

The Kennedy Round and ASP packages were fully reciprocal

The opponents of abolition of ASP have attempted to create the illusion that the Kennedy Round negotiation on chemicals and the ASP package are not reciprocal by what amounts upon analysis to little more than a slogan—"the 50–20 Deal." In the Kennedy Round package the United States agreed to reductions in its duties on chemicals of 43 percent compared to a reduction by our trading partners of 26 percent. What makes this reciprocal are three important considerations:

1. *Trade Coverage.*—The United States reduction in the Kennedy Round package of 43 percent was on $440 million of imports (CIF basis) and $350 million on imports from parties to the ASP protocol. The 26 percent reduction given by others to the United States was on $890 million of United States exports. On a weighted basis the United States' offer was equivalent to $288 million while the offer of other countries was $463 million. This is not an academic exercise in arithmetic but is the accepted method of evaluating reciprocity and the only practical way in which negotiations can proceed.

2. *The United States Retained American Selling Price Valuation.*—This retention was of considerable value to the United States and in the view of our foreign suppliers made the duty reductions by the United States in the Kennedy Round of limited value. A measure of the importance of the retention of ASP is the fact that our trading partners were willing to pay for the elimination of ASP (plus another 5 percent reduction in United States duties) by further reductions in their duties of 30 percent and the elimination of non-tariff barriers of their own.

3. *There is a Significant Disparity Between United States Rates and Those of Our Trading Partners.*—The reductions in the Kennedy Round still left United States duties on chemicals at an extremely high level compared to those of our trading partners.

The ASP package was certainly reciprocal. In exchange for a further reduction in duties by the United States of 5 percent, and elimination of ASP, our trading partners further reduced their duties by 30 percent and paid with additional non-tariff barrier concessions. Furthermore, the effect of the flat rate of 30 percent on dyes may leave the actual average of United States duties unchanged from the first to the second package or even result in a slight increase in United States average duty levels from the first to the second package.

Taken together, both the Kennedy Round package and the ASP package will result in practically the same depth of cut by the United States and its trading partners, with the United States making its cuts on a lesser volume of trade, and with the United States duties still significantly above those of our trading partners.

Dyes are an important example. While the United States will maintain a flat rate of 30 percent on dyes the United Kingdom tariff will be 15 percent, the EEC rate will be 10 percent, and the Swiss rate will be 0.7 percent.

Looking at depth of cut, for competitive dyes the United States reductions were 70 percent (TSUS 406.50) and 57 percent (406.10) compared to a reduction by the United Kingdom on competitive dyes of 55 percent, and a reduction of 66⅔ percent for France and a 60 percent reduction on Swiss duties on imported dyes. Thus, in the dye field the United States made cuts of about the same magnitude on competitive dyes as our trading partners and the United States is left with duty rates considerably above those of the other principal countries.

The true measure of reciprocity is the trade which will result from duty reductions. It is impossible to accurately ascertain the tariff elasticity involved in the chemical field, comprising, as it does, thousands of items. It stands to reason, however, that the United States, with a larger base of exports, stands to benefit materially from the reductions to extremely low levels of the import duties of our trading partners, most of which will be below 12½ percent. The maintenance of higher levels of duties by the United States on a lower base of trade should not engender an increase in imports more than the gain in export trade.

Economic effect

The statement of the Special Representative for Trade Negotiations dealt at some length with the economic impact of the duty reductions on the United States chemical industry, and no purpose would be served by extensive repetition of that data in this statement. In summary, measured by every indicator, the chemical industry, including the benzenoid sector, has demonstrated remarkable growth and has outperformed the economy as a whole. It has demonstrated strength in international competition and will certainly be able to withstand import competition and benefit by the expanded trade opportunities created by the ASP package.

We have charted some of the significant statistics contained in the statement of the Special Representative which graphically demonstrate these points.

FIGURE I shows United States shipments and imports for the chemical and allied products industries as a whole. Whereas United States shipments increased by over $10 *billion* from 1962 through 1967, total imports grew by less than $200 *million*. The overall ratio of imports to consumption in 1967 was at a modest 2.5 percent. This, however, includes duty-free imports which are presumably not competitive with United States production. The ratio of dutiable imports to consumption in 1967 was only 1.4 percent. (See Table 1, STR Statement.)

The benzenoid sector is shown separately on FIGURE II. (See Table 2, STR Statement.) United States shipments of benzenoid chemicals grew from $2.6 *billion* in 1962 to $3.8 *billion* in 1966, an increase of $1.2 *billion*. On the other hand, total imports grew from $39 *million* to $88 *million*, an increase of only $49 *million*. Imports as a ratio to consumption in 1966 was at 2.7 percent for total benzenoid imports but only 1.4 percent for competitive imports.

FIGURE III measures the international competitive strength of the overall chemical industry by comparing United States imports and exports. (See Table 1, STR Statement.) Total exports increased by about one *billion* dollars from 1962. Total imports, on the other hand, increased by only about $200 *million* over the same period. A significant portion of the imports were duty-free imports. Thus, in 1967 the total export balance in the United States favor in the chemical sector was $1.8 billion. Measuring the difference between dutiable imports and total exports the balance in the United States favor was over $2 billion.

The trade balance in benzenoid chemicals is shown on Figure IV (See Table 2, STR Statement.) Here exports grew by $130 million from 1964 to 1966 whereas total imports grew by only $39 million over the same years and competitive imports grew by $23 million. The trade balance in favor of the United States in 1966 in benzenoid chemicals was almost half a billion dollars.

Certainly these figures demonstrate a strong export industry well able to compete with imports. Starting with the high and growing base of exports the duty reductions in the Kennedy Round should contribute materially to an increasing level of exports.

There are a number of arguments which have been raised concerning the impact of imports which in our view are calculated to obscure the true picture. It has been attempted to portray this industry as one of small, vulnerable enterprises. Nothing could be further from the truth. The chemical industry and the benzenoid sector are dominated by large, diversified and strong chemical companies, well able to withstand import competition.

There are some smaller enterprises in this industry. Undoubtedly a few of these companies will find it more difficult to compete with the reductions in duty contained in the ASP and Kennedy Round packages. It is no part of national policy, however, to protect a few inefficient units of production at the expense of the overall position of the industry. After 46 years of extraordinary protection it is no wonder that there are inefficient, marginal companies operating under the ASP umbrella. Not all of the smaller units, however, will find it difficult to compete. Many of these companies are, in effect, part of larger enterprises either formally or in a less formal subcontracting relationship. Since these companies do not generally provide the extensive services required of the larger companies and do not have the overhead of large research and development costs, they are in many cases low-cost producers better able to compete in certain specialty items than the larger companies.

The border tax issue

Since SOCMA has made such a point of the European border tax, particularly the change in system, this statement would not be complete without reference to that problem.

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 no 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.

We certainly believe in the free movement of capital. It is also clear that tariffs are not the only consideration in a decision to invest abroad. Furthermore, we do not mean to suggest that all of the $9 billion of sales by Unted States plants abroad substitute for potential exports. Nonetheless, the data makes clear that a very significant amount of potential exports has been lost to the United States by the investment policies of our chemical companies.

Thus, the inducement to increase exports contained in the ASP package may not be of interest to American chemical companies because of their investment policies. They may very well wish a protected market in the United States and a protected market in Europe for their plants there to maximize their profit position in each market.

Regardless of the position of the chemical companies, this is certainly not in the interest of the United States. There is a five-fold loss involved :

1. The foreign exchange involved in the foreign investment is lost.
2. The foreign exchange earnings from potential exports are lost.
3. Employment in the United States is lost.
4. Sales of resources and materials to the chemical industry are lost to United States producers.
5. Competitive prices and other benefits to American consumers and the economy are lost.

Certainly the United States should do nothing to artificially stimulate investment abroad. It is suggested that ratification of the ASP package will remove one such arificial stimulant to investment and will provide instead a stimulant to exports which will be in the best interest of the United States.

Conclusion

We invite the Congress to fully consider the economic issues involved and the implications of its action for the future of the American economy and of the world economy. We wish to suggest that abolition of ASP is the gateway to further progress in removing impediments to United States exports and that such ratification will be advantageous not only to the economy as a whole but to the chemical sector as well. We are convinced that a complete examination of the relevant facts will substantiate our contention that the ASP negotiation was fair and reciprocal and should be ratified by the United States Congress.

FIGURE I

CHEMICAL and ALLIED PRODUCTS- U.S. Shipments and Imports, 1962-1967

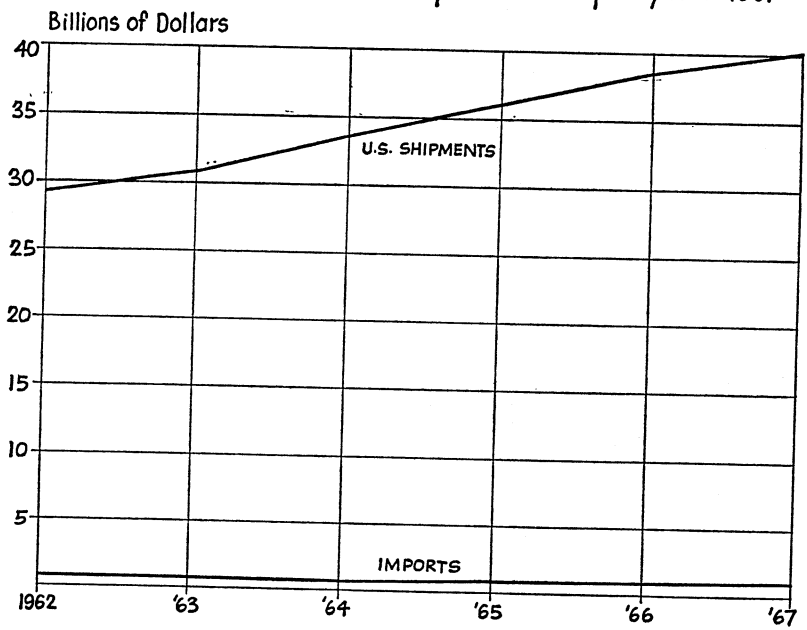


FIGURE II

BENZENOID CHEMICALS - U.S. Shipments and Total Imports, 1962-1966

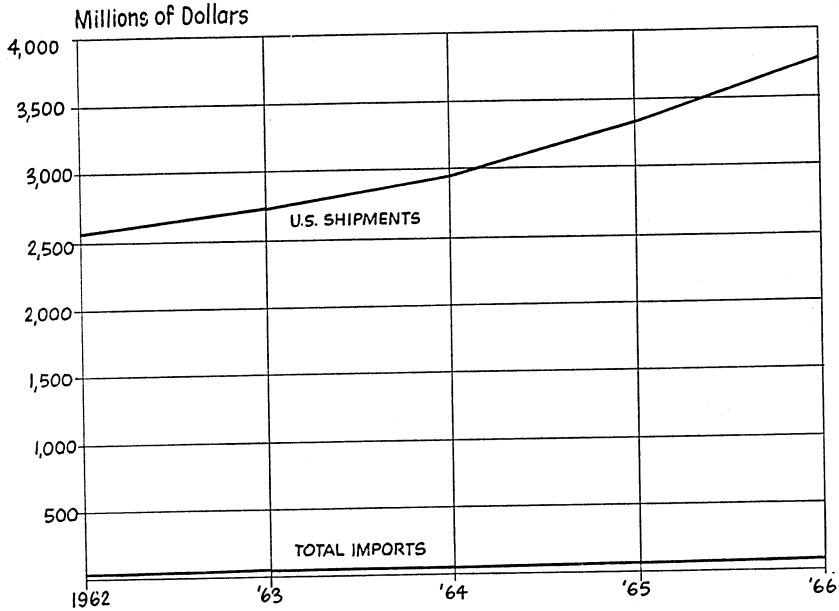


FIGURE III

CHEMICALS and ALLIED PRODUCTS - U.S. Exports and Imports, 1962-1967

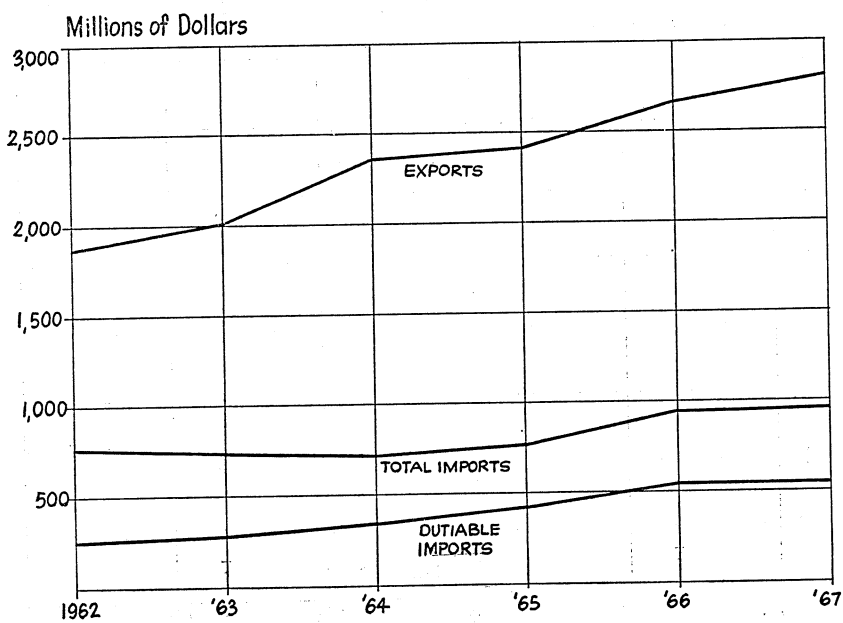


FIGURE IV

BENZENOID CHEMICALS- U.S. Exports and Imports, 1962-1966

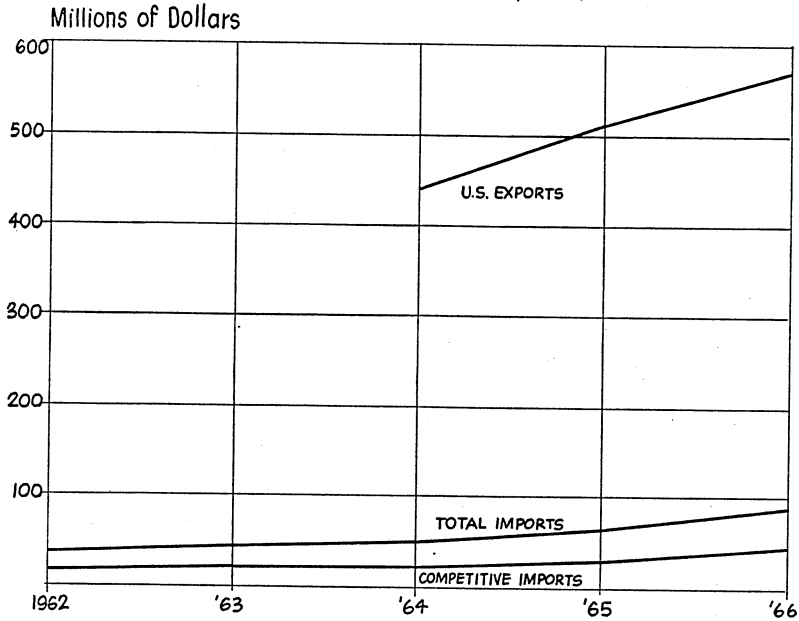
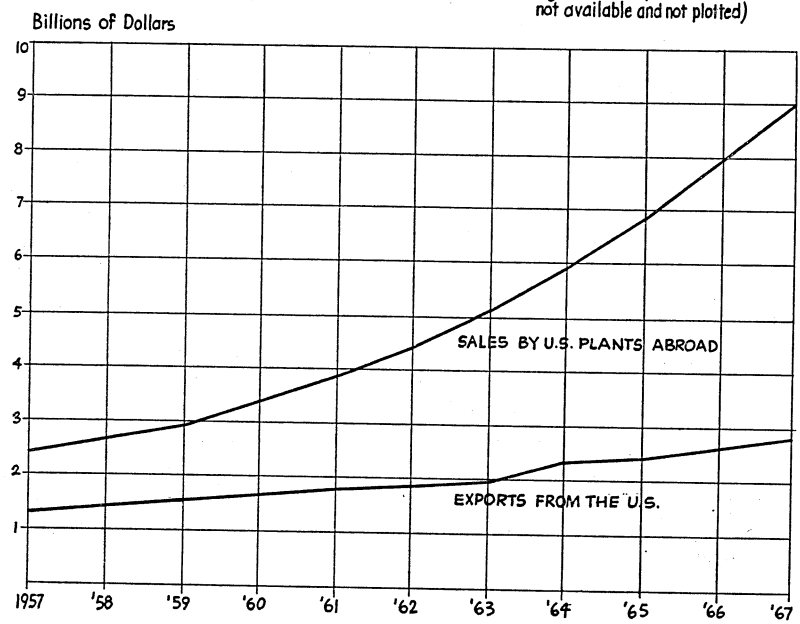


FIGURE V

CHEMICALS and ALLIED PRODUCTS: Sales by American-owned Enterprises Abroad and Exports from the U.S.—1957-1967 (Figures for 1958, 1960 and 1966 not available and not plotted)



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.

EXHIBIT #1

Line	A	CONDITION #1 RESULTS OF KENNEDY ROUND (TRADE EXPANSION ACT 1962) B AMERICAN SELLING PRICE	C RETENTION OF AMERICAN SELLING PRICE 1967	D 1968	E 1972	CONDITION #2 H. R. 17551 (PROPOSAL) F ELIMINATION OF AMERICAN SELLING PRICE 1973
1	FOREIGN EXPORT VALUE (FOB BASIS) PER LB.	--	(1) .40	(1) .40	(1) .40	(1) .40
2	INSURANCE, FREIGHT, & SELLING EXP. PER LB.	--	.15	.15	.15	.15
3	DUTY BASED ON ASP PER LB.	(2) 1.00	.40	.36	.20	--
4	DUTY BASED ON TITLE IV OF THIS BILL (30% CEILING) PER LB.	--	--	--	--	.12
5	TOTAL IMPORT PRICE PER LB.	--	.95	.91	.75	.67
6	% OF TARIFF REDUCTION	--	--	10%	(3) 50% MAX. AUTHOR	(4) 70% PROPOSED

NOTES:

This chart has been prepared for illustration by using:

1. 40¢ as average foreign selling price value for comparable dyes
2. $1.00 as an American selling price base for our dyes
3. Maximum 50% reduction allowed under Trade Expansion Act of 1962 has already been achieved
4. Additional reduction proposed would equal 70% and is beyond the present maximum authorized by Congress.

As a result, during the next 4½ years, we in the dyestuff industry, must now find a way to overcome the nearly impossible burden of a 20¢ reduction out of every current sales dollar, *and how in God's name we will accomplish this, we still do not know.*

The free trade concept is only realistic if developed with an eye toward practicality, the essence of the problem we are posing to you is this: Should we, as a nation, abandon the American dye-stuff industry business completely to foreign producers as the price of advancing our Nation's trade relations? We submit that the answer should be a resounding "No", otherwise, one must accept the

prospect of the United States without control over its organic dyestuff industry, and completely dependent upon foreign-based producers to supply the needs of our country. That, we submit, would be a fantastic and ironic result from a trade expansion act!

The fifth business fact is, that our negotiators, in their haste to conclude the Kennedy Round, were maneuvered into giving away 50% reductions in U.S. tariffs on dyestuffs, and only receiving 20% in exchange from the Europeans. It was a one-sided deal.

The separate package now included in title IV, is an *unauthorized*, separate agreement which was offered by our negotiators who, in so doing, preempted the authority of Congress and prematurely assumed that Congress would abolish the ASP.

Our negotiators in Geneva were amply forewarned many times by Members of Congress not to go beyond the authority invested in them by the Trade Expansion Act of 1962. As you know today, these warnings were completely ignored by the signing of a special agreement on chemicals which now appears as a "fait accompli" in title IV of this bill.

Gentlemen, if this agreement is now passed into law as part of this bill, an unfortunate precedent would be set, and the next tariff negotiators could be guided accordingly.

In the message of May 28, 1968, explaining this bill, there were a number of claims made for the elimination of the American selling price, and we wish respectfully to refute these claims one by one.

The first claim is that the ASP system gives a few industries *"a special privilege available to no other American business."*

Perhaps one should recall, that prior to our entry into World War I, our dependency upon foreign production was so great, and shortages of dyestuffs in our country became so acute, and the need so desperate, that our Government, by various means at its disposal, arranged for Germany to smuggle a submarine full of dyestuff through the English blockade, and when it finally reached our shores at New Haven, it became a cause for national celebration.

The terrible dependency of the United States economy upon foreign dye producers was, at that time, burned into our national consciousness. It was this need which encouraged and brought about the development of the dyestuff industry in our country.

Congress early recognized that with the economic advantages and the cartelized structure possessed by the dye producers in Europe, only a strong tariff could keep an American dyestuff industry competitive permanently and alive, and *Congress then established ASP as a basis for tariffs.* The same conditions still prevail now as it did at that time.

The second claim is that the American selling price is unfair because it rests on an arbitrary method of valuation. If any system of valuation is to be classified as arbitrary, it should be the pricing and valuation systems used by the foreign cartels, with whom we are in daily competition. These cartels, if unchecked, can, and do, effectively set any price they desire for export to the United States. Some countries today admit they have cartels; others do not. Whether admitted or not, these cartels are still in existence, and if unleashed, would destroy the American dyestuff industry over night. That is just what they are waiting for.

The European negotiators have made it appear that the whole world is opposed to the American selling price. They have given this issue such wide publicity, blown way out of proportion to the tremendous objectives of the Kennedy round, that it became a "hot potato" for our negotiators. Indeed, it seemed to arouse all kinds of emotional upsets with the Europeans. Why was this so?

This heat was being generated by an extremely narrow, but powerful group of European chemical executives. Even before the ink was dry on the Trade Expansion Act of 1962, the "Verband der Chemischan Industrie of Germany" issued its slogan and battle cry: "Trade Expansion Act: Yes; American selling price: No". What they are actually after is the total American dyestuff business, which they once dominated and controlled. Nothing less will satisfy them.

The European negotiators very conveniently used the Germany's ASP argument as a smokescreen behind which they maneuvered us during the Kennedy round, into giving them a 50% reduction in tariffs on dyestuffs, while they only gave the U.S. a 20% reduction.

The bare and ugly fact is, that today European and also Japanese dyestuff prices, are manipulated through cartelized control; therefore, once you destroy the American selling price and substitute the lower based foreign selling price as a tariff basis, it doesn't really matter what the duty rate is that you put on a commodity, the foreign producers will be in a position to dominate our markets; they will break down our defenses, and will simply take over this industry at will.

It is interesting to note, that in July 1966, the Tariff Commission, in their T. C. Publication #181, stated: *"Foreign dye producers supply (through imports or production in their U.S. plants) about one-third of the U.S. dye market (in terms of value) and imports consist predominantly of intracompany transfers between foreign dye producers and their U.S. subsidiaries."* That figure, updated to 1968, may be closer to one-half of the U.S. Dye Market.

It is no secret that the kind of pricing arrangements which are condoned in Germany (and now in Japan) and the philosophy of doing business in those foreign countries, if attempted in the United States, would land an American executive in jail.

The third claim is that the American selling price is unfair, since it imposes an unjustified burden on the consumer. The answer to this contention is that it just is not so. Any economist will realize that once the American dyestuff producer is out of the picture, through the elimination of all domestic competition, the prices of goods, and the burden on the consumer will go considerably higher. When the large cartels of Germany and Japan control the entire U.S. market, there is no doubt that prices on dyestuffs could then be set by forces over which this country will have no control, and will rise to all-time highs.

The fourth claim repeats the Europeans' contention that the American selling price is a non-tariff barrier and should be eliminated on that basis. This argument has been justifiably criticized by Senator Russell Long, Chairman of the Senate Finance Committee, when he stated on December 7, 1967, that: *"The American selling price system is not a non-tariff barrier. It is part of calculating tariffs, if one were to view the so-called American selling price as a non-tariff device, then to be consistent, he should also view the C.I.F. basis of valuation used by most of our trading partners as a non-tariff device, since the C.I.F. method of valuation establishes a higher tariff on the same commodity than an F.O.B. basis, we are at a disadvantage in trading with nations that use that system."*

One might be tempted to ask: Were the hard economic facts which I have presented to you as well known to our negotiators, when they proposed a separate package, as they were to the European negotiators? By what measuring rods did our negotiators come to their conclusions that we can sustain a 70% cut in tariffs of dyestuffs, or that the A.S.P. is now unnecessary?

There are several hearings held before the Tariff Commission during 1966, where the dyestuffs industry made its economics known. On September 7, 1966, in sworn and documented testimony before the Tariff Commission, I presented similar economic facts to those which you have heard today, to show the disastrous effects of removal of A.S.P. on our company. Apparently, our negotiators chose to ignore these facts. Indeed, the conclusions drawn by the Tariff Commission's final hearings have never been made public.

The fifth claim is that the American selling price inhibits free trade and that the industry is in a strong position to face competition from imports. The truth is, that the growth of imports of dyes from foreign producers has increased at a compound rate of more than 20% between 1964 and 1966, with the existence of A.S.P. This certainly does not indicate any hindrance imposed on the importation of foreign dyestuffs into the United States by A.S.P. (see F.T. #110 and F.T. #125, U.S. Department of Commerce).

Special representative for trade negotiations, William M. Roth appearing before this committee, made the claim that the dyestuff industry is strong and growing, its exports are substantial, and the ratio of imports to exports is low. We are afraid this is an area in which he possessed serious gaps in information which he admitted before this committee. A proper separation of dyestuffs by itself will show an increased and startling trade deficit, not a surplus. Please refer to exhibit #2, which follows.

EXHIBIT #2

BALANCE OF TRADE - DYESTUFFS (SITC - 531) (SITC - 512.0360)

INCLUDING A.I.D. SALES

LINE #		1964	1965	1966
1	EXPORTS	$33,000,000	$31,000,000	$34,000,000
2	IMPORTS	$25,000,000	$31,000,000	$41,000,000
3	TRADE BALANCE	$ 8,000,000 (SURPLUS)	----------	($ 7,000,000) (DEFICIT)
4	A.I.D. SALES	$ 6,600,000	$ 7,600,000	$ 9,000,000
5	NET BALANCE OF COMPETITIVE EXPORTS	$26,400,000	$23,400,000	$25,000,000
6	TRADE BALANCE LESS A.I.D. SALES	$ 1,400,000 (SURPLUS)	($ 7,600,000) (DEFICIT)	($16,000,000) (DEFICIT)

NOTES - SOURCES OF INFORMATION

LINE 1 - F.T. - 410 - DEPARTMENT OF COMMERCE

LINE 2 - F.T. - 125 - DEPARTMENT OF COMMERCE

LINE 3 - LINE 1 LESS LINE 2

LINE 4 - A.I.D. OFFICE IN WASHINGTON, D. C. (COMMODITY CODE 3904 DELETED TANNING EXTRACTS PORTION)

LINE 5 - LINE 1 LESS LINE 4

LINE 6 - LINE 5 LESS LINE 2

Line 3 in exhibit #2 shows that the trade balance for the dyestuffs industry has gone from an $8 million surplus in 1964, to a $7 million deficit in 1966. However, since these figures include A.I.D. export transactions, if these were subtracted, the true trade balance shown on line 6 would be approximately $8 million deficit for 1965, and has doubled to $16 million deficit for 1966.

When 1967 figures are available, we predict this deficit will be even larger.

If we remove ASP and destroy the American dyestuffs industry, we may possibly be considering trade deficits in the future of several hundred millions of dollars.

The sixth claim is that the so-called bargain to eliminate ASP "Is for for our industries, good for our workers, and good for our consumers." As our business facts have shown, this is not true about the dyestuffs industry.

We regretfully acknowledge the offer made to liberalize its tests for adjustment assistance, if necessary, but we also ask, is it necessary to destroy the American dyestuff industry and place it on the dole?

Thus far I have dealt with business facts. May we for a moment consider some human facts? Our Reading, Pennsylvania plant is our largest manufacturing unit. It contains our technological center. Skills that have been carefully built up there for close to fifty years would be irretrievably lost.

Our other plants are located in areas where large minority groups of disadvantaged and underprivileged people strive to make a decent living for themselves and their families. The impact of any retrenchment on these workers caused by the elimination of ASP would be great. The job loss to their communities and the expenditures of time and money on retraining, relocation, and the other welfare needs of these people are incalculable.

CONCLUSION

In conclusion, may I state that we think the 50% reductions in tariffs already agreed upon in the Kennedy round have already placed an nearly impossible burden on the dyestuffs industry. Ordinary *common sense* dictates that we now pause and study the effects of this burden before experimenting with the abolition of ASP. To rush into any further reductions of this proportion without taking the required time to observe the effects of the Kennedy round on this industry is simply not businesslike. It would be blindly rushing toward a still distant utopia without paying attention to the pitfalls—and might transform the lofty concept of free trade, through reciprocity and fair play, to the practical reality of sacrifice and annihilation for the American dyestuff industry.

Thank you for your time and courtesy.

STATEMENT OF CHESTER M. BROWN, CHAIRMAN OF THE BOARD, ALLIED CHEMICAL CORPORATION

I. INTRODUCTION

This statement is submitted on behalf of Allied Chemical Corporation and in response to this Committee's announcement of May 9, 1968, requesting views of interested parties with respect to some of this nation's pressing international trade problems.

Allied Chemical is incorporated under the laws of the State of New York. The Corporation is a major producer of a broad line of synthetic organic chemicals, fibers, plastics, and industrial chemicals. It has about 130 plants, mines, quarries, and petroleum operations located in 33 states. In addition, Allied Chemical has foreign operating subsidiaries, affiliates or interests in plants located in Argentina, Australia, Brazil, Canada, Costa Rica, France, Germany, Greece, Great Britain, India, Indonesia, Iran, Italy, Mexico, Netherlands, Portugal, South Africa, Spain, Taiwan and Venezuela.

Since 1964 the Corporation has had annual gross sales in excess of $1 billion. During that period, the Corporation has paid over $205 million in income taxes, for an annual average of over $50 million. In the United States alone, Allied Chemical has approximately 37,000 employees, to whom about $275 million was paid in salaries and wages during 1967. In addition, the Corporation distributed over $50 million in dividends to over 100,000 stockholders.

Thus, Allied Chemical is an important contributor to the economic health of the communities in which it is an employer, as well as to the overall prosperity

of our nation. However, events have moved rapidly in recent years and even faster in recent months. With ever increasing frequency we find that low cost imports are entering our markets, displacing American labor and business and, in some instances (such as in steel), even threatening this nation's security. The balance of payments and dollar crisis have added an urgency to our search for a long range solution to the problems facing us in this area. The Corporation has an important stake in the future of the United States and, although we can not offer a panacea, we have given serious thought to many of the problem areas and accordingly welcome this opportunity to present our conclusions.

II. SUMMARY OF POSITION

1. Allied Chemical is an active member of the Manufacturing Chemists' Association (MCA) as well as the Synthetic Organic Chemical Manufacturers' Association (SOCMA) and has contributed to their councils. Accordingly, we endorse the positions to be taken by those organizations before this Committee. Allied Chemical is also a significant factor in textiles, being a major producer of nylon yarn. In that capacity we support the positions taken by the Man-Made Fiber Producers' Association.

2. The Kennedy Round was an unreciprocal agreement. It is unfair to the American chemical industry and will injure its ability to continue its contribution to the country's welfare.

a. Lack of reciprocity is demonstrated by the inequality of tariff cuts between the U.S. on the one hand and the U.K. and Common Market on the other; and

b. Lack of reciprocity also is demonstrated by the increasing protective barriers—primarily the projected harmonization of the Common Market tax system and the concomitant increase in border tax rates.

3. Unless Congress takes postive steps to rectify this lack of reciprocity, the inevitable result will be a serious further deterioration in the favorable trade balance and consequential damage to our nation's critical balance of payments.

4. The Supplemental Agreement Relating Principally to Chemicals ("Separate Package") will aggravate the situation still further. Congress should not enact legislation which would eliminate the American Selling Price (ASP) method of customs valuation.

a. ASP is a good system—it reflects American wage scales and taxes, is certain, readily ascertainable, not subject to manipulation and thus is fair to both domestic and foreign manufacturers and sellers;

b. ASP, rather than the more widely used export valuation system, more closely resembles the customs valuation systems employed by our principal trading partners in that value of product is determined by the facts as found in country of consumption; and

c. Congress should give serious consideration to the application of the ASP system to other imported products.

III. DISCUSSION

A. Economic impact of Kennedy Round and separate package

1. Impact upon Corporate Income

The Corporation as a whole has already been described. We believe the entire American chemical industry failed to receive a fair bargain at Geneva; we know the Kennedy Round agreement seriously jeopardizes a sizeable segment of Allied Chemical's business, primarily certain products and product groups within our fibers, resins and plastics, plasticizers, inorganic chemicals and benzenoid chemical sectors.

In an effort to ascertain the extent of the economic impact on those sectors, (1) as a result of the Kennedy Round chemical tariff cuts and (2) the possible elimination of ASP, a careful study was conducted by the various divisions that produce the affected products for the international market. The study was limited to those Allied Chemical products affected not just by the Kennedy Round but also by the Separate Package. Specifically, our evaluation included studies on the 28 different product groups within the problem areas previously identified and set forth on Exhibit "A" attached. This statement does not include the economic impact as to those products included only in the Kennedy Round.

Our conclusions are not the result of straight line projections based on historical data. Of course, we used such data but the almost incredible adverse results

were tempered by an intangible—*i.e.*, what our collective experience in the chemical business indicated would be the probable moves taken by ourselves as well as others in an attempt to minimize the damage yet continue in the business. After all this, however, our overall conclusions were that as a result of the 50 percent Kennedy Round chemical tariff reductions our pretax income would be reduced by several million dollars. With the elimination of ASP our economic injury would be compounded—the decline in pretax income, although not quite as severe as that expected from the Kennedy Round itself, would nevertheless be well in excess of a million dollars.

Reductions of this magnitude would reduce our pretax income to a level so low that many product lines may have to be discontinued. Since the Kennedy Round agreement was signed (June 30, 1967), in fact, over 200 products from our active dyestuffs line have already been discontinued.

The fact that the tariff cuts alone will cause increased imports, especially in benzenoid chemicals, cannot be denied. The Torquay Round (1951) resulted in heavy coal-tar intermediate import jump, and the Dillon Round (1962) resulted in significant increased imports of specific intermediates. We have been unable to break down balance of trade figures for the benzenoid industry because of the government's method of compiling statistics, but we do know that benzenoid imports have been increasing. And rapidly, even with ASP.

The Separate Package, if adopted by Congress, would eliminate the ASP method of customs valuation for certain benzenoid chemicals. Unnoticed in the emotional tempest raised over ASP is the fact that such legislation also will reduce by 55 percent to 83 percent the tariffs on nine non-benzenoid chemicals—far in excess of the 50 percent maximum permitted by the Trade Expansion Act of 1962 (TEA).

For Allied Chemical an important chemical in this latter group is *Sodium Nitrite* (TSUS 421.141). In 1967, the tariff on this chemical was 3.0¢/pound. By reason of the Kennedy Round this tariff will be reduced by 50% to 1.8¢/pound. If the Separate Package is adopted, the tariff would be still further reduced: to 1¢/pound—a total reduction of over 72% which is far in excess of that authorized by the TEA. In evaluating the economic impact, we assumed, since there is ample foreign capacity, that foreign competition would take advantage of these reductions to drive the United States selling price lower. We also assumed that we could continue to sell the same quantity as we actually sold in 1966 (the year prior to our study). The result is a projected decline in sales revenue and pretax profit on this chemical alone in the neighborhood of one million dollars, nearly one-third of which resulting from the reductions which would take place if the Separate Package is adopted.[1]

In reality it is likely that the total impact on Allied Chemical will be greater than indicated, since we will have to contend with a combination of lower prices, loss of sales and increased manufacturing costs caused by the lower volume. In short, therefore, Allied Chemical has already been hurt by the Kennedy Round itself and would suffer significant further adverse economic results if Congress eliminates ASP by adopting the Separate Package.

2. Impact Upon Corporate Facilities and Employees

Allied Chemical produces and sells or offers to sell a broad range of benzenoid chemicals or chemical groups. These products are manufactured at 12 locations in 8 states.[2] Within the last year two former benzenoid producing operations have been sold, one located in California and the other in Ohio. Approximately 4,000 company employees are directly involved with production of benzenoid chemicals. Numerous others are tangentially involved as executives, salesmen, secretaries, accounting and billing clerks, etc. Aside from the welfare of the company itself, the jobs of many of these persons are dependent upon our ability to make a profit in the manufacture, sale and use of these products.

In our assessment of the impact upon the Corporation of the Kennedy Round, we concluded that a large segment of our benzenoid line of products would suffer a revenue decline that would completely wipe out all profits. As a consequence, we have been faced with very difficult decisions. Obviously, one alternative was to simply go out of certain aspects of the business. Another was to keep the plant or plants running until there was a negative cash flow, at which time

[1] Since we assumed that the same quantity of product would be sold, costs of manufacture and sale would remain constant. Therefore, to the extent there was a decline in sales revenue there would be an equal decline in pretax profit.

[2] California, Illinois, New Jersey, New York, Ohio, Pennsylvania, Virginia, and West Virginia.

they could be shut down. Other alternatives included (1) building facilities overseas and importing back into the U.S.—which would not help domestic employment nor leave America a reliable supply in the event of hostilities and (2) committing new capital in an attempt to ensure the success of a few products, abandoning production of the remainder.

As is well known, because of the nature of the products produced, the two Allied Chemical plants that are most apt to feel any adjustment the Corporation might make are located at Buffalo, N.Y. and Haledon, N.J. At the end of 1967 these two locations alone represented a capital investment of about $65 million (gross book value, fixed assets) and collectively employed 2,000 persons. At Buffalo we produce dyestuffs, certified colors, biological stains and indicators, organic chemicals, detergents and dye intermediates whereas our organic pigment operations are located at Haledon.

Of course the dye and pigment industry is only a part of the benzenoid chemical industry. All told Allied Chemical has approximately $275 million invested in the production of various benzenoid chemicals. Although this investment accounts for about 15 percent of Allied Chemical's total sales, the percentage of the Corporation's pretax profits generated by such sales is far less than 15%. This low return on the sales dollar has been accepted by Allied Chemical only because production of benzenoid chemicals is important to our operations, especially to our research and development facilities. If this were not the case we might very well have turned to more profitable areas long ago. Despite the importance of benzenoid chemicals as a synergist in the production of new products, the entire investment has been placed in jeopardy as a result of the Kennedy Round. Because of the cumulative effect, this investment will be placed in far greater jeopardy if the Separate Package should be adopted. Even useful and desirable operations cannot be maintained for long by private industry at a loss.

B. Reasons for such adverse results

1. Kennedy Round—Unreciprocal bargain

SOCMA will devote a good portion of their presentation to an explanation as to why the Kennedy Round is an unreciprocal bargain. We will try to avoid being redundant. However, it is not sufficient merely to state that with respect to trade with Europe we find ourselves worse off now than we were before the Kennedy Round began. That fact needs some explanation, especially since the result is so incongruous. After all, the Geneva negotiations were intended to expand world trade and President Kennedy, in obtaining authority for the United States to enter the negotiations stated that he was seeking "general authority to reduce *existing* tariffs by fifty percent in *reciprocal* negotiation," adding *"But let me emphasize that we mean to see to it that all reductions are reciprocal . . ."*. (Emphasis added.)

Despite that admonition, our negotiators agreed to reduce United States chemical tariffs by nearly 50% in return for a reduction of about 20% by the Common Market and United Kingdom. And, with respect to the Common Market it should be noted that the reduction was not even with respect to *existing* tariffs; the reduction was from a Common External Tariff (CXT) which was not even in effect. This is a little publicized, but very significant fact. The CXT becomes effective July 1, 1968. In Germany and the Benelux nations, the average chemical CXT will be sufficiently higher than the chemical tariff currently in existence so that when the CXT is reduced by 20% the resulting average chemical tariff will be higher than those in effect today.[3] Since over 70% of American chemical exports to the Common Market go to Germany and the Benelux countries,[4] it is little wonder that the chemical industry has been vehement in its denunciation of the Kennedy Round.

2. Border taxes

This nonsuccess with respect to tariff reductions is compounded when one realizes that all Common Market countries (except France) have increased or soon will increase their border taxes. The first dramatic evidence of the significance of this situation may be seen by looking at German/American trade. Last year's 4% border tax in Germany was raised to 10% on January 1, 1968 and goes to 11% on July 1. This tax increase, on top of the increase in chemical

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[3] CCH, Common Market Reports, para. 9227 (1968).

[4] United States Department of Commerce, Bureau of the Census, United States Exports (FT-420—1966 Annual)—1967 data not yet available.

tariffs, means that it will cost American chemical producers more to sell in the German market after the Kennedy Round is fully implemented than it did before the negotiations began! That protective wall was raised still further by the 6% jump in the border tax. We are unable to understand how Administration spokesmen can characterize these facts as providing the chemical industry with wonderful new export opportunities!

Another aspect of the border tax as employed by our European friends is the fact that they receive a tax rebate on their exports. For example, a German chemical manufacturer who exports his product to the United States (or any other third country) now receives a 10% tax rebate, *i.e., a government subsidy* which our Treasury Department inexplicably ignores despite the clear statutory mandate to impose *countervailing duties.*[5] Furthermore, the German chemical exporter does not bear any United States tax burden. On the other hand, American chemical exports are not subsidized and they bear full United States taxes plus the full indirect tax burden imposed by Germany.

An interesting current statistic dramatically illustrates the value of this tax rebate as an export incentive. During th efirst quarter of 1968, German exports to the United States totalled $659.7 million, an increase of 50.7% over the comparable 1967 period. It is not just coincidence that this dramatic rise coincided with the fact that in 1968 German exporters received a 10% subsidy from their government rather than the 4% reecived in 1967. Those figures alone are enough to indicate that the subsidy is hurting United States business at home; but they are equally or even more damaging to the hopes of American exporters. One of our strongest competitors in the fight to obtain chemical business in third markets is being heavily subsidized. This fact bodes ill for the United States balance of payments and the balance of trade!

C. Balance of payments and trade balance

This Committee is quite familiar with the unfortunate condition of this nation's balance of payments. Sometimes forgotten, however, is the fact that historically the one bright feature in this sad story has been our favorable trade balance. In 1967, the chemical industry provided approximately $1.8 billion or about 45% of our nation's gross merchandise trade surplus. In early January President Johnson identified as a national goal a half-billion dollar improvement in our trade balance. Scarcely 3 months had elapsed before all hope for achievement of this goal had disappeared. As of today no one, except perhaps the fabled "cockeyed optimist", believes there is even a remote chance of achieving last years' figures.

There is no cut and dry answer as to why our traditional favorable trade balance has disappeared. The situation as it exists today was described clearly by Mr. Kenneth M. Spang[6] in an article published in the May 20 issue of the Journal of Commerce:

"Insofar as 1968 is concerned, I believe we will improve on the exceptionally poor first quarter showing and that the export surplus for the entire year may run between $800 million and $1.7 billion. *If Government-financed exports* (which totaled $3.2 billion last year) *are left out of account, the commercial trade balance this year is likely to show a deficit of $1.5–$2.5 billion,* compared with a small commercial surplus of $250 million last year . . ." (emphasis added).

Some observers (including the Commerce Department) in reviewing the first quarter international trade results, have indicated that the trade balance suffered by about $300–$500 million because of strikes actual (in the copper mines, on the New York docks) and threatened (in the steel mills). To focus on these special factors, however, is delusive, tending to obfuscate rather than illuminate our search for meaningful answers to the undeniable decline in our trade balance.

There undoubtedly are many answers, all of which must be examined. A well-known problem area relates to wage rates increasing at a rate far more rapid than productivity. However, we suggest another meaningful answer to the deteriorating trade balance lies in the fact that on January 1 the United States implemented the first of the five Kennedy Round tariff cuts. An additional answer may be found in Germany—their border tax increase applicable to imports from America compounded by the subsidy paid to their own exporters.

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[5] Section 303 of the Tariff Act of 1930.

[6] Kenneth M. Spang—Vice President, First National City Bank (N.Y.); 1968 Chairman of New York World Trade Week Committee; Chairman of Foreign Commerce and Affairs Committee of the New York Chamber of Commerce.

Time will not cure these problems. On the contrary, time will be our undoing unless Congress acts to conserve American business. The value added tax concept (TVA—border tax/export rebate) is spreading. By 1970 all Common Market nations will have followed in Germany's footsteps. It is expected that soon thereafter they will harmonize their border tax rates, and at a rate which EEC economists estimate will be about 15%. Since American products will bear a 15% tax when entering the Common Market yet EEC exports will receive a 15% rebate, for balance of trade purposes most of our European competitors will enjoy a 30% advantage. And TVA is contagious—Sweden, Norway and the United Kingdom have the system under study and it has already been adopted by Denmark.

D. Separate package—ASP

When consideration is given to the Administration proposal to eliminate ASP, all the foregoing comments must be kept in mind. Although affecting only a small portion of all chemical imports, the Separate Package would virtually eliminate all barriers to foreign domination of an important sector of the domestic chemical industry without giving Americans usable benefits in return. Common Market border taxes and the switch to the CXT have nullified any significant potential chemical export opportunities even with the further tariff reductions which would be triggered by adoption of the Separate Package. Cost of entry studies to be submitted to this Committee by SOCMA will provide dramatic proof of the fact that American export opportunities will not be enhanced despite the additional European tariff cuts which would be triggered by Congressional adoption of the Separate Package. Thus adoption by Congress would serve merely to open the door still further to foreign domination of American markets—to the detriment of American business, American labor, America's balance of trade and balance of payments.

As was noted by Mr. George B. Hegeman of Arthur D. Little, Inc., in a paper presented at a seminar in Frankfurt, Germany in June 1967 on the management of international marketing in the chemical industry:[7]

". . . *Thus, Europe is a strong trading block and the move to reduce chemical tariffs around the world will provide a further stimulus to European exports and its balance of payments.* With only limited tariff cuts scheduled for now in Europe, the U.S. chemical industry is not expected on balance to benefit from these negotiations. *Should the American Selling Price be abandoned, U.S. imports will surely rise rapidly. Since the U.S. chemical trade balance will undoubtedly drop, so will its contribution to the U.S. payments position.* However, the major firms now marketing in this area will try to maintain market position and will undoubtedly invest abroad to remain competitive. In doing so, they will follow the classic U.S. pattern of investing rather than trading. Only this time there will be a difference—they will intend to export to the United States and this will reinforce the pattern of improved trade balances in Europe and a deteriorating position in the United States." (Emphasis added—p. 3).[8]

ASP must be put into perspective. It is *not* the 19th Century protective device described by many of our foreign trading partners. It is simply a system by which duty on certain imports are calculated as a percent of their domestic wholesale price rather than their foreign, or export, price. It is only applicable to competitive benzenoid chamicals and a few other items.[9]

Unlike the normal customs valuation system used in America (export value), ASP reflects American wage costs and American tax levels. This is appropriate—the goods brought into America are to be consumed or sold in America and thus should be valued by American standards.

Most of our principal foreign trading partners use what is called the Brussels valuation system with respect to products going into their countries. That system (which is based upon "the price which [the imported goods] would fetch . . . on a sale in the open market between buyer and seller independent of each other") often results in overvaluation.[10] Although like ASP in that it avoids the

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[7] Paper entitled "The Impact of Tariffs, Trade and Investment Placement on U.S. and European Balance of Payments".

[8] It will be noted that Mr. Hegeman suggests that the major firms would undoubtedly invest abroad to remain competitive. The Administration with its foreign investment capital outflow restriction has clamped a lid on this manner of survival. We trust that these restrictions are truly temporary and will be removed as promptly as possible.

[9] Canned clams, knit gloves, rubber footwear.

[10] See International Chamber of Commerce, *The Brussels Definition of Value—The Case of the "Sole Buyer"* (February, 1963); International Chamber of Commerce, *Customs Valuation of Imported Goods—A Review of the Brussels Definition and Its Application* (February, 1959).

necessity of having to determine dutiable value on the basis of prices prevailing in foreign countries (for customs purposes, valuation is based on the value of the imported product in the country of *consumption*), it gives customs officials considerable discretion in establishing dutiable value, especially where the buyer and seller are not completely independent of one another. Because of the discretion left to customs officials in establishing dutiable values, however, the Brussels system lacks the virtues found under the ASP system. In short, the Brussels value system suffers from the defect of uncertainty.

ASP is a fairer method. Fairer than either Brussel value or the export value system. Because of the nature of the American market place, the true American selling price may be easily *ascertained and confirmed* by customs officials and by importers alike since price information is published in numerous trade papers and journals. Furthermore, our anti-trust laws combined with the natural competition found in the huge American market place preclude the American Selling Price from being a false price. To phrase it another way, *ASP is not subject to manipulation.*[11]

Finally, ASP is *consistent with the principal purpose of the United States tariff* in that it tends to offset some of the disparity between the costs of production here compared to those abroad. Serving this important purpose, yet providing equal treatment to all our trading partners, makes ASP an excellent system which might properly be utilized to determine customs value for a broad range of products. Consider what happens under the export valuation system, the system which would become effective if Congress adopts the Separate Package. The export value system provides a tariff advantage to the low cost foreign producers on top of the significant cost advantages they already enjoy. Thus, where low production costs permit a producer from a low cost country to undercut the United States price or the prices of other higher cost producers selling in this market, the application of a duty based upon export value actually increases rather than decreases the existing cost disparity. By providing a tariff advantage on top of the substantial cost advantage already enjoyed, the use of export value actually subsidizes a widening of the cost disparity.

ASP valuation, on the other hand, treats all imports alike—it levies the same amount of duties irrespective of whether the imported product is from a high or low wage country. It does not accentuate the difference by providing additional tariff advantages on top of wage advantages.

ASP should not be judged by the rhetoric produced by our foreign trading partners. It should be judged by the foregoing objective standards. Whether one method of valuation results in a higher value than another is completely irrelevant, since consistent with international obligations the rate of duty may be adjusted in such a manner as to ensure that any change in valuation base does not result in a change of the amount of duty. So judged, one must come to the conclusion that ASP is more than worthy of preservation; as a system it is worthy of application in other product areas.

IV. CONCLUSIONS

Allied Chemical welcomes efforts to establish freer world trade—*provided* all are permitted to operate under the same rules. Establishment of a "one way street", where we lower our trade barriers while Europeans raise theirs, is merely providing a road leading to trouble—for U.S. industy, its employees and shareowners, and for the United States balance of payments and free world monetary stability.

Thus, for all the foregoing reasons, Congress should (a) reject the Separate Package, (b) consider application of ASP to other product areas, and (c) consider the implementation of a United States border tax and export rebate—to inhibit the unreasonable growth of low cost imports and provide an incentive to American exports.

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[11] There have been charges made to the effect that (1) the ASP price is not the actual domestic selling price but is, rather, an artificially high "list" price and (2) that a product is given competitive status merely as a result of a domestic offer rather than actual sales. Although we doubt the accuracy of such charges, they could be effectively negated by slight changes in the regulations. For instance, domestic producers might be required to file quarterly the prices at which they have actually *sold* such product or run the risk of losing the protection afforded by ASP. To counter the alleged inequity that foreign exporters are unable to know in advance whether a product they ship will be subject to tariff based on ASP valuation, regulations could require a specified changeover period, say 60 days advance notice published in the Federal Register or Treasury Decisions, before an import could go from noncompetitive to a competitive status.

EXHIBIT A

Nylon monofilament (15 and 20 denier)
Resins and plastics:
- Nylon molding compound
- Urea molding compound
- Melamine molding compound
- Alkyd molding compound
- Polyethylene (high molecular weight)
- Cumar resins
- CTFE molding compound

Organic chemicals:
- Maleic anhydride
- Ethanolamines
- Cresols
- Fumaric acid
- Melamine
- Anthracine
- Quinoline, refined
- Cresylic acid, refined
- Naphthalene, refined
- Propylene glycol

Benzenoid products:
- Dyes
- Organic pigments
- Dye intermediates
- Adipic, fumaric, etc.

Inorganic chemicals:
- Sodium nitrite
- Sodium bichromate
- Chromic Acid
- Hydrogen peroxide
- Ammonium chloride
- Aluminum chloride

STATEMENT OF JULE N. KVAMME, CORPORATE DEPARTMENT, CARNATION COMPANY

RECOMMENDATION

Carnation Company supports the elimination of the American Selling Price (ASP) as a method of customs valuation. ASP no longer serves the purpose for which it was intended; it is not necessary to protect any infant U.S. industry; it has the effect of maintaining an artificial high price to the American consumer and can jeopardize the free flow of trade so essential to American industry.

THE ASP CONCEPT AND HISTORY

Other statements to the Committee set forth in detail the concept of ASP, its history and the many and substantial reasons for its elimination. It is our purpose in this statement to set forth an example of how the extended use of chemicals in modern food technology has had the effect of applying the ASP concept far beyond its original purpose.

THE CASE OF ETHYL VANILLIN

Ethyl vanillin is a synthetic flavor ingredient which imparts a vanilla-like flavoring and is used by food processors to flavor various food products. It is classified for U.S. customs purposes under Item 408.60 of the Tariff Schedules of the U.S. as a "finished organic chemical product manufactured in whole or in part from organic chemical crudes or industrial organic chemicals". Such classification is within the group which is subject to the ASP concept. ASP permits the maintenance of an unrealistic price for a commodity such as ethyl vanillin under noncompetitive situations and as a result increases the cost to the consumer as indicated in the following statistics: (The figures used are approximate because of changes in market prices.)

COST—ETHYL VANILLIN

	U.S. Supplier	Foreign Supplier	
		With ASP	Without ASP
Manufacturer's price per pound	$6.75	$3.50	$3.50
Duty rate per pound		.07	.07
Plus 45 percent ad valorem		[1] 3.04	[2] 1.58
Total cost per pound	6.75	6.61	5.15

[1] 45 percent × $6.75 (ASP).
[2] 45 percent × $3.50 (selling price in foreign market).

It can be seen from the above that with a duty rate of 7¢ per lb. and 45% ad valorem on the American Selling Price, the cost of ethyl vanillin which is sold by a foreign supplier for $3.50 CIF New York is increased to $6.60 per lb. The U.S. supplier can maintain a price of $6.75 and still remain competitive. It should be noted that through the application of the ASP concept, the total duty is $3.11 on a product which is sold for $3.50, or an effective duty rate of almost 90%. With the repeal of ASP the total cost to the U.S. processor would be only $5.15. This despite the application of a relatively high duty rate of 7¢ a lb. plus 45% ad valorem.

COMPARABLE PRODUCTS

Laboratory tests have shown that the imported product is of high quality and no argument can be made as to the health or safety factor with respect to the importation of the product. The foreign suppliers cited in the above example are chemical companies located in a highly industralized European country with a high economic standard, therefore, it cannot be successfully argued that the variance between the foreign price and the U.S. price results from substantially lower costs or differing economic conditions.

ASP RESULTS IN INCREASED COST TO THE CONSUMER

Ethyl vanillin is being increasingly used in many food products. Maintenance of a high price to the food processor for a product such as ethyl vanillin can only result in additional cost to the U.S. consumer since the food processor must pass these costs on to the consumer. Certainly Congress in enacting ASP in 1922 did not intend that the concept would be applicable to food products being consumed by the United States consumer.

STATEMENT OF C. B. BRANCH, EXECUTIVE VICE PRESIDENT, DOW CHEMICAL COMPANY

INTRODUCTION

The Dow Chemical Company, whose home offices are in Midland, Michigan, is a broad-based, global chemical company. Sales in 1967 were $1,383,000,000. The product line includes hundreds of organic and inorganic chemicals, plastics, light metals, agricultural products, animal and human health products, and consumer products.

Dow has production facilities in 17 states; and in addition, has 19 wholly or partially owned production facilities in 17 countries outside the United States. More than 10% of our U.S. production is being exported. On the other side of the picture, many of our products meet competition from imports into the domestic market.

Dow is vitally interested in the antidumping question. It is certain that dumping, if practiced on an extensive scale, will nullify much of the advantages that can normally be expected from world trade. When the tariff reductions that were negotiated in Geneva, during the Kennedy Round, are fully effective (1972), tariff rates for most industrial products in the developed countries of the world will be so low that dumping could become a completely destructive factor in world trade.

Other restraints on world trade are also important. Certain practices, such as export subsidies and political regulations, greatly affect the competitive

positions of local producers in relation to foreign producers. Although the vital importance of such practices cannot be neglected, this paper will address itself only to the question of dumping, which is a complicated problem worthy of some careful consideration. Any final decision concerning foreign trade will be of minimal value in the absence of a strong antidumping regulation and enforcement.

TRADE CLASSIFICATIONS

World trade many be classified in four categories with respect to competitiveness:

1. Trade that is essentially monopolistic, based on patented products or products newly developed and unavailable in other markets.

2. Shipments from parent company to foreign subsidiary are another type of foreign trade where competition is restricted. In the past 8 or 10 years, $3 to $4 billions' worth of American exports are reported by the Commerce Department to be of this type. The shipments consist primarily be intermediates and parts for further processing or assembly.

A different type of trade is what is called a co-manufacturer or co-producer sale. From time to time there are instances where a producer of a given product, usually due to temporary shortages or short-term imbalances in supply and demand, will import the same product from another producer.

3. The bulk of world trade is on the basis of normal competition, which involves not only price competition but quality, service, design and other factors. In any growing industrial country there will always be imbalances in supply and demand, and shortages of particular products at a given time. As expansion takes place, the capacity for a given product is likely to be out of balance with the consuming plants.

This is particularly relevant in the chemical industry where new plants are designed for a size to give low-cost production rather than on the requirements for immediate sales. These imbalances lead to short-term demands which often are supplied from excess capacity in other countries.

4. And finally, there are examples of foreign trade which can be labeled "dumping". This occurs when a producer with excess capacity is willing to sell his product overseas at prices below his home price, on the theory that the incremental cost of the additional product that is obtained by running the plant at capacity is low; therefore, if he can sell overseas, even at low prices, without disturbing his domestic price, he is making a good incremental return on the foreign sale. Such sales are not destructive competition where the product is sold into a nonproducing country. In such instance, the result may even be considered beneficial in the unlikely event that the country has no desire to develop national production.

Dumping becomes a matter of real concern when there is national production of the product or desire to initiate production and the foreign producer offers his product at a lower price to the customer than is available from the national producer or would be available from such a potential producer. It becomes especially destructive whenever the political regulations are strong enough to prevent any retaliatory importation into a producer's home market. In such instances, the home-market price may be artificially held at a high level to enable the excess production to be dumped at destructively low prices in overseas markets.

Dumping practices disrupt markets and, in the end, are disadvantageous to consumer as well as to producer. For this reason, most industrial nations have procedures designed to prevent the practice of dumping. The GATT charter, in Article 4, recognizes the disruptive influence of dumping and proposes duty penalties to prevent it.

The first step is to develop a definition of "dumping" that matches the realities of the business world. This then needs to be applied objectively by all trading partners so as to eliminate the evils of dumping, but at the same time not thwart international trade and competition.

The negotiation in Geneva, authorized by the Trade Expansion Act of 1962, sought across-the-board tariff reductions of 50% on a reciprocal basis. When the United States has completed the cuts (1972), most tariff levels will be so low that they will offer little impediment to trade. In fact, they may invite practices of dumping, because the tariff levels that will remain will add little to the border-crossing charges.

Based on our experience with competition from imported chemicals and with extensive experience in export of chemicals from the United States, we believe

that international trade will grow on a sound basis in proportion as dumping practices can be minimized. To this end, it would be desirable to harmonize and make uniform the language and practices relative to antidumping. A fair system is needed that takes into account the legitimate interests of both the developed and the underdeveloped countries.

We concur in the basic concept embodied not only in the U.S. antidumping law, but also in Article 4 of GATT, namely, that there ought to be a dual criteria as a basis for any dumping penalties: 1) that there be, in fact, sales below fair-market value; and 2) that there be injury to producers in the market of import.

A DEFINITION OF "FAIR MARKET VALUE"

There are wide variations in the definition which different countries use for the term "fair market value" or "normal value" as stated in Article 4 of GATT. If dumping is to be minimized, without at the same time injuring normal international trade and competition, careful attention must be given to the definition of fair market value.

This problem is especially difficult in the chemical industry, where a product may be sold into a variety of different uses under different conditions of sale. Our experience leads us to believe that the following statements represent important criteria in defining fair market value:

1. That it should represent a price at which the product is freely offered by national producers in their home market;
2. That the price should be for normal wholesale quantities, unless the import is simlar to a level of trade in the product for which there is special pricing and condition of sale in the home market ("condition of sale" here referring to end use, grade, type of shipment, duration and volume of the commitment, etc.);
3. That the price be taken as F.A.S. (free alongside) or F.O.B. ship's rail (depending on whether packaged or bulk cargo) at the time and place of shipment or at the nearest port; and
4. That calculations of currency exchange rates used in any antidumping case be the actual involved in trade transactions where it is different from official rates.

INJURY TEST

The diversity in the definition and treatment of the question of "injury" is even greater than that of fair value. In the United States and Germany, the test is so restrictive that injury is seldom found. In an 11-year period (1955–65), out of 345 U.S. dumping cases only 10 showed injury; of this, only 2 were chemicals. By contrast, some countries—notably Commonwealth countries—may claim injury even if the import is sold at or even above their domestic price.

The present U.S. approach to determining injury gives important weight to the corporate or industry level of profits. The presumption appears to be that if a company and/or an industry are making profits equal to or better than the national average, it is therefore not disadvantaged by any dumping that might have occurred. This approach avoids dealing with the specific injury which is the basis for the complaint. It is especially unfair in the modern business world where the business of so many companies is highly diversified. The inappropriateness of profit as a criterion is discussed in the attached appendix.

Clearly, a standardization of the injury test is needed. The United States should propose, through GATT, criteria that will make the test more specific and less judgmental. We believe that a suitable defintion should include the following criteria:

1. An antidumping statute should recognize no injury for products that are noncompetitive. For this, the U.S. criteria of "like and similar" in defining competitive products seems to be a good one.
2. There should be a presumption of no injury where import sales are not below the prevailing price in the country of importation.
3. There *should* be the presumption of injury if domestic production equals 10% or more of demand and the import is being sold below fair value and below the price in the country of import. This is the test that was so effective in preventing a destructive type of competition in Canada.
4. Each product or product line be considered an industry in and of itself. An injury test that looks to averages for an industry, or multiproduct company therein, is meaningless. Actual losses in a particular product or narrow product line may be concealed by profits from patented or other products. This product

concept is vital in the chemical industry because so many products are tied together as co-products and by-products.

5. Experience has also shown that in a large, diversified country like the United States, regional considerations may be important. A major segment of a market may be demoralized by dumping in regional areas without completely disrupting the rest of the market. Accordingly, the definition of "industry" should include a provision for regional injury.

6. Special consideration should be given to the co-producer transactions. In many instances, co-producer sales will be made at a special price. Since the co-producer buyer is not interested in destroying his own price structure, and in any case he himself makes the market, such a sale, even though technically dumping, will not tend to injure the market of the country of destination.

PROCEDURES

It is well recognized that the rules of procedure and the way in which they are applied can greatly influence the effectiveness of an antidumping law. Recognizing that this is a highly technical field and not wishing to recommend specifics, we nevertheless urge that any common procedures incorporate these principles:

(1) a chance for interested parties to be heard;
(2) prompt disposition of the case;
(3) safeguards for confidentiality of data; and
(4) a requirement that complainant and defendant supply necessary data promptly. (Failure of the former to comply within a specified time would dismiss the case, and of the latter would automatically constitute a finding of dumping.)

In the matter of procedures, it is important that the findings be prompt and not delayed, and that they be as specific as possible with a minimum of judgmental leeway. Only if both the regulations and procedures are specific and clear can either the exporter or domestic industry judge what is dumping and what is not.

APPENDIX

The accounting procedure for calculating and reporting profits conceals more than it reveals about the nature and source of profits. In a free-market society, "hoped-for" profits are the incentive for constructive change and "realized" profits are the reward for useful innovation.

In reality, business profit as normally reported consists of three separate items and each is a payment or a wage, if you will, for a certain service. These three items are:

(1) Interest on capital
(2) Risk insurance
(3) Wages for entrepreneurship or innovation.

As normally reported, the profit figure includes the equivalent of interest on the invested capital. In stock companies this is actually paid as "dividends," but it is really payment for the use of the capital. Since there are risks in doing business, the investment may be lost if the business should fail. Accordingly, investors require somewhat larger returns than they could get in the form of interest—let's say from Government bonds. The profit figure also includes, then, an insurance cost to cover this risk factor.

These first two are easily understood. The third—wages for entrepreneurship—is a little more involved but is of special importance because it is the catalyst that stimulates economic growth and so it merits careful analysis. To fully understand its meaning and role, we shall need to review some fundamentals.

Man is, by nature, purposeful and directs his energy toward satisfying his needs and wants. In addition to the physiological needs to sustain life, man is constantly building for himself mental images of things that he would like to have. These ideas become goals or objectives that he tries to satisfy. Since man's ability to conceive new desires is limitless, and since available resources are limited, he must economize his time and effort if he is to enlarge his satisfactions. Entrepreneurship is the economizing function. The entrepreneur performs this function by thinking up ways to increase efficiency.

ENTREPRENEUR'S CONTRIBUTION

It is normal to think of a manufacturing firm as having three key functions: production, sales, and finance.

Fundamental consideration shows that a fourth essential function is involved. A firm can't even get started until it has an objective—an idea toward which the resources are organized. It is the function of the entrepreneur to select the best ideas and maximize the efforts of the organization.

USEFUL IDEA

In seeking good ideas, the entrepreneur notes that man prefers to satisfy his wants with the least human effort and that there is such a thing as "human inertia"—that we all resist change. Accordingly, the entrepreneur seeks and applies ideas that improve efficiency enough to induce human change. Thus, an idea is a good one only if it is a better way to satisfy some human need. A new product, a new service, or a cheaper way to furnish an old product or service, is what is sought.

The increase in economic efficiency is the driving force that overcomes the consumer's inertia to change and causes him to buy the new product. The company that introduces a new product must share the saving with the customer. It is by offering the consumer a better bargain that a supplier earns that part of the profit that we have indicated as "entrepreneurial wage". The greater the improvement in efficiency, the larger this part of the profit may be. This is the reward that society (the customer) is willing to pay for an increase in overall efficiency in the satisfaction of his wants and needs. This portion of what is normally called "profit" disappears as soon as the new technology has become widely applied or a newer and still better product has become available.

If a company is innovating and servicing the customer with better products and/or lower costs, it can earn a better-than-average profit. The company that is not innovating will show a profit about equal to interest rates. The following table shows the profit for manufacturing corporations in the United States for a 10-year period. It also shows the average interest rate on good corporate bonds.

10-year average, 1957–66

	Percent
Profit as a percent of sales	[1] 4.92
Profit as a percent on capital	[1] 6.38
Average interest rate on corporate bonds: Aaa and Baa	[2] 4.67
Payment for risk insurance plus the wages for entrepreneurship: Income on equity capital less interest on rate on bonds	1.71

[1] Quarterly Financial Report for Manufacturing Corporations (Federal Trade Commission).

[2] Federal Reserve Bulletin.

This shows that, on the average, the "wages of efficiency" that corporations earn by their innovative efforts represent only 1¾% on capital invested. If, through dumping, prices or market position are eroded, it need affect the average profit only very little to cut deeply into the wages of efficiency.

The chemical industry has been a leader in innovative changes. This is not surprising, since it spends a higher percent of sales income on research than most other industries. It is, therefore, only natural that the chemical industry generally shows a higher rate of profit than the average for industry. If a profit criterion is applied as an injury test on the chemical industry, no injury would ever be found until profits had eroded to the point that research would be cut back and innovation stinted. Thus, criteria for dumping injury, other than loss of profits, are required if a healthy, growing, innovative chemical industry in the United States is to be maintained.

The genius of the free-market system is that it offers the possibility of large entrepreneurial rewards for very important and rapid innovation. The customer gets his wants satisfied with less money (less human effort) at the same time. To assume that a firm that is making average or better-than-average profits, even on a product that is affected by dumping, has not been injured by dumping is to confuse two independent factors. A better and more rational approach to the question of injury from dumping needs to be found.

STATEMENT OF JAMES W. L. MONKMAN, VICE PRESIDENT, CROMPTON & KNOWLES CORPORATION

My name is James W. L. Monkman and I submit this testimony as Vice President of Crompton & Knowles Corporation, 93 Grand Street, Worcester, Massachusetts, and as President of its Chemicals Group, with headquarters in Newark, New Jersey, as indicated above. A summary of our conclusions and recommendations is provided at the close of this testimony.

Company operations and interests

Crompton and Knowles, last year, had sales of $66 million and employed roughly 2,700 people in its various divisions. It is engaged in manufacture and sale of machinery for textile manufacture, plastics processing, and packaging; and its Chemicals Group manufacturers and sells textile dyestuffs, food colors, plastic colors, and reinforced plastics. We are strongly in favor of expanded trade between nations. However, from firsthand view of the industries in which we are involved, we believe that tariff policy and tariff concessions of the United States have resulted and will result in major increases in foreign penetration of the U.S. market, without opening equivalent opportunities for sale of our goods in foreign markets. We are particularly concerned about the effect of agreements reached in the chemical sector in the Kennedy Round, and about the consequences which would ensue in our benzenoid chemical business if the American Selling Price system of valuation of imports were abolished as requested by the Administration.

We manufacture specialized dyestuffs, mostly for synthetic fiber based textiles, and certified colors for foods, drugs, and cosmetics. We have two plants—one in Reading, Pennsylvania, and one in nearby Gibraltar. Both plants are in Berks County, Pennsylvania. We employ 180 people at these locations. Sales of these products total approximately $10 million. Another dyestuff producer, Tenneco Chemicals, is located in Reading, Pennsylvania, and we estimate that our two benzenoid chemical businesses represent investments of close to $10 million in the area, annual payrolls in excess of $4 million, and local state and federal tax payments of over $2 million each year. The health of these businesses is a matter of intense local concern, as you will note from the attached resolution taken by the Reading City Council.

Probable economic effect of elimination of A.S.P. on textile dye business

Crompton and Knowles has studied very carefully the probable effect upon its domestic business and its exports resulting from the Kennedy Round agreements and the proposed "Separate Package". We subscribe fully to the position taken by the Synthetic Organic Chemical Manufacturers Association that the agreements fail to provide reciprocity and that the U.S. benzenoid chemical industry and the U.S. balance of payments will be seriously and adversely affected under these agreements.

With respect to export opportunities, the only dyes we can sell abroad today are those specialty, superior performance colors we have developed through our own research. We see virtually no expansion of export sale of our colors produced in this country as a result of tariff concessions in the Kennedy Round or separate package.

Conversely, however, we see major reductions in sales income and complete loss of business on some products as a result of price reductions made possible by reduced U.S. tariffs and by the proposed abolition of A.S.P. The latter move is especially serious because the converted rates proposed (as brought out by industry spokesmen in the 1966 Tariff Commission hearings—a report which the Administration *still* has not made public) do not provide equivalent protection to A.S.P. treatment. As a result, the effective tariff on products competing with many of our products, because they fall in basket categories, will be 70% to 80% lower if A.S.P. is eliminated than at present—far in excess of the 50% maximum cuts authorized under the Trade Expansion Act.

As a small, specialized dyestuff producer relying heavily on research, Crompton and Knowles has had a profitable, growing business in textile dyes. For business reasons we cannot disclose specific profit figures, but we have developed the following table to show the relative effect upon profits as a per cent of sales that we estimate will take place in the dyestuff part of our business as a result of lower priced dyestuff imports made possible by the Kennedy Round cuts and by elimination of the A.S.P. method of valuation of benzenoid chemical imports. In this estimate we have excluded the effect of any other changes in our business and its costs.

Estimated index of profit as a per cent of sales

[1964 rate=100]

	1969	1973
Kennedy Round effect	98	69
Separate package effect	84	58

Probable effect on food color business of elimination of A.S.P.

Our food color business also faces serious inroads. We are the smallest manufacturer of those benzenoid dyestuffs certified by the Food and Drug Administration for use in foods, drugs, and cosmetics. These are classified under Clause 406.50J. Certified food colors produced in the United States are a very small part of the total dye industry. For this reason and since there have been no significant imports of food colors up to now, your committee may be unaware of this group of dyes and that the proposed changes threaten the existence of this industry.

As a result of low prices, we have already experienced a serious loss of business in Canada to food colors of foreign manufacture. The effect of having to meet the reduction in prices made possible in the Kennedy Round and by abolishing A.S.P. could put us out of the food color business. Should these products become available in the U.S. from foreign sources at prices made possible by the proposed changes, we would find it difficult to compete on any of the colors permitted by the Food and Drug Administration.

Another problem would arise of far more importance to everyone in the country than the economic effect on our company and the certified food color industry. Despite the relatively small size of this industry, our products are found throughout the food supply in the U.S. Except for a wholly inadequate supply of food colors derived from natural sources, the products of our industry are the only colors permitted for use in foods, drugs, and cosmetics in this country. Certified food colors are synthetic chemicals that are ingested daily by the U.S. population. It is obvious that the public health must be protected by some sort of restriction as to what colors may be used and by the maintenance of standards for those colors of proven safety. Manufacturers must continue to produce colors identical with those originally tested and found safe for human consumptoin. We have such a system of control today. The Food and Drug Administration certification requirements and standards are the highest in the world.

In addition, U.S. manufacturers of these dyes have developed and exercise unusually close control of their production in order to provide a continuing supply of safe colors for our candy, carbonated beverages, ice cream, desserts, and many other foods. When you realize that one pound of certified food color will color approximately 50,000 bottles of soft drink, and that in 1965 approximately 2.75 million pounds of color were certified for food use, the effect of our small portion of the dye industry on our food supply becomes apparent. Opening the way for many foreign dye manufacturers to supply our food industry would, I believe, create a most difficult situation for the Food and Drug Administration in attempting to control the safety of edible coloring materials used in the United States.

Probable effect upon company operations and the economy

In addition to reduction of our percentage of profit by a third or more, and the more rapid erosion of profits expected if the separate package abolishing A.S.P. were approved, we have estimated that our dyestuff and food color division would see a cutback of about 10% in the number of employees within a year or two if A.S.P. is abolished. If we assume that the other dyestuff producer in Berks County faces a similar prospect, our community can anticipate an economic loss as a result of fewer jobs and the resultant effect on goods and services on the order of at least $500,000 and perhaps as high as $1 million per year.

Also of major importance is the effect on balance of payments of a decrease of sales of U.S. made dyes and an increase in sale of foreign made dyes. With respect to our own sales, we predict we will either have to manufacture abroad or abandon sale of products which at present represent a volume of close to $400,000—and another $1 million of sales would be virtually profitless and might have to be abandoned to foreign competition.

While such adverse effects are not certain to result, they are made possible by the present and proposed tariff changes—and, given the strong interest, vigorous effort, and past inroads of foreign dyestuff interests in the U.S. market, we feel they are very likely to occur. To repeat, we see no offsetting prospect of

increasing export of our dyestuffs, particularly since foreign tariffs are only a part of the barriers we must surmount to compete abroad.

SUMMARY AND RECOMMENDATIONS

In summary, we at Crompton and Knowles Corporation see as prospective results of the tariff negotiations, particularly if A.S.P. is abolished as proposed, a reduction in our ability to invest in research, service, and productive facilities in this country and a change in our enterprise from one making a growing contribution to our economy to one forced to retrench.

To prevent or minimize loss of American jobs, injury to essential profits of U.S. concerns, and serious adverse effects upon the U.S. balance of payments, we respectfully urge the Committee to:

(1) reject those portions of the proposed Administration bill which would implement the separate package and abolish A.S.P.;

(2) apply the maximum border tax and export rebate allowable under GATT rules to assist American manufacturers to compete here and abroad with foreign producers by offsetting at least to some extent the non-reciprocal aspects of the Kennedy Round;

(3) impose countervailing duties, as permitted under GATT, to offset to the greatest degree possible the cost advantage granted to certain of our foreign competitors by their governments through forgiveness of so-called indirect taxes;

(4) insure that in future trade negotiations the effect of differences in tax systems between ourselves and major trading partners is recognized and provided for to insure genuine reciprocity in access to world markets;

(5) insure that industry advisors are more effectively involved with U.S. trade negotiations in the future.

RESOLUTION 296

Whereas, the Council of the City of Reading realizes that the City of Reading is traditionally and vitally linked with the dyestuff and textile manufacturing industry; and

Whereas, the Council of the City of Reading realizes that the future vitality of textile producers is vitally linked with technological developments, funds for which have been taken from profits protected by favorable tariff and duty costs to foreign producers; and

Whereas, substantial cuts in import tariffs and duties to the foreign producer may result in transfer of domestic manufacturing operations to foreign countries with subsequent reduction in employment and real estate tax revenues, and further result in a $3,000,000.00 loss in national balance of payments if the existing American Selling Price System as a means of balancing competition between American and foreign dyestuff and textile manufacturers is abolished, now, therefore;

Be it resolved that the Council of the City of Reading heartily urges the Congress of the United States of America to support retention of the American selling price system and that copies of this resolution be sent to the Congressman representing Reading and Berks County and to both U.S. Senators from Pennsylvania.

Passed Council June 28, 1967.

(Original Signature) EUGENE L. SHIRK,
Mayor.

Attest:

(Original Signature) RUTH M. THOMPSON,
City Clerk.

THE HARSHAW CHEMICAL CO.,
Cleveland, Ohio, May 31, 1968.

Hon. WILBUR D. MILLS,
House Office Building,
Washington, D.C.

SIR: We urge you to resist any Administration recommendation for elimination of the American Selling Price system for valuing benzenoid chemical imports which may be made during Hearings before your Committee beginning June 4, 1968.

Our industry's trade organizations, Synthetic Organic Chemical Manufacturers Association and Dry Color Manufacturers Association, will present testimony and group data to clearly establish the adverse effect of ASP elimination upon domestic benzenoid chemical producers. We believe you will find this evidence most convincing.

We shall appreciate any effort you may expend in behalf of the retention of the American Selling Price system for valuing benzenoid chemical imports.

Respectfully submitted,

R. A. LUCHT, *President.*

MAGRUDER COLOR CO., INC.,
Newark, N.J., June 24, 1968.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means,
Longworth House Office Building,
Washington, D.C.

DEAR MR. MARTIN: Now is the time for *Congress* to come to the *aid* of the United States Pigment Industry.

Magruder is one of the smaller manufacturers of organic pigments and have managed to survive within our own highly competitive system since 1927. Now, if ASP is abolished the stage will be set for the giant foreign producers to put on a dramatic play for our share of the market.

Why is the elimination of ASP so important to the foreign interests? All but a few involved in benzenoids and chemicals now have domestic plants, offices, sales and service staffs and are constantly expanding these facilities. They are competing with our industry every hour and every minute of the day—why hand out the added incentive of abolishing our method of doing business which helped make America what it is today.

Where has our common sense gone? Our greatness in developing this important industry? Where is our government of the people, by the people and for the people. All of us in the pigment industry big or small, are people—people earn wages—make the products we sell, spend the money they earn, elect our officials locally and nationally. They don't want to face the possibility of reduced wages, loss of jobs, they want to continue working and growing and continue being a part of this important industry.

Thank you for the courtesy of allowing me to air my views against Title 4 of HR 17551 which could create a serious impact on our industry.

Mr. Martin, please include my comments and views in the records of this hearing.

Cordially,

JOHN A. HOWARD,
Vice President and General Manager.

THE HILTON-DAVIS CHEMICAL CO.,
Cincinnati, Ohio, June 21, 1968.

COMMITTEE ON WAYS AND MEANS,
Longworth House Office Building,
Washington, D.C.

GENTLEMEN: We would like to make the following comments to your Committee concerning the current hearings on U.S. trade policy and specifically on the American Selling Price system of tariff evaluation.

The Hilton-Davis Chemical Co. Division is based in Cincinnati, Ohio and employs approximately 950 people in the production of benzenoid chemicals including pigments, dyes and intermediates. We are convinced that abolition of the American Selling Price system will have a dire effect upon our industry and company. To illustrate the seriousness of the situation and verify the reasons for our apprehension, we have chosen four specific products that have been affected by foreign competition in the last two years and we present herewith the present status of those products which represent a substantial part of our business.

So that we will not place ourselves in further jeopardy, we have coded the cited products as Intermediate A, Intermediate B, Pigment A and Pigment B. Further, since selling prices are easily recognized, we have converted all prices to the

common denominator of $1.00 per lb. as the American Selling Price. For example, if the real selling price were $2.00 per lb. and the import price $1.80 (before duty) or 10% less than the ASP, then, if the selling price is converted to the base of $1.00 per lb., the import price would be $0.90 per lb. or still 10% less than the conversion base. This enables us to keep all relevant factors on an equal basis without revealing confidential information.

With the above explanation, we refer you to the attached chart where the following facts are evident:

Intermediate A: The importer is now receiving the goods, before duty is assessed, at a price already 4% *less* than our manufacturing cost. If ASP is removed, the advantage will no doubt be enough to destroy our market.

Intermediate B: The existing 35% importer's advantage (sold at *less* than our own cost even *with* ASP) has caused us to discontinue production of the material. Furthermore, while we have new patented process technology available, the 35% differential is sufficient to prevent us from erecting a new facility to make the product.

Pigment A: While we continue to produce, the importer's *duty paid* price in the U.S. is only 25% over our cost, a marginal operating allowance since we must pay distribution, advertising, research, administrative and selling costs out of the difference before a pretax profit can be made. These added costs range from 10 to 15%.

Pigment B: We are considering the discontinuation of this material since the importer's *duty* paid price is only 11% over our cost and we cannot operate profitably on that margin since we have *at least* 10% added costs to be paid (See Pigment A above).

We also wish to point out that the attached calculations are based on conditions as they are now in 1968 when only the first tariff reduction has taken place under the Kennedy Round. *Further tariff reductions can only worsen an already undesirable condition.*

In addition, we urge the Committee to note that the examples given *are only a few of many* such with which we must now cope. The inevitable result of the present Kennedy Round tariff reductions will be a reduction in our personnel while elimination of ASP will call for wholesale layoffs, an action entirely contrary to the need and spirit of the times. It is our hope that the Committee will recognize and appreciate the urgency of our plea. It should be evident that tariff concessions already made have placed us in an unsatisfactory position. It is our view that the Congress should undertake a thorough investigation of trade and tariffs.

Very truly yours,

R. L. MARIENTHAL,
Manager of Chemical Sales.

Enclosure. (See chart on p. 4803.)

NYANZA INC.,
Lawrence, Mass., June 17, 1968.

Representative WILBUR D. MILLS,
U.S. House of Representatives,
House Ways and Means Committee,
Washington, D.C.

DEAR REPRESENTATIVE MILLS: According to recent press releases your committee is currently hearing testimony regarding the effect of the Kennedy Round negotiations on the Chemical Industry.

In addition, you are considering the effect of eliminating the ASP method of evaluation.

Realizing that you will be besieged by countless pages of testimony, I shall keep my statement as brief as possible.

I am president of a small dye manufacturing firm, Nyanza Inc. located in Ashland, Massachusetts. It was founded in 1919. We employ about 100 people directly, and 200 indirectly.

A detailed analysis of the effect of the Kennedy Round 50% reduction on tariffs on our profit picture is alarming, if not disastrous. Elimination of the ASP protection would in analysis, amount to a further reduction of about 30% in our present protection.

For several years we have experienced strong competitive pressures in our markets from the giant chemical companies of Europe—Bayer, BASF, Hoechst

CHART

Product	American selling price (factored)	1968 importer's price f.a.s. New York	1968 duty basis ASP	Importer's real price (exporter's price f.a.s. New York less duty)	Hilton-Davis cost	Existing importer's advantage over H–D cost (without tariff)
Intermediate A	$1 per pound	$0.657 per pound	22½ percent plus 3½ cents per pound	$0.397 per pound	$0.415 per pound	Plus 4 percent.
Intermediate B	do	$0.902 per pound	do	$0.642 per pound	$0.992 per pound	Plus 35 percent.
Pigment A	do	$0.774 per pound	do	$0.514 per pound	$0.583 per pound	Plus 11 percent.
Pigment B	do	$0.886 per pound	do	$0.626 per pound	$0.80 per pound	Plus 21 percent.

(the old I. G. Farben in Germany), I.C.I., (Great Britain) and Francolor, (France), to mention some of the "nationalized" or "cartelized" giants whose annual sales exceed one billion dollars.

Under these circumstances, providing them further leverage by eliminating 80% of our present tariffs, represents a substantial handicap to say the least. This is particularly true in light of their pricing policies involving tax rebates, subsidies, incremental costs, etc., many of which are not condoned by our anti-trust laws.

In 1966 we presented exact data on the effect of these policies on our operation to the Tariff Commission. These results, which I have reason to believe were in substantial agreement with other domestic dye producers, have never been made public, although I specifically authorized complete disclosure.

We realize that we are a small problem on the scale of international trade values, but we hope our plight can be considered.

Despite spending over one million dollars in the last few years for plant modernization, our future is dim indeed if the present protection afforded by tariffs based on ASP is reduced 80%. The ability of our employees to be "re-trained" and obtain equivalent jobs is highly questionable, as is the concept of government aid to develop new products for our specialized facilities.

Very truly yours,

ROLAND E. DERBY, JR., *President.*

STATEMENT OF WALTER L. MITCHELL, PRESIDENT, INTERNATIONAL CHEMICAL WORKERS UNION

My name is Walter L. Mitchell. I am President of the International Chemical Workers Union. Our union is comprised of 420 locals and has a total membership of 110 thousand chemical workers.

I appear before you today to voice our union's strong opposition to the elimination of the American Selling Price and the implementation of the separate package agreement provided for in Title IV of H.R. 17551.

Our members are the most productive and although underpaid for this productivity, they are better paid than chemical workers elsewhere in the world. We hope and indeed we expect in the years ahead to be more productive and to be far better paid. The United States and its chemical workers enjoy a higher standard of living than elsewhere in the world. This is as it should be.

However, ever increasing imports from low wage countries pose a serious threat to the American chemical worker—indeed, a much greater threat than it does to the American Chemical Industry—they can and frequently do move abroad. Chemical workers abroad earn anywhere from one-half to one-fifth as much as the American chemical worker. The low wages paid to foreign chemical workers can and do affect the price of their chemical products. We see no reason why the United States chemical workers and the United States chemical industry should be subjected to unrestricted unfair competition from imported foreign products which derive such price benefits from the low wages paid to foreign chemical workers, even those who work for American companies abroad.

It is for this reason that we are greatly concerned about the effect which the Kennedy Round and separate package agreements on chemicals will have upon the members of our union.

ASP

The International Chemical Workers Union and its 110 thousand members strongly supports the retention of American Selling Price for benzenoid chemicals.

American Selling Price valuation is based upon the value of the product produced in the United States, not upon the value of the imported product. As such, it reflects the cost of producing the product in the United States and not the lower cost of producing the product abroad. We see no reason in logic why customs valuation should be based upon the lower cost of producing the product abroad, rather than upon the cost of producing it in the United States. By using the price of the foreign product, instead of the U.S. price, we are giving foreign producers, whether American in origin or not, a significant tariff advantage on top of the significant cost advantages they already enjoy.

We therefore believe that American Selling Price valuation should be retained by benzenoid chemicals.

SEPARATE PACKAGE

The Separate Package Agreement which would be implemented by H.R. 17551 involves more than just the question of whether or not American Selling Price valuation should be retained. Even on the basis of the information submitted by Ambassador Roth, it is clear that this Separate Package Agreement involves substantial Tariff reductions in excess of the already large 50% reductions authorized under the Trade Expansion Act. In this connection, we joined with the other member unions of the AFL–CIO at our annual convention in December 1967 in passing a resolution stating:

"No tariff cutting, beyond the authorization of the Trade Expansion Act, should be approved if there is any change of method of valuation such as ASP."

The Separate Package Agreement is clearly inconsistent with this resolution in that the implementation of this agreement would, in and of itself, result in "tariff cutting beyond the authorization of the Trade Expansion Act." In this connection I believe that Mr. Andrew Biemiller, the Legislative Director of the AFL–CIO, made a very telling point when he pointed out that:

"Those who support removal of American Selling Price valuation argue that four industries—should not have a separate method of valuation because no other industry enjoys this special method of protection." But that: "By the same token, it seems reasonable to us that no industry should be given different treatment by being asked to absorb a greater than 50% cut."

We agree fully with Mr. Biemiller on this point—no industry—and even more important the workers of no industry—should be given different treatment by being asked to absorb a greater than 50% cut.

If we are going to consider the elimination of one method of valuation or another, we should not consider it on the basis of which is more widely used, but rather on the basis of which method of valuation is better. On this basis, we believe that there is far more justification for eliminating valuation based upon low cost foreign prices, than there is for eliminating of ASP valuation which reflects the cost of producing the same product in the United States. Rather than us having to adjust to their costs and their standards of living, they should have to adjust to ours.

THE KENNEDY ROUND AGREEMENT ON CHEMICALS

It is extremely difficult for us to understand how this country could have agreed to cut its chemical tariffs by 50% in return for a reduction of only 20% by our principal trading partners. Even under existing tariffs, chemical imports are already increasing rapidly. Given the higher costs prevailing in this country, it is hard to see how even equivalent tariff reductions by the United States and its principal trading partners will begin to generate as much in the way of increased exports as it would in increased imports. The idea of us even considering cutting our chemical tariffs by more than they did is absurd.

As an experienced contract negotiator, it seems pretty clear to me what's been done. The European negotiators were pretty sharp. They negotiated this 50%–20% Kennedy Round deal in order to make it look like they were really giving us something when they threw in the other 30% as a "concession" for the elimination of the American Selling Price valuation. This "ploy" was so obvious that I simply cannot understand how our negotiators let them get away with it.

As a result we are going to be adversely affected no matter what the Congress does. If you don't approve the Separate Package, we are going to get stuck with the unreciprocal 50%–20% Kennedy Round deal which will result in a far greater increase in our chemical imports than in our chemical exports. If the Congress does approve the Separate Package, the situation is even worse. American Selling Price valuation will be eliminated and our benzenoid chemical tariffs will be reduced considerably in excess of 50%.

Either way you look at it, its heads—they win and tails—we lose—only if its tails and ASP is eliminated and benzenoid chemical tariffs are reduced by more than 50%—we lose even worse. It makes you feel like a man who's been asked whether he would prefer to work for 10 cents an hour or 20 cents an hour. Of course he would choose 20 cents an hour, but it sure isn't much of a choice.

We believe that this General Agreement on Tariffs and Trade ought to be like some of our labor contracts and have a renegotiation clause. Then if you get stuck with a bad agreement like has happened in chemicals, you can go back and straighten things out.

PROBABLE ECONOMIC EFFECT

Mr. Chairman, in recent years international trade has had an increasing effect upon U.S. chemical workers. We have complained long and hard to management about the large number of plants they are building abroad. In 1960, out of every $9 the chemical industry invested in new plants and equipment, only approximately $1 was invested abroad. In 1967, $1 in every $3 is being invested abroad.

We have urged management to build these new plants in the United States and then export the products abroad. Management has taken the position that because of higher U.S. costs we could not export these products from U.S. plants and expect to be able to compete in the world market. I have to admit that until the last year or so I had suspected that this trade issue was being used as an excuse by management to move abroad as a means of maximizing their profits. However, in the light of these agreements negotiated in Geneva, it now seems clear to me that our foreign trade policy is in fact forcing U.S. chemical manufacturers to export jobs rather than chemicals. Our foreign trade policy may not be the only factor, but I believe that it is certainly a principal one.

In 1961 the Honorable Willard Wirtz, Secretary of Labor, told the Joint Economic Committee that there was an "imperative need to create approximately 5 million new jobs every year"—today the number may even be larger. The contribution of the chemical industry in creating these new jobs had been decreasing in recent years as a result of automation, technology, increased imports and investment in plants abroad. There is little we can do about automation and technology—we are for progress. But at the very least, we can avoid pursuing a foreign trade policy which will only serve to increase imports and investment in plants abroad—two factors which have a vital influence not only upon the number of jobs which will be created but also the retention of existing jobs.

Mr. Chairman, the elimination of ASP and implementation of the Separate Package Agreement will cause a loss of existing jobs and the dislocation of workers. Just as important, it will result in the exportation of even more jobs which would otherwise have been created in the United States.

ADJUSTMENT ASSISTANCE AND THE ESCAPE CLAUSE

Ambassador Roth told this Committee that he believed "that the adjustment assistance provision of this Bill will be adequate" to deal with the problem which will be caused by implementation of this package. While I support the liberalization of the standards for obtaining adjustment assistance, I would like to make it clear that these liberalized provisions provide no substitute for a man's job.

Rather than providing adjustment assistance for workers who lose their jobs as the result of increased imports, we believe that it would be far better to prevent increased imports from reaching such injurious levels in the first place.

It's like preventive medicine or preventive maintenance; it's a lot better to prevent the injury from occurring than to attempt to administer "first aid." Moreover, it is a little hard to see how you can effectively cure an injury without removing the cause of the injury. It is for this reason that while supporting liberalization of the criteria for according adjustment assistance, we also urge that the standards for invoking the "escape clause" be liberalized in the same manner. This would at least provide an effective means for either preventing the injury or at least promptly curing it rather than attempting to "adjust" to it.

CONCLUSION

In conclusion, the effect of foreign trade upon the jobs of our members is a subject of vital importance to us.

We strongly urge that the Committee retain ASP valuation by rejecting the Separate Package Agreement.

While we support liberalization of the adjustment assistance provisions, we urge that as a very minimum the escape clause provisions be similarly modified. However, I wish to make it absolutely clear that no amount of liberalization of the criteria for adjustment assistance or the escape clause can begin to warrant the acceptance of the unreciprocal 50%–20% Kennedy Round deal on chemicals or the even more unreciprocal Separate Package Agreement.

I would like to express my appreciation for the opportunity accorded to me to appear here this morning to present the views of the International Chemical Workers Union and its 110,000 members.

OIL, CHEMICAL AND ATOMIC WORKERS INTERNATIONAL UNION,
Haledon, N.J., July 3, 1968.

Re American Selling Price System of Tariff Valuation Benzenoid Chemicals.

DEAR MR. MARTIN: Local 8–95 of the Oil, Chemical & Atomic Workers International Union A.F.L.–C.I.O.–C.L.C. represents approximately 230 employees at the Haledon (New Jersey) Works of Allied Chemical Corporation. This plant produces organic pigments which are subject to the American Selling Price (ASP) System of tariff valuation.

We firmly believe that the elimination of ASP, which is now being considered, would jeopardize the welfare of our members. Many of them have long years of service at this plant and face possible loss of jobs if tariff are based on foreign prices. We do not think the living standards of our members should be sacrificed so that foreign companies which pay substandard wages, may prosper.

Local 8–95 wanted to express its opposition to the elimination of ASP to you and ask that you have its views included in the record of the hearings.

Very truly yours,

RAYMOND RIKER,
President Local 8–95.

INTERNATIONAL UNION OF DISTRICT 50
UNITED MINE WORKERS OF AMERICA, LOCAL 15143,
Newark, N.J., June 14, 1968.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means,
Longworth House Office Building, Washington, D.C.

DEAR SIR: International Union of District 50, United Mine Workers of America, Local 15143 requests the following statement be included in the official record of hearings presently conducted by the Committee on Ways & Means on Trade and Tariff Proposals and H.R. 17551.

The officers and members of our union are 100 per cent opposed to any legislation which would eliminate the American Selling Price.

We cannot emphasize too strongly our unanimous opposition to such a drastic and unwarranted move.

The repeal of ASP is a direct threat to our jobs, our seniority our livelihoods.

We urge that your Committee as not why Congress should eliminate ASP but why there is so much pressure from foreign countries for the elimination of ASP.

Foreign nations are not concerned about the American workingman. They don't care what happens to him or his family. They do know, however, that if ASP is repealed that they will be able to move in and take over the benzenoid chemical market in the United States.

They key word in the ASP issue is "labor".

Labor produces benzenoid products in American plants and in foreign plants alike. Labor at $3.00 and $4.00 an hour cannot compete with labor that is paid 3 cents or 30 cents an hour.

ASP recognizes this economic fact of life and provides a practical means to equalize the labor cost.

Much attention has been focused recently on the employment problem in big cities with emphasis on the need to create new job opportunities for members of minority groups.

Our union membership is composed of 85 per cent minority group workers. Most of them live in the city of Newark, New Jersey, where the employment outlook for minority group members is critical, and where many programs under federal and state sponsorship are underway to improve job opportunities.

The elimination of ASP will certainly aggravate the already critical job situation. It will add fuel to the fire of those who ridicule the fact that all too frequently one agency of government is working to achieve goals and implement programs while other agencies of the same government are moving in the opposite direction.

Let us point out that our members, and they are mainly minority group workers, enjoy average earnings of more than $7,500 a year. Many of them have moved up through the ranks, adding new skills through training on the job, and have achieved earning levels, of $10,000 and $15,000 a year. These skills, however, are highly specialized. They cannot be used in other jobs. A retraining program that will qualify our members for jobs at half the pay they are now receiving is

a poor substitute and completely unacceptable. When the loss of seniority is added, this situation becomes intolerable.

We are firmly convinced that the retention of ASP is vital to our union members and to their livelihood and security. We urge you strongly to preserve ASP and save our jobs from the unfair competition of cheap foreign labor.

We are firmly convinced that the retention of ASP is in the best interests of the nation and the American worker, the American standard of living and the American way of life.

We are firmly convinced that the retention of ASP is vital to the present effort to solve the urban crisis.

We are firmly convinced that the retention of ASP is essential to the campaign to increase employment opportunities for minority workers.

We are firmly convinced that the retention of ASP, in the long run, will encourage fair competition and enhance international trade among all nations of the world.

Very truly yours,

A. SEBASTINAS,
President, Local 15143.

LOCAL UNION NO. 14256, DISTRICT 50, UMWA,
El Segundo, Calif., July 5, 1968.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, House Ways and Means Committee,
Longworth House Office Building,
Washington, D.C.

DEAR SIR: As employees of the El Segundo, California plant of Allied Chemical Corporation, we are involved in the production and handling of Benzenoid chemicals. Consequently, we are concerned about the possible effects of eliminating the American Selling Price System on the job security of our membership.

We would request that this concern be made a part of the record in the forthcoming hearing before the House Ways and Means Committee.

Very truly yours,

M. DEL SIGNORE,
President.
C. S. CUMMINGS,
Vice-President.
P. A. HEDRICK,
Recording Secretary.

SOLVAY PROCESS WORKERS LOCAL 12457,
DISTRICT 50, U.M.W.A.,
Solvay, N.Y., July 5, 1968.

Mr. J. M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means,
Longworth House Office Building, Washington, D.C.

DEAR MR. MARTIN: We are attaching two copies of a letter sent to Congressman James M. Hanley, and we request that this letter be included in the records of the hearing in regard to this matter.

Sincerely yours,

JOSEPH H. LEWIS, *President.*

SOLVAY PROCESS WORKERS LOCAL 12457,
DISTRICT 50, U.M.W.A.
Solvay, N.Y., July 5, 1968.

Hon. JAMES M. HANLEY,
Congress of the United States,
House of Representatives, Washington, D.C.

DEAR MR. HANLEY: As President of Local 12457, District 50, United Mine Workers of America, I am taking this opportunity to write to you in regard to the elimination of the America Selling Price system of tariff evaluation.

This Local represents approximately sixteen hundred hourly employees of the Industrial Chemicals Division of Allied Chemical Corporation (Syracuse Works). In the departments manufacturing products there will be about three to four hundred jobs that will be eliminated by the Kennedy-Round and the proposed "2nd Package" tariff negotiations.

It is apparent tariff agreements must consider foreign border taxes and other trade barriers which may handicap American production. Any steps taken to increase chemical imports will not be beneficial to the American workman and will only serve to erode the chemical industry's business.

We are well aware of your concern for the job security of the American workman and we know that in regard to the administration's trade bill you try to protect our interests. Unfair competition from foreign chemical industries, we feel, cannot help but interfere with American job security and will eventually eliminate many job opportunities in the chemical business.

The chemical industry in this country is so highly competitive now the possibility of chemical imports from foreign markets will raise havoc with the chemical business in America.

Speaking for myself and on behalf of the members of this Local, we ask your support of our position and advise Chairman Wilbur D. Mills and other members of the Ways and Means Committee of our sincere concern in this matter.

Your support on our behalf will be deeply appreciated.

Sincerely yours,

JOSEPH H. LEWIS, *President.*

DISTRICT 50, U. M. W. OF A.,
LOCAL UNION NO. 13896,
Moundsville, W. Va., July 3, 1968.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means,
House Office Building, Washington, D.C.

DEAR MR. MARTIN: On behalf of Local # 13896, U.M.W.A., Moundsville, West Virginia, I would like to express opposition to the Administration measure calling for repeal of the American Selling Price method of tariff valuation. This method was originally incorporated as a provision of the Tariff Act of 1922 to enable the United States to build a strong dye and pharmaceutical industry and to provide us with independence from foreign manufacturers. ASP has served the country well and repeal of the law would directly affect the employment of 300 members of our local union who are employed in the chemical industry in Moundsville, West Virginia.

The members of Local #13896 are employed at the Allied Chemical Corporation in Moundsville, West Virginia, and personally know that some portion of their business will be lost if ASP is eliminated. Therefore, faced with the possibility of loss of jobs affecting members of our local union, the membership of Local #13896, U.M.W.A., Moundsville, West Virginia, is absolutely and irrevocably opposed to elimination of ASP.

It is requested that this correspondence be included in the record of hearings on ASP.

Very truly yours,

HOWARD A. GLENNDENNING, *President.*
WALTER D. WILSON, *Vice President.*

INTERNATIONAL UNION OF DISTRICT 50,
UNITED MINE WORKERS OF AMERICA,
Washington, D.C., July 11, 1968.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means,
Longworth House Office Building,
Washington, D.C.

DEAR MR. MARTIN: As President of Local No. 12330, District 50, United Mine Workers of America, which represents nearly 1,500 working men and women at the Buffalo Dye Plant, Allied Chemical Corporation, I am writing to the Ways and Means Committee to request serious consideration be given the probable fate of these jobs if the American Selling Price tariff evaluation on Benzenoid Chemicals is sharply reduced or eliminated.

My job, and the jobs of all the people at this plant, depend on the tariff protection provided by the American Selling Price. If that should be reduced or eliminated, this country will be flooded with low-priced Benzenoid Chemicals produced by cheap Japanese and European labor. If this occurs, our plant could close very quickly and we would lose our jobs.

Since it is impossible for me or my fellow workers to present our case directly to the Committee, I respectfully ask that this letter be included in the record of the hearings.

Very truly yours,

JEROME KAMINSKI, *President.*

The CHAIRMAN. Mr. Moody, you have been before the committee many times in the past but for this record we would like for you again to identify yourself.

STATEMENT OF JOSEPH E. MOODY, PRESIDENT, NATIONAL COAL POLICY CONFERENCE, INC.

Mr. MOODY. Thank you, Mr. Chairman. I was just sitting over there thinking the first time I appeared was on May 5, 1930. I was much younger then and much lighter weight.

My name is Joseph E. Moody. I am president of the National Coal Policy Conference, Inc., an organization which speaks for all industrial groups concerned with coal—producing companies, the mine workers as represented by the United Mine Workers of America, coal-carrying railroads and bargelines, coal-burning utilities, and manufacturers of coal mining machines and equipment.

I requested time to appear here today to express to this committee the growing concern over our present trade policies, of those companies and individuals which mine, transport, and consume coal, and not only as to the effects of that policy upon coal, but, more importantly, as to the effect that policy is having and will have, on the long-term energy supplies for the Nation.

As you gentlemen know, there is no coal imported into this Nation except in very rare and isolated instances. The reason is simple. Coal can be produced in this Nation—even with the highest wage scale in the world—transported and sold abroad in almost any nation, at prices below that of indigenous coal. The unprecedented efficiency and productivity of American coal mining has created a worldwide demand for U.S. coal. Even though coal exports are currently earning about $500 million a year for the Nation, and thus reducing our unfavorable balance of payments by this amount, the export potential is held down by a wide variety of nontariff barriers against the United States which have been imposed by coal-consuming nations in various parts of the world.

Even though no coal is imported, the domestic coal industry is directly affected by fuel imports. Imported heavy residual fuel oil competes directly with coal in the important east coast fuel market.

I think it is proper here to point to the very different circumstances which surround the export of American coal to nations needing it because they have no suitable fuel of their own, or because producing it is too expensive and the imports of foreign fuel oil into this country, which is blessed with ample supplies of low-cost fuel of its own.

A considerable part of America's coal exports are for metallurgical use, and fill a real need in several other nations. The residual oil we import, however, is used for steam production and heating, and thus is in direct competition with U.S. coal and also such domestic residual fuel as our own refineries find it profitable to manufacture. This has been declining for several years because domestic refiners convert as much of each crude barrel as possible into gasoline and other more

valuable light products for which an affluent American public provides a ready market.

In 1959 domestic residual supplies available in district I—the Atlantic Seaboard States—totaled 121 million barrels. In 1967, domestic supplies for these States had declined to 76 million barrels, although at the same time the total consumption of residual oil, spurred by very cheap foreign imports, was increasing from 290 million barrels to 420 million barrels.

As I am sure you will recall, the President and his Cabinet determined in 1959 that imports of petroleum, including residual fuel oil to be used as fuel, into the east coast of the United States, were growing so large as to be a threat to the national security. By proclamation, the President imposed quotas on such imports, with imports of crude and products other than residual fuel oil limited to a definite formula, which, if adhered to would have accomplished the original intent of the proclamation—to safeguard the national security. In actual practice, however, it has been progressively weakened since about the first year of the program, when an effort was made to hold imports down.

After a few months, this determination gave way to expediency not a little affected by political pressures from those who sought unrestricted imports, regardless of the economic impact on domestic fuel producers. From then until about 2 years ago annual quotas were established on a formula which, basically, took into account (1) current residual consumption in district I, (2) anticipated decline in domestic residual fuel oil in district I and available to the east coast from other districts; and (3) an allowance for a further increase based on the projected growth in the gross national product which the Secretary of Interior thought was necessary to insure foreign suppliers a proportionate share of the growth of east coast fuel market.

Unfortunately, even this formula which did have some apparent reasonableness to it, was all too often violated as the Secretary of Interior granted special bonus quotas because importers imprudently used up their allocations before the end of the quota year. Nevertheless, while this program, loosely as it was administered, was in effect a stable relationship was achieved between domestic fuels and imported residual oil along most of the east coast. In 1965, however, even the lax quota system was dropped and the Secretary substituted what he termed an "open end" system of permits whereby the only real limit on imports has become "what the market will bear." As the following facts will show, the impact of this move has been severe.

In 1959, imports of heavy fuel oil totaled 172 million barrels.

By 1965, under the so-called mandatory control program, imports had increased to 266 million barrels, an annual average increase of 15.8 million barrels.

Under the "open-end" program, residual imports increased to 322 million barrels in 1966 and to 345 million barrels in 1967—an annual average increase of 39 million barrels in the past 2 years.

A little more than four barrels of residual fuel oil is equivalent, in heating value, to 1 ton of coal. Measured in this way, the magnitude of the competition to coal from imported residual oil is significant.

In 1959, imports were the equivalent to about 43 million tons of coal.

By 1967, imports had climbed to the equivalent of about 84 million tons of coal—an increase of almost 100 percent.

We do not contend, of course, that all of this increased market would have gone to coal if imported residual had not been available. However, it is certain that a substantial portion would have and it would have made a significant contribution to employment in such areas of our country as Appalachia. Just last week, I asked one of our more modern highly mechanized coal producing companies for figures on how coal consumption and, thus, production affect jobs in their producing area. This company reported that in 1967 it produced about 12.25 million tons of coal and provided employment for 4,100 persons, 3,815 of them actually working in the mines. Thus, for this company—and it is probably typical of most production in today's modern mines—each million tons of coal produced gives full employment to 311 miners, or 323 persons in all. On that basis, 84 million tons of coal, not produced, would have provided more than 25,000 American jobs.

I might interject here that each million tons of coal produced in this country provide over 300 coal mining jobs to say nothing of the men employed to transport and to handle.

The competition between coal and imported residual oil has been most intense in the New York, New Jersey, and New England area, particularly for the utility market, where the greatest growth potential for coal exists.

In this area, the effects of increased imports on coal markets are striking, and cause for serious concern.

In 1965, 29,388,000 tons of coal were burned in this highly competitive area as a utility fuel.

By the end of 1967—after only 2 years of increased imports of residual under the "open end" program, coal consumption by utilities actually declined to 26,764,000 tons, a loss of 2,624,000 tons.

In the same period, residual oil consumption increased from a total of 56,917,000 barrels to 92,195,000 barrels, an increase equal to 8,466,000 tons of coal.

Stated another way, coal's share of the highly important electric utilities market, declined from 62.2 percent in 1965 to 50.1 percent in 1967.

The residual oil share of the market increased from 28.9 percent to 41.5 percent.

By contrast, in the remainder of district I, where the competitive conditions are more equal, and cheap imported residual has not made such an effort to flood the market, coal has been able to maintain a constant share of the market.

All of this emphasizes one fact. The east coast, and particularly the Northeast, is growing increasingly dependent upon imported residual oil as its primary industrial fuel.

In 1959, imported oil accounted for 59 percent of total consumption of heavy industrial fuel oil on the east coast.

In 1967, 82 percent of residual fuel oil consumed on the east coast was imported.

It seems to me, Mr. Chairman, that in these facts are serious implications for the Nation.

The east coast, and particularly the Northeastern tier of States, is one of the most important, industrially and economically, in the Nation. Yet, its industry is becoming completely a hostage to offshore, unstable supplies of fuel. What happens if this supply of fuel is sud-

denly cut off by a political or military development which is outside of our control? How will the ensuing fuels' deficit be made up?

In the early days of World War II this area faced the very same problem because of the disruption of shipping from the Caribbean. Then, it was a relatively simple matter for the Government to order a conversion from oil to coal. The consumption of imported oil was significantly smaller and excess coal capacity existed, which could be channeled rapidly into the area.

But today, the area is 82 percent dependent upon imported oil. To replace it would require more than 80 million tons of coal. Frankly, gentlemen, I have the most serious doubts that another 80 million tons of coal production could be secured without a long leadtime and reallocation of existing coal markets in other areas which in itself could cause serious economic dislocations. The conversions of burning equipment is now so complete, that even if the coal were available, it would be questionable if it could be burned.

The production of domestic residual oil could not be increased to this great an extent without creating real problems. The Government could, under its emergency powers, decree that refineries must increase the ratio of residual oil produced from every barrel of crude oil. Conceivably, the ratio of residual could be increased to a point where the industrial fuel deficit on the east coast could be overcome, but any increase in residual production would mean a corresponding decrease in the production of gasoline, lighter heating oil, jet fuel, and the many other lighter products which are essential to our industrial society.

I realize, Mr. Chairman, that the possibility of a disruption of offshore oil supplies has been discounted by the Government. The Defense Department has stated, according to a memorandum, prepared by the Office of Emergency Planning, that it can keep the sealanes from the Caribbean open under any foreseeable military situation. Perhaps they can do this, but would not all of our military might be completely impotent in the case of an embargo of oil shipments to the United States for political reasons? The recent Suez crisis is a reminder that nonmilitary action is just as effective as a blockade in stopping oil shipments.

Mr. Chairman, today the residual oil used by electric utilities on the east coast produce electricity which is equivalent to 22 percent of the total power production in the area. Should offshore residual oil supplies be cut off, this huge block of power would have to be made up in some fashion.

It takes time to build a new powerplant, and there is a limit to the amount of power which can be drained from other sections through intertie now being developed by utilities.

It seems to me, Mr. Chairman, that our present trade policies as they apply to residual oil imports completely ignore these inherent dangers.

Assistant Secretary of the Interior, J. Cordell Moore has stated on a number of occasions that the United States cannot be dependent on foreign sources for oil which might be denied us through war or political instability. Secretary Moore's comments were made in support of the crude oil import program but in view of the growing dependence of the east coast on imported residual oil, they are just as valid when applied to the residual program.

There is another aspect of the oil import program which is causing considerable concern because of its impingement upon our international financial situation.

It costs money, paid out in dollars, to buy residual fuel oil in foreign producing countries. This adds to our balance-of-payments problems.

A significant portion of each dollar paid in this country for residual fuel oil finds its way to the producing country in the form of taxes and other charges levied by the Government of the producing country. Just how large is this portion is difficult to determine.

However, the bill for foreign residual oil comes to at least $600 million a year and a substantial portion goes to foreign nations for drilling and production rights, and charges for transportation in foreign-owned oil tankers.

The drain on the dollar increases with every increase in residual oil purchased abroad. There can be no question about the foreign oil purchases affecting adversely our balance of payments. The only question is just how large is the dollar drain.

Mr. Chairman, I believe the facts I have presented clearly show that the residual oil import control program has not been administered to achieve the objectives which it was originally set up to achieve.

(1) It has not protected the national security, by assuring an adequate and sure supply of heavy industrial fuel under all possible circumstances.

(2) It has not protected the essential domestic coal industry against foreign competition. This has been costly in terms of jobs, it requires more than 300 production workers for each million tons of coal mined in this Nation, even with the high degree of mechanism which has been achieved. The equivalent of 80 million tons of coal now consumed in the form of foreign industrial oil adds up to thousands of jobs and millions of dollars in payrolls and income for American workers and businesses.

(3) It has not prevented a significant area of the Nation from becoming overly dependent upon a foreign industrial fuel. No longer can we close our eyes to the potentially dire consequences to the economy of the east coast of a sudden halt, or an even sharp reduction in residual oil shipments to this country due, to use the words of Assistant Interior Secretary Moore, to "war or political uncertainty."

Now, the Government proposes an action for which we can see no justification and which would compound the whole problem of dependence on foreign petroleum sources, both for residual fuel oil and for crude oil as well, many times. The Secretary of the Interior has published a proposal in the Federal Register to set up a system granting bonuses for the import of additional crude oil and unfinished oil to refineries which produce low sulfur residual oil for consumption in areas where low sulfur fuel is required by Federal, State, or local regulations. I will not argue the merits of this proposal here, save to point out that there is substantial scientific opinion that the presence of sulfur oxides in the ambient atmosphere normally found even in urban centers has never been proven to be a serious menace to health. I could cite many authorities for this point of view and would be glad to supply that to the committee if you would like. Since this substantial doubt does exist there certainly seems to be no excuse for further garroting the import control program not only for crude petroleum but

also for residual fuel oil by the Secretary of the Interior on the flimsy excuse that it is necessary to aid the campaign for air quality improvement.

I believe the time has come to take a new look at, and a new approach to our trade policy as it affects residual fuel oil imports. I do not believe there is any equity in a policy which permits af foreign fuel to take over an important domestic market—not only the existing market but the growth market as well. The coal industry appreciates the need for this Nation to maintain a two-way trade. We question, however, whether the Congress intended, in adopting the Trade Agreements Act, for the traffic to become one-way—foreign industrial oil flowing into this Nation to the exclusion of domestic products.

We suggest, Mr. Chairman, that this committee give serious consideration to remedying this deplorable situation which has built up over the past decade, and which all evidence suggests will continue to grow more severe rather than improve.

We suggest that a formula be adopted under which foreign oil would be permitted to share in only a part of the growth market for industrial fuel on the east coast—not monopolize the entire growth market as it does at present.

I have serious doubts that this objective can be achieved under the present system of the Congress delegating rulemaking authority to the executive branch. Experience during the past decade has proved this to be a complete failure. No semblance of a stable relationship between domestic and imported industrial fuel has been maintained. This, I submit, is what is urgently needed.

We are not asking for an embargo on residual oil imports, or even a significant cutback in current imports.

What we are asking is that imports be required to share the growth market with domestic fuels.

This can only be achieved by this committee and the Congress writing a formula to achieve this objective and then requiring the executive branch to see that it is carried out.

We fully endorse the objective of several bills now pending before the Congress to establish by legislation a guarantee that the present import limitation on crude oil, which is set at 12.2 percent of domestic production in the most recent comparable period for which statistics are available, be kept intact. We believe that it is essential to the national security that America be self-sufficient in fuels including petroleum and thus a strong dependable domestic petroleum industry must have the national support.

We likewise believe that the Nation must maintain a strong coal industry, one which is able to fill any emergency demand for essential heating, power, and industrial production that may develop; and we do not think that a continuing eroding away of coal's east coast markets in what seems to be a Government policy decision to turn over much of that area's energy supplies to offshore fuels is consistent with this objective. Therefore, we urge that an amendment be adopted to whichever of several bills limiting crude oil and other product imports to provide a comparable reasonable legislative limit on the further growth of residual fuel imports.

Despite the damage we have suffered in the past and the serious loss of markets that has already taken place in the Northeast, it would probably be unrealistic to seek congressional action sharply reducing

current import levels. We also recognize that it might be impractical to seek a rigid numerical limit on such imports in the future. However, we do not think it is either impractical or unrealistic to ask that Congress recognize the national security dangers involved from a military and from a domestic economy standpoint and set up legislative guidelines which would insure that domestic fuels, principally coal, would not be driven still further out of its present proportionate share of the east coast fuel market.

This regulation might follow the lines of the formula which was once use and then abandoned by the Department of Interior whereby annual quotas would be set at current imports as a base and adjustments limited to anticipated changes in the amount of domestic residual fuel oil produced for east coast consumption along with reasonable allowances for changes in total fuel demand in these market areas. I believe some such formula is reasonable in these market areas. I believe some such formula is reasonable, could not be seriously opposed by foreign nations supplying us with residual fuel oil or by those who import and use it in this country and that is absolutely essential to guard the national security.

I fully realize that a number of spokesmen have appeared before this committee and warned of the long-term dangers of adopting a system of quotas governing our imports. But, I insist, the long-term danger of permitting present policies and trends to continue—trends which are closing domestic markets to domestic fuels—is much more grave than that inherent in taking the necessary remedial action.

Mr. Chairman, I thank you and members of the committee.

The CHAIRMAN. We thank you, Mr. Moody, for bringing your views to the committee and also cooperating with the committee. Are there any questions of Mr. Moody?

Mr. CURTIS. Yes, Mr. Chairman, just a few.

The CHAIRMAN. Mr. Curtis.

Mr. CURTIS. What was the U.S. coal consumption in 1967, or can you supply this for the record?

Mr. MOODY. About 564 million.

Mr. CURTIS. 564 million. What would it have been in 1960?

Mr. MOODY. In 1958 and 1959 with the low point it was 393 million.

Mr. CURTIS. There has been an increase. I just want to be sure I am correct. There has been an increase in coal consumption.

Mr. MOODY. Yes, sir, Mr. Curtis. There were many people in this country that decided at that time that the coal industry was dead. The only people that weren't aware of it were the people in the coal industry.

Mr. CURTIS. Yes, I think you made a splendid record. Incidentally, you talk about these nontariff barriers. I am aware of them but it is interesting to note though that Belgium and Western Europe where you are shipping a lot of coal to——

Mr. MOODY. Yes, sir.

Mr. CURTIS (continuing). Are phasing out their coal industries because of this U.S. efficiency aren't they? Is one use of their nontariff barriers over there, whether right or wrong, to slow down the phase-out?

Mr. MOODY. Well, one of them. Most of the time, however, they just limit the amount of American coal they can take which is the minimum amount that they have to have to bolster up this economy.

Mr. CURTIS. But that minimum amount increases each time and I again say—I am not pleading the case one way or another—they use some of the money they gain from these nontariff barriers—these are supposed to be tariff barriers—for retraining their coal miners in accordance with this phaseout program.

Let me ask you another question. You have been directing your attention to the use of coal as a dust or a fuel, but it also has an important use, or did have, at any rate, in petrochemicals. Is that use pretty well phased out?

Mr. MOODY. Yes. The use of imported crude in the petrochemical industry pretty well stopped that of coal. Now, when you get into the chemical industry then there is another phase that is probably the big growth phase in our industry and it is the reason why we have so many, may we say, cousins that are now interested in controlling coal companies in the oil industry and other industries and that is in all probability the future in the United States will depend greatly on the production of liquid and gaseous fuel from coal because Sam Schurr in the "Resources for the Future," his latest book, comments that the availability of resources from coal really doesn't make much difference. It is so great that a few billion or trillion tons won't make any difference.

Mr. CURTIS. The reason I asked this is that one of the chemical companies, one in my own district, Monsanto, has urged that we not put on import restrictions on crude oil because they use it for their raw materials in the petrochemical field.

Mr. MOODY. That is correct and they can use the cheapest of that oil and it has a great contrast in price as against the domestic.

Mr. CURTIS. But at present coal has pretty well phased out petrochemicals as a raw material?

Mr. MOODY. That is correct. One of the companies that I know you are familiar with, Spencer Chemical Co., at one time was very active in that and they have gone into the petrochemical rather than the coal chemical.

Mr. CURTIS. One other question. Although I would essentially get this information from the oil people, I would like to have it from an outside observer too. I have read material that indicates that one reason we have residual oil coming in from Venezulea, for example, is that they do not impose similar conservation practices on the extraction of oil and the refining of oil, and that to a large degree there isn't this kind of residual oil generated domestically because our conservation and other laws require that it be refined rather completely and thus they don't generate it.

Do you have any comment on that?

Mr. MOODY. Well, you and I could stay here all day on this one, but let's say very quickly your domestic production of residual is about 6 or 7 percent of your barrel and because of the nature of your crude in Venezuela your residual production is about 60 percent of the barrel.

You get into the refinery game and then it becomes what is your maximum amount of money that you can get out of each barrel and what is the combination of products that go with it.

Mr. CURTIS. This is what I am getting at. Let's leave it this way, if you would, for your industry to supply this for the record. If there is a big differential in the conservation practices imposed on our domestic

oil industry by our States and our Federal Government in contrast to that of Venezuela, then this becomes a very important nontariff trade barrier.

It may be that Venezuela in the long run is hurting its own economy by not imposing stricter conservation laws. I don't know. But I would like to know a little more about this because this enters into this area that we have been discussing of nontariff barriers which are increasingly looming into importance in international trade.

Mr. MOODY. I think, Mr. Curtis, that you would find it very interesting to discuss this matter with people from Venezuela. Mr. Gurfinkel is here most of the time.

Mr. CURTIS. I have discussed it with him and others. Sometimes we get better criticism from outside observers, particularly since this issue is one of the causes of the heavy imports.

Mr. MOODY. That is one. Of course they have a problem there of being in the good graces of the big companies that they are doing business with too but they also have a serious problem in the world petroleum service that gives them some sleepless nights in Venezuela.

We have never at any time asked for any consideration as far as the coal industry is concerned of domestic production. That is a domestic fuel and we will just take our chances and they will either beat our brains out or we will beat theirs, one or the other. When it comes to this foreign combination, however, then that is a different breed and we get all the way into the various applications of tax policy and everything that goes with it but we honestly believe that the United States of America as a nation does have the necessity for having available to it a domestic source of fuel and energy, and history tell us that every country that ever got into the position of buying its energy went broke and we would just as soon not do that, especially when we have these resources here.

We just haven't developed our domestic resources with the exception of course of the atomic.

Mr. CURTIS. Thank you very much.

The CHAIRMAN. Any further questions?

Thank you again, Mr. Moody, for bringing to us your statement.

Mr. MOODY. It is a pleasure being here.

The CHAIRMAN. Without objection the committee will recess until 2 o'clock this afternoon. Our first witness will be Mr. Norton.

(Whereupon, at 12:45 p.m., the committee recessed to reconvene at 2 p.m., the same day.)

AFTER RECESS

(The committee reconvened at 2 p.m., Hon. A. Sydney Herlong, Jr., presiding.)

Mr. HERLONG. The committee will be in order.

The first witness this afternoon will be our colleague from Mississippi, the Honorable William M. Colmer. Welcome, Mr. Colmer, proceed as you see fit, please.

STATEMENT OF HON. WILLIAM M. COLMER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSISSIPPI

Mr. COLMER. Mr. Chairman, I wish to make a statement in support of H.R. 8922, a bill to regulate imports of milk and dairy products.

Section 22 of the Agriculture Adjustment Act has not been effective in dealing with dairy products. At this time, there are large quantities of foreign dairy products being imported into the United States without any controls. These various dairy products are being imported in ever-increasing quantities, adding to the numerous problems facing dairy farmers and their cooperatives, and increasing the cost to the Government in its operation of the price support program.

There is an urgent need for these regulations, and in order to prevent disaster in this industry there must be legislation limiting dairy imports.

I ask for your careful consideration and approval of H.R. 8922.

Thank you.

Mr. HERLONG. Are there any questions; if not, then thank you again, Mr. Colmer.

Our colleague, the Honorable W. M. Abbitt of Virginia, is our next witness. Welcome, sir, you are recognized.

STATEMENT OF HON. W. M. ABBITT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. ABBITT. I would like to point out the dangers to our domestic dairy industry in the continuance of our present policy of setting import quota systems on dairy products.

The problem is very simple. We have quotas on some dairy products, do not have quotas on others. So, importers simply turn their surplus milk into the products which are not limited by quotas. Furthermore, by slightly changing the form of a dairy product which is under a quota, the new product is imported without any limitation in complete evasion of the law.

As many countries increased export subsidies, milk production increased. With these subsidies, surplus dairy products are being shipped to this country at prices undercutting the American market.

What is needed is a system of effective quotas so that our domestic market will be preserved for our dairy farmers.

This can best be done—in my opinion—under the Dairy Import Act which I have introduced as H.R. 5032 along with bills by over 200 other Members of the House.

This bill would set effective quotas on all dairy products and would end once-and-for-all the use of these evasion techniques.

It seems that as soon as one dairy import loophole is closed, the importers figure out another one.

You have seen what has happened. When a product starts taking a large share of the American market, section 22 action is taken and quotas are set on these products after injury has already been sustained.

For example, evaporated milk was not under any quota. On June 10 of this year the President issued a proclamation setting temporary section 22 quotas on evaporated milk. If the Dairy Import Act were

enacted, such hurried emergency action would not be necessary and we would have quotas which stabilized the dairy industry.

This is more than just a problem for the American dairy farmer. It is a problem for the consumer. We must produce fresh milk in this country. We can't import it. And, the dairy farmers must also have a market for dairy products so they can sell their surplus milk in the form of dairy products such as cheese and dry milk.

This import problem adversely affects our balance of payments. It is estimated that the dollar drain, resulting from importing dairy products, was nearly $70.5 million in 1966 and nearly $74 million last year.

Consider the effect on the price support program. The U.S. Department of Agriculture bought nearly $185 million worth of butter, almost $176 million worth of dried milk and $93.8 million worth of cheese during 1967. While the USDA was using funds to buy surplus dairy products in this country, we were allowing importers to ship dairy products into this country.

This problem has been growing with each successive year. We take emergency action but this does not solve the problem. It only stops imports for awhile until a new product is developed which does not come under any quota.

And, if you have any dairy farmers in your district you've heard from them about this. They want something done about the import problem.

They are unanimous in their support of the Dairy Import Act.

My bill would limit dairy product imports to the average butterfat and nonfat milk solids shipped into this country from 1961 through 1965. The import quotas would increase if our domestic consumption increased and in the same ratio. The President could authorize additional imports in the national interest. The bill is flexible and allows importers to share in our markets.

Any study of the dairy import situation shows a need for such permanent legislation.

Our dairy farmers are in trouble and they need effective limitations on unchecked imports.

The problem is dramatized every time section 22 action is taken.

We can take a position now and set effective quotas and stabilize our dairy industry.

Mr. HERLONG. Thank you, Mr. Abbitt, for bringing to us your thoughts. Are there any questions?

The next witness is the Honorable Howard W. Robison of New York. Mr. Robison, we appreciate having you with us and you are recognized.

STATEMENT OF HON. HOWARD W. ROBISON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. ROBISON. I would like to request that consideration be given, to my bill, H.R. 9051, and similar measures, to regulate imports of milk and milk products.

As I am sure you are well aware, large quantities of dairy products are presently imported into the United States without any controls. The Presidential proclamation of June 30, 1967—under Section 22 of the Agricultural Adjustment Act—provided some relief to domestic

dairy farmers, however, many loopholes still exist through which foreign dairy products are being imported in ever-increasing quantities. This only adds to the many problems facing the dairy farmers and their cooperatives and increases the cost to the Federal Government of the price support program.

The Dairy Import Act that I have proposed would restrict imports to the annual levels of the years 1961 through 1965 and would tie future imports to consumption based on the same years. It would, however, give the President power to permit additional imports for overriding economic or national security reasons, so long as milk prices received by dairy farmers are at or above the parity price.

On behalf of the dairy farmers and their cooperatives in my district and throughout the country, I respectively urge your favorable consideration of the Dairy Import Act.

Mr. HERLONG. We appreciate your bringing to us your thoughts, Mr. Robison.

The next witness is from Arizona, the Honorable John J. Rhodes. Mr. Rhodes, we appreciate your being with us this afternoon and you are recognized, sir.

STATEMENT OF HON. JOHN J. RHODES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. RHODES. Mr. Chairman, I introduced H.R. 5744, to regulate the imports of milk and dairy products, in the honest belief that such legislation was warranted to afford needed protection to the dairy farmers and cooperatives of my district, and of the Nation. I am, of course, acutely aware of, and sensitive to, the policy of the Nation to reduce trade barriers and encourage international commerce. Nevertheless, I am sure we all agree that in some instances there may be such disruptive influences on various sectors of the domestic economy to justify the imposition of restrictive measures. I believe that such is the case with the dairy farmer in America.

That the American dairy producer has suffered at the hands of increased dairy imports has been recognized in past legislative enactments. Indeed, the Presidential proclamation of June 30, 1967, made pursuant to section 22 of the Agricultural Adjustment Act recognized the plight of the domestic dairy industry and provided some degree of relief. But, many loopholes were left open for the importation of foreign dairy products, and foreign producers have been taking advantage of these loopholes to the extreme detriment of the American dairy industry. Among the dairy commodities passing through these loopholes have been evaporated milk, chocolate crumb, and various cheeses—all of which are being imported in ever-increasing quantities. It is especially interesting, in this regard, that the increased problems such importation have caused to domestic producers have resulted in increased costs to the Federal Government in its operation of the price support program.

The apparent ineffectiveness of section 22 in protecting the American dairy industry strengthens the need for the kinds of regulation of imports provided in H.R. 5744. The dairy industry has always been of great pride to American agriculture and to the American people, and I join with my many colleagues in respectfully urging the com-

mittee's support of this legislation which would provide them with needed safeguards against imports which threaten their competitive situation.

Mr. HERLONG. Thank you, Mr. Rhodes, for bringing to us your thoughts. Are there any questions?

Our colleague from Florida, Mr. Pepper, is our next witness. Welcome Mr. Pepper, proceed as you see fit.

STATEMENT OF HON. CLAUDE PEPPER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. PEPPER. On May 24, 1967, I joined eight of my colleagues from the State of Florida in introducing H.R. 10313—a bill to provide for flexible, realistic controls on the importation of dairy products.

The proposed legislation would close the loopholes in the existing law through which dairy products are shipped into this country in evasion of set quotas.

It would limit imports to the average butterfat and nonfat milk solids shipped into this country in 1961 through 1965. Furthermore, the quotas would be increased to reflect growth in the domestic market. In other words, importers would share in the American market growth but at the same time preserve the domestic market for our dairy farmers against imports above a representative base period.

It must be emphasized the bill does not close the doors to imports of dairy products. My bill will not interfere with beneficial foreign trade between the importing and exporting nations.

Without going into a great deal of statistical data on the need for the proposed legislation, I need only point out what happened to dairy imports since some action was taken under existing law on June 30, 1967. At that time, quotas were imposed on certain dairy products but not on evaporated and sweetened condensed milk, chocolate crumb, and certain cheeses. As a result of no quotas on these commodities, huge quantities of chocolate crumb have entered into the United States and ever-increasing quantities of evaporated milk and, recently, certain uncontrolled cheeses are being imported.

Our dairy farmers need effective controls over the imports of dairy products. My bill—H.R. 10313—and those sponsored by over 200 Members of the House of Representatives will provide this assistance.

Mr. HERLONG. We appreciate your bringing to us your thoughts, Mr. Pepper.

The Honorable Albert H. Quie, of Minnesota, is our next witness. Welcome, sir; you are recognized.

STATEMENT OF HON. ALBERT H. QUIE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. QUIE. On March 6, 1967, I introduced a bill, H.R. 6639, to regulate imports of milk and dairy products. Some 200 other Members of the House of Representatives, sharing my grave concern for the plight of the American dairy farmer, have introduced similar bills.

Imports of dairy products from 1961 through 1965 averaged 843 million pounds of milk equivalent annually. In 1965, imports amounted to 918 million pounds. Imports jumped to 2,775 million pounds in 1966.

During the first half of 1967, imports were running at an annual rate of nearly 4,300 million pounds.

In the face of this tremendous upsurge in imports, the President imposed import quotas in June 1967, on American-type cheese—other than Cheddar, which was already subject to quota—and butterfat-sugar mixtures in bulk form. As a result of this action the rate of imports declined during the second half of 1967. However, total imports of dairy products for the year still amounted to 2,800 million pounds of milk equivalent.

On June 10, of this year, the President proclaimed temporary import quotas on condensed and evaporated milk, and directed the Tariff Commission to investigate the need for quotas on chocolate milk crumb, butterfat-sugar mixtures in retail packages, and most types of cow's milk cheese which are not now under quota.

While I commend the administration's actions to reduce the flood of imports, I do not believe such action negates the necessity for some type of quota legislation. The administration's record on utilizing the provisions of section 22 of the Agricultural Adjustment Act has been one of too little, too late.

The bill which I introduced, H.R. 6639, provides for a flexible quota system. That is, as the domestic consumption of dairy products increases, imports will be increased by a corresponding percentage. I believe this would provide a fair and equitable means for the sharing of our market by U.S. and foreign producers.

The base for determining future imports, as provided in the bill, would be the average annual quantities admitted for consumption during the calendar years 1961 through 1965. I note that the President's proclamation of quotas on condensed and evaporated milk called for quotas to be established on the basis of 1967 imports. In 1967 total imports were three times what they were in 1965! If 1967 was used as a base year for all import quotas, foreign producers would gain a disproportionate share of the market. Thus, the desirability of basing imports on the 1961–65 annual average can be readily seen.

Mr. Chairman and members of the committee, I appreciate the opportunity to express my views on the dairy import situation. I know that you will receive a more detailed analysis of the problems facing the American dairy farmer from witnesses testifying before the committee. I share their concern and urge that you give favorable consideration to dairy import legislation.

Mr. HERLONG. Thank you, Mr. Quie, for sharing your views with us. Are there any questions?

The next witness, Mr. Ancher Nelsen, our colleague from Minnesota. You are recognized, sir.

STATEMENT OF HON. ANCHER NELSEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. NELSEN. Mr. Chairman, an increasing number of consumer groups, farmers, and their Representative in Congress have become alarmed at the continuing high level of dairy imports.

The President acted about a year ago to invoke section 22 quotas on the flood of Colby cheese and Junex butter-sugar mix that was being dumped in American markets at that time. Most recently, he invoked

additional section 22 controls to stem the rising tide of dairy imports that have been coming in through remaining loopholes in existing tariff barriers.

This time the President acted against condensed and evaporated milk imports, levels of which were increasing at staggering rates.

It can be argued, in fact, that the President invoked the section 22 controls in an attempt to forestall action on the part of the Congress. Unfortunately, these actions on the part of the executive branch are no substitute for adequate import legislation.

Remaining loopholes are being used to unfairly preempt American markets for other types of dairy products. Present regulations limit the importation of whole loaves of Italian-type cow's milk cheese, so importers are now cutting the loaves before entry. They are also grating the cheese before arrival to get around these restrictions and have succeeded in dumping over 1,494,000 pounds of Italian-type cheese in America in 1967. This represents an increase of over 352 percent from 1966.

An additional area of danger is chocolate crumb, used in the preparation of ice cream, candy, and baked goods. This is a chocolate-butterfat-sugar mixture relatively unknown in international trade until it was discovered that it was a handy vehicle with which to dodge import restrictions.

There are two additional factors we should also take into consideration when dealing with the flood of dairy imports. The first is that a great percentage of the dairy products entering American markets are the excesses of European nations. Exceptionally high dairy prices in these countries result in production far greater than the respective nations can consume. The governments are then tempted to subsidize sale to any nation that will buy their surpluses. This is not free trade or fair competition.

The second factor we should remember is that no other country in the world requires such strict sanitary standards for its dairy products as does the United States. The capital outlay for standard facilities to insure wholesomeness would be unthinkable in almost any other country.

Our compassion for foreign dairy farmers seems to go to a fault in this respect: for, while we require a pound of cheese made in America to pass rigid standards of sanitary quality from cow to factory, to consumer, we require American sanitary standards for imported fresh milk and cream alone. All other dairy products imported are given cursory checks that leave untouched and uninspected the vast bulk of dairy imports.

A striking example of this cropped up February in Salt Lake City. Utah is not a place where one would expect to find contaminated imported goods, and it is indicative of the limits of our inspectors that this shipment got to the Rocky Mountains before it was discovered.

The Amtraco Commodity Corp. imported 830 30-pound cases of a butter-sugar mixture from the United Kingdom. Upon chemical test in Salt Lake City, it was found to have a concentration of a compound known as BHC, benzene hexachloride, a pesticide used primarily on cotton in this country, and never used on or near things intended for human consumption.

It is to the credit of the Food and Drug Administration that the contaminated mix was discovered before it reached the tables of thousands of Americans.

The fact remains, however, that we do not have adequate means to protect our citizens from second-rate foreign imports.

The first step, in my mind is the enactment of an adequate dairy import bill similar to one sponsored by 202 Representatives and 59 Senators.

My bill, H.R. 4768, would limit import levels to the average of those during the 1961–65 period, with an allowance for the growth of the market.

Your committee's expeditious approval of this proposal would go a long way to help relieve the hardships of the American dairyman, protect the consumer, and help insure fair competition.

Mr. HERLONG. Are there any questions? Thank you, Mr. Nelsen for sharing your thoughts with us today.

Our colleague from New York, the Honorable Samuel S. Stratton, is our next witness. Welcome, sir.

STATEMENT OF HON. SAMUEL S. STRATTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. STRATTON. Mr. Chairman, I appear before the committee on behalf of my bill, H.R. 6404, to regulate imports of milk and dairy products.

The problems facing our dairy farmers today are well known to all of us. My own district in New York State is a very important dairy area comprising small family farms. Like all other dairy areas in the United States, they have been severely hurt by the increasing rate of dairy imports, particularly over the last several years. During 1966 imports of all dairy products into the United States increased by almost 300 percent over 1965 which took a considerable bite of the domestic milk and butterfat market. Imports of butter fat-sugar mixtures during 1966 were about 95 million pounds compared to only 3½ million pounds in 1965. Imports of Colby cheese also increased considerably during 1966. Through September 1966 imports totaled 28 million pounds, more than double the amount imported during the same period in 1965.

The excess of European surplus dairy products during the first 6 months of 1967, coupled with increasing pressure on Congress and the President to remedy the situation, prompted the President under authority of section 22 of the Agricultural Adjustment Act to take action reducing imports of dairy products from an annual rate of nearly 4.3 billion pounds milk equivalent to about 1 billion pounds. This action was intended to bring imports to less than 1 percent of domestic milk production, which in June of last year had reached about 121 billion pounds annually. This cutback in imports brought certain dairy items under the quota system for the first time: butterfat-sugar mixtures, Colby and other American types of cheese, and frozen cream. Imports of all American-type cheese are now limited by quota to a total of approximately 16 million pounds, and butterfat-sugar mixtures are limited to 2.580 million pounds annually. Frozen

cream is also now included under a quota of 1.5 million gallons annually.

The President's action has been most effective in providing some relief for our domestic dairy farmers. However, many loopholes continue to exist for the importation of foreign dairy products such as chocolate crumb, various cheeses, and until very recently, evaporated milk. Further Presidential action on June 10 of this year has placed quotas on imports of condensed and evaporated milk until the end of this calendar year. Evaporated milk in airtight cans will be limited to 656,000 pounds, condensed milk in airtight cans to 2.037 million pounds, and condensed milk in nonairtight cans to 2,500 pounds. These limits are on imports mainly from Canada, the Netherlands, and Denmark.

Certainly our efforts to help the American farmer hold his own in our domestic market by parity agreement, price supports and other Government programs have been invaluable. But if imports of dairy products are allowed to continue they can quickly wipe out all the beneficial price improvement programs we have already set up, and undermine all efforts our dairy farmers might take to establish programs to protect their markets and maintain their incomes at a decent level.

Mr. Chairman, the enormity of foreign dairy imports and their tremendous impact on our domestic market require immediate corrective action. My legislation would provide that corrective action by limiting foreign dairy imports to the average annual quantities of butterfat and nonfat milk solids imported during the 5 calendar years 1961–65. We must give all our efforts at controlling foreign dairy imports the effect of law and preserve once and for all a measure of the domestic dairy market for our own dairy farmers. Mr. Chairman, I urge the committee's favorable action on this much needed dairy import control legislation.

Mr. HERLONG. Are there any questions, if not, then thank you again, Mr. Stratton.

The Honorable Roy A. Taylor, our colleague from North Carolina is our next witness. You are recognized, Mr. Taylor, proceed as you see fit.

STATEMENT OF HON. ROY A. TAYLOR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. TAYLOR. The Dairy Import Act is needed to stop the flow of unneeded dairy products which are being shipped into this country. This bill would limit imports to the average butterfat and nonfat milk solids shipped in from 1961 through 1965. Also, as the U.S. domestic market grows, the import quotas would be increased in the same ratio.

Basically, this bill is needed to stop the imports of dairy products which are shipped here in evasion of quotas.

For example, imports of evaporated milk grew from 4,000 pounds in 1962 to 1,311,000 pounds in 1967. Sweetened condensed milk imports grew from 69,000 pounds in 1962 to 4,074,000 pounds in 1967.

Chocolate crumb is a so-called new product designed to evade our quotas. In 1960, 54,000 pounds of this product were imported. During 1967, imports of chocolate crumb climbed to 21.5 million pounds.

Total cheese imports in 1967 were about 152 million pounds of which 60.3 million pounds were Cheddar and "other" American types, principally Colby and during this same period, Commodity Credit Corporation purchased about 180.5 million pounds of Cheddar or American cheese under the price support program.

Imports of butterfat-sugar mixtures jumped from zero in 1961 to 105,626,000 pounds in 1966.

Although some actions have been taken under section 22, these actions were taken after huge amounts of dairy products have been imported. For instance, prior to June 30, 1967, there was no quota on Colby cheese, with the result that ever-increasing quantities were imported. Finally, when action was taken last year a quota of 6,096,600 pounds was granted. In the case of frozen cream, no quotas had been established until last year with the result again of large quantities coming into the United States. When quotas were established, 12,540,000 pounds were permitted.

In other words, we reward countries that ship and develop products in evasion of our quotas by granting them quotas on the very products used to evade our quotas.

Not only are our dairy farmers hurt by these imports, but imports added $131,177,198 of unnecessary cost to the price-support program in 1967.

Import controls are necessary to provide dairy farmers a level of income commensurate with that received by other segments of our society. Also they are necessary so that dairy farmers can achieve parity prices for their milk.

Mr. HERLONG. Are there any questions, if not, then thank you again Mr. Taylor.

The Honorable J. Irving Whalley of Pennsylvania is our next witness. Welcome, sir, proceed as you see fit.

STATEMENT OF HON. J. IRVING WHALLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. WHALLEY. I am grateful for the opportunity to submit this statement on an import quota for dairy products for your current hearings on trade policy. As my district is vitally concerned in the manufacture, sale, and consumption of dairy products in their various forms, I wish to stress the importance of this industry to the economic well-being of my constituents and the injurious effect excessive imports of like or competitive products are having on my area. I refer specifically to cheese, butter, and milk products.

All of these are subject to section 22 support-price programs of the Agricultural Act of 1949. Under section 22, the Secretary of Agriculture must buy excess production of various agricultural commodities so as to assure our agricultural producers a minimum standard of living. It seems, however, that relief against excessive imports of like commodities or even substitutes in the dairy industry often comes when injury has already resulted from abnormal quantities of imports. Not only are foreign countries dumping enormous amounts of excess dairy production on our domestic markets, but where prohibitions of specific commodities occur, substitutes or modified commodities are

shipped in such large totals as to disrupt our support programs and undermine domestically produced brands.

Consider cheese. During 1967 the Commodity Credit Corporation purchased 180.5 million pounds of Cheddar or American cheese under section 22 authorizations so as to prevent excess production depressing the domestic market in cheese and cheese products. Yet, during the same calendar year we imported 152 million pounds of cheese—approximately 8 percent of all our production. The major proportion of this cheese was of the Cheddar or American cheese type. Of the latter type, 60.3 million pounds consisted of Colby cheese—a substitute for plain American cheese. It comes in under the designation "other" cheese in our tariff structure. It was only after repeated representations were made in 1967 that the President allowed a quota of 6,096,600 pounds be set for imports of Colby cheese. This is now in addition to the regular importation of Cheddar and American cheese.

Why, we must ask, should any quota be given to a cheese type that is plainly a substitute deliberately designed to substitute for an American product covered under our section 22 support price programs? Why should we have to allow this type of substitute to displace American cheese production? Should we be buying up excess domestic production and thus creating a sales vacuum so as to allow a foreign competing substitute an entrance into our market? What is reprehensible in the whole action is that fact that an illegal product evasion under section 22 programs has been allowed a valid quota after invading our home market.

Consider butter. In 1953 an import quota of 707,000 pounds was set for butter. Soon this category of our section 22 program was upset by the importation of butter oil and cream. By 1956, 1.8 million pounds of butter oil were imported—equal to 2.2 million pounds of butter. To offset further encroachments of our market a quota of 1.2 million pounds of butter oil was set in 1957—the equivalent of 1.5 million pounds of butter. Again an evasion of a section 22 commodity resulted in an extra import quota being given to foreign exporters.

Similarly frozen cream was given an import quota of 12,540,000 pounds on July 1, 1967. Again an addition of a new item under our section 22 support program has resulted in an addition to our butter import quota.

Another type of item that is upsetting our butter quota is the butterfat-sugar mixture or "crumb." In 1961 nothing was imported, yet the totals for 1966 and 1967 were 105,026,000 and 100,548,000 pounds respectively. We have no quota on this. Consider the new product called "chocolate crumb" used for icing and ice cream mixtures and coverings. In 1960 we imported 54,000 pounds. This total rose to 21,500,000 pounds in 1967 and the prospects are already for a 40 percent higher import rate in 1968. Yet there is no prohibition against it. In 1967 the Department of Agriculture ruled that if the mixture contained a sugar content of 25 percent or over, then the sugar would have to be charged against our sugar import quota. So what is the result? Now the mixture contains 24 percent sugar—without a charge to the sugar quota and without charge to our butter or butter oil quota. Again a new item is being used to evade a specific commodity quota.

Consider procesed milk imports. In 1962 we imported 4,000 pounds of evaporated milk. The total rose to 1,311,000 pounds in 1967. The

total rose because there was no quota. Let us continue. In 1962 we imported 69,000 pounds of sweetened condensed milk. The total rose to 4,074,000 pounds in 1967. It was only after frantic appeals to the Tariff Commission as to possible injury to our dairy farmers that a quota was imposed. What quota? Naturally, the totals imported during 1967 for these two commodities.

It seems axiomatic to say that despite the fact that fair quota had been imposed on cheese, butter, and fresh cream, a circumvention of these quotas was easily attained by the invention of new products and substitutes. These in turn got new quotas for those new items of merchandise although they patently evaded the direct definition of cheese, butter, or milk.

Mr. Chairman, the examples I have noted are strong enough to justify the imposition of a strict quota on milk and milk products based on the average import totals of the import period 1961–65, as provided in my bill H.R. 4529. This will apply to all substitutes and evasions which have to be made part of the basic quotas. Only in this way can our primary producers of dairy products be adequately protected against unjust and uncompetitive imports from abroad.

Mr. HERLONG. Are there any questions? If not, then thank you, Mr. Whalley.

Our next witness is Mr. John M. Ashbrook, our distinguished colleague from Ohio. You are recognized, sir.

STATEMENT OF HON. JOHN M. ASHBROOK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. ASHBROOK. Mr. Chairman, as a Representative to Congress from an area in Ohio that is rich in farming land, and especially dairy farming, and is outstanding in the Nation for its cheese processors, I have consistently devoted a great deal of time and study to the problems of dairy imports and their effects.

On numerous occasions I have shared my views on legislation to control dairy imports and there is no question that I favor strong, effective controls on importation of dairy products. I, too, have sponsored legislation to effect a workable system of controls and while I certainly do not want to belabor these hearings I do want to emphasize the weight of the situation.

Nearly a year ago, during a taping of a radio program for the 17th District, the regional supervisor of the Ohio Farm Bureau for southeastern Ohio explained what is happening. I think his words succinctly point out the problem.

He said:

> I guess we are all amazed at the inventive minds of those who want to export their dairy products to the United States. Over the years certain restrictions have been placed on the amount of butterfat and so forth, but they then developed a product that they called butter oil and there were no restrictions on that and they brought it in. The next restriction that was set up was that nothing over 45 percent butterfat could be imported. And then we found that they were importing a product containing 44 percent butterfat and 25 percent sugar and some filler, and so on and so forth. After restrictions were put on the sugar they lowered that and added some eggs.

The gist of this gentleman's statement was that "we just can't seem to beat them because they're always beating us at our own game."

Dairy farmers are aware of those holes in the laws and realize that protective legislation is needed. In December 1966, E. M. Norton, secretary of the National Milk Producers Federation, stated:

If we have learned anything in this dairy business during the past 15 years, it is that a small surplus has a drastic effect on the price of milk. And, within the past year, we have seen how milk prices can improve if we bring supply and demand into balance.

What every dairy farmer must realize now is that a pound of surplus butterfat imported from abroad has the same depressing effect on farm milk prices as an extra pound produced here. It does not matter whether the butterfat is imported in the form of butter, butter oil, Exylone, Grapex, frozen cream, Colby cheese, or some other product.

It is unjust that our dairymen should be flooded with dairy products from other countries just after having reduced domestic milk production to match consumer requirements.

It is the same story all down the line, from the large federation to the small farmer with 20 dairy cows. They see rising costs, rising taxes, and lower income and fewer markets for their products.

Since introducing H.R. 8113, dairy import control legislation, mail has been nearly unanimous in favor of better controls. Farmers believe, and rightly so, that a market flooded with ever-increasing imports has cost them money.

I think their own words, taken from several of the letters I have received, makes the point.

A dairy farmer from Licking County writes that he is "alarmed at the increased imports of dairy products" and adds, "I see no fairness in having wage laws that increase my costs while imports are allowed to undercut my markets."

Two brothers, joint owners of another Licking County farm, simply said:

"We operate a dairy farm * * * and we think dairy imports are seriously affecting our dairy prices."

I believe that there is no doubt that they are correct. Some dairy men must rely on help from within the family to survive the pressures. As one letter stated:

"Dairy imports are extremely dangerous to all dairymen, farmers who are working 7 days a week struggling to meet the high cost of feed, labor, expensive equipment plus meeting all Government inspections. We are discouraged, as are many dairy farmers. As you probably know if it wasn't for our son, we would have had to sell years ago."

This same letter expressed a problem which we all must face and it is related to the imports problem. As the letter stated:

"We are always amazed when we attend farm gatherings to find practically all full-time farmers are well above middle age."

More and more the young farmer, or potential farmer, sees friends and relatives forced out of farming by various pressures—dairy import influences among them—and decides to spend his life working in another field.

A young couple wrote and described this situation.

We are dairy farmers and naturally are interested in curtailing the import of dairy products. I'm sure you are familiar with the tremendous amount being imported and what a hardship it is causing.

Milk is lower now than 20 years ago, but still there isn't enough milk produced in the United States for its needs. Is this the old law of supply and demand? My husband and I are in our twenties. He farms approximately 200 acres, plus

milks cows, plus works at another job, but still people on welfare made more last year than we did.

We are willing to work a lot harder than most people are to make a living; all we ask is a fair price. We want 100 percent parity not 74 percent.

Please support this bill for the sake of all young farmers in the United States. We need help desperately.

Dairy farming is an expensive operation. Equipment, land, buildings, and herd maintenance costs have continually climbed but returns have not. And the dairy farmer is the first to realize it. Moreover, the farms devoted to dairying are an important segment of the agricultural population in Ohio and the State department of agriculture estimates that the 30,000 dairy farmers produce some 20 percent of the total farm income for the State.

This income, of course, has effects on the financial structure of the community, town, village, township, or county of the farmer and on the commerce conducted within them. The stability which comes from this influence has been threatened by the effect of undercutting imports.

Dairy farmers are not alone in feeling the effects of imports. The position of the Ohio cheese industry has also been eroded.

The president of the Ohio Swiss Cheese Association, an organization of dairy supply distributors which has served its members for more than 50 years, noted that:

Foreign cheese with questionable production standards has been allowed to flood the domestic market and drive prices down. The Government buying agencies have deliberately underbid the market cheese price and further weakened the price. Consequently, prices are back to almost the same level which has existed 12 years or longer. There is no longer any incentive to young or old dairy farmers to remain in business and give the cheese industry any degree of stability.

The dairy farmer is not asking for a Government handout, but only that he be protected from unfair trade practices * * * certainly free enterprise in this country must be preserved.

The thoughts of the individual farmer, the small county cooperative, and the larger regional associations are the same. They all want relief from the abuses of an unworkable import system. I am sure that the committee has ample statistical evidence of what imported products are doing, but I wanted to insure that the committee also has the thoughts of the farmer, as they have been expressed to me.

There have been indications that abusive import practices have not only been the subject of close scrutiny but that there have been attempts to control the flow of products into the United States. These, however, have not worked. Legislation such as H.R. 8113 and the many other bills like it would, I believe, provide the needed control, and they should be given approval.

Mr. HERLONG. Thank you, Mr. Ashbrook, for sharing your views with us today. Are there any questions?

Our next witness is also from Ohio, the Honorable William H. Harsha. Proceed as you see fit, sir.

STATEMENT OF HON. WILLIAM H. HARSHA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. HARSHA. Mr. Chairman and members of the committee, I respectfully urge your favorable consideration of H.R. 7703, the Dairy Import Act of 1967, and further urge that this legislation be reported for action by the House of Representatives at the earliest possible

time. This legislation is of tremendous importance to the dairy farmers of our country, as it will regulate the flow of dairy imports into this country and enable the American dairymen to receive fair and workable prices for their products.

There is an urgent need for relief from the pressures of low-priced imports on our domestic dairy market, and this need has been growing dramatically in the past years. The result has been declining prices and uncertain or inadequate incomes for the farmers, a trend which not even the large, efficient producers can maintain and still survive. With definite and known levels of imports the market could adjust and our dairy farmers could make future plans. Without this legislation many family farms, which have been the backbone of our great Nation and which are vital parts of our society, will be driven out of business. Instead, they must be allowed and encouraged to grow under healthy marketing conditions. The establishment of self-sufficiency in this important segment of the farm community will contribute to the economic well-being of the entire Nation.

The need for this stabilization of the dairy market is evidenced by its current dependence upon price-support measures, by the belated actions already taken under section 22 of the Agricultural Adjustment Act, and, most importantly, by the continuing increase of imports flooding our markets. Although it may seem that there have been ample Government actions to aid this industry, it is extremely significant to note that the increased need for import quotas stems largely from evasions of our present regulations. The problem has been recognized by the Government, but the current inadequate controls have left our dairy farmers subject to subterfuge and have, in fact, encouraged evasions by allowing increases, not only in existing products, but also in products created for the purposes of quota evasion. For instance, milk equivalents rose from 900 million pounds in 1965 to 2.6 billion pounds in 1966 and butterfat-sugar mixtures jumped from zero in 1961 to 105,626,000 pounds in 1966. One of the new products is chocolate crumb, imports of which rose from 54,000 pounds in 1960 to 21.5 million pounds in 1967. These are, of course, only a few examples of the changes which have occurred throughout the range of dairy products. It is obvious that the high profits which the American markets offer to importers, whose production costs are far lower than our own, encourage invasion of our markets and evasion of our quotas. There is certainly no reason why such action should be tolerated or encouraged by our lack of responsive action.

In light of the justifiable need for action, in order to preserve a fair and stable market, to protect American dairymen from a flood of imports and to allow him to achieve a workable level of income with parity prices for his milk, I give my full support to the Dairy Import Act of 1967 and urge its approval by the committee.

Mr. HERLONG. It was good of you, Mr. Harsha, to bring us your thoughts on this subject today.

Mr. HARSHA. Thank you, Mr. Chairman, it was a pleasure.

Mr. HERLONG. The next witness is the Honorable James Harvey of Michigan. Mr. Harvey, we appreciate having you with us and you are recognized.

STATEMENT OF HON. JAMES HARVEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. HARVEY. I appreciate very much this opportunity to present my views and, in particular, those of thousands of dairy farmers in Michigan's Eighth Congressional District on the need—a dire need—for Congress to take corrective action to regulate imports of milk and dairy products.

I realize that many other Members of Congress will address you on this subject. In particular, reference will be made to recent action taken last year in the Presidential proclamation of June 30, 1967, pursuant to section 22 of the Agricultural Adjustment Act. Further, just a few days ago—June 10, 1968—the President proclaimed temporary import quotas on condensed and evaporated milk and cream. These are encouraging signs.

But these actions are only temporary. Further, as pointed out by Secretary of Agriculture Orville L. Freeman, a number of other dairy products are not now subject to import restrictions.

These include: chocolate milk crumb, a product used in candy manufacture; butterfat-sugar mixtures in retail packages (in bulk form, such mixtures are already subject to quota); and most types of cow's milk cheese which are not under quota now. These include processed Edam and Gouda cheese, Italian cow's milk cheese not in whole loaves, swiss cheese, and the miscellaneous cow's milk cheeses classified as "other cheese" in the U.S. tariff schedules.

It has been recognized that section 22, when applied, is not totally effective. It never has been and cannot be.

Best estimates indicate that there are approximately 2,300 dairy farmers producing grade A milk living in the Eighth Congressional District. It is by far the biggest concentration of dairy farmers in Michigan.

For further background information, our eighth district dairy farmers produce about 2,300,000 pounds of milk per day or 840,000,000 pounds per year—about 420,000,000 quarts.

I can assure you that these dairy farmers were both aware and appreciative of the action taken by President Johnson last year and again this year to improve administrative control of cheap, and possibly inferior, dairy products from other nations. But all of those who have contacted me, and these include several hundred farmers, feel strongly that this action is not enough and that legislation is required.

The cost of imports to Michigan dairy farmers is quite clear. As previously outlined by the Michigan Milk Producers Association and the National Milk Producers Federation, the cost of imports to Michigan farmers is emphasized as follows:

The class II price last year would have been 30 cents per hundredweight higher if it had not been for the fact that imports took 12 percent of the domestic cheese market and 13 percent of the market for butterfat in ice cream.

Keep in mind also that the American dairy products these imports replace must be purchased by the Government through the price support program, thus placing an additional burden on taxpayers.

If imports continue, progressive and aggressive bargaining by Michigan dairy farmers will be of little avail.

I don't believe that there is any question that our dairy farmers not only need but deserve enactment of the Dairy Import Act.

As this committee concludes its work, I certainly hope that it will include provisions of legislation sponsored by 200 Members of the House on dairy imports.

On behalf of the thousands of Michigan eighth district dairy farmers, thank you for this opportunity to present these facts and viewpoints.

Mr. HERLONG. We appreciate your bringing to us your thoughts, Mr. Harvey.

Our colleague from Nebraska, the Honorable Dave Martin, is our next witness. Welcome, sir, proceed as you see fit.

STATEMENT OF HON. DAVE MARTIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. MARTIN. Mr. Chairman and members of this committee, I thank you for the opportunity to present this statement on dairy imports to you in hopes that some permanent and affirmative action can be taken by you and this Congress in the near future to see to it that current tariff laws and provisions are not further circumvented.

As you know, I represent a rural-agricultural district. Though dairying is not the largest segment of our agricultural economy, it does play a very significant role, as well as furnish a fine way of life for many Nebraskans. For this reason, I have introduced H.R. 9676, legislation geared to curb imports of dairy products by such amounts as to prevent them from interfering with our market, but still allow some reasonable trade levels.

Over 200 Members of the 90th Congress have introduced such legislation, and last year President Johnson finally took Executive action based on a study by the Tariff Commission to restrict imports of certain products so defined by section 22 of the Agricultural Adjustment Act and the tariff schedule. This action by the President, in his proclamation dated July 6, 1967, is to be commended, but it came well after the imports of certain dairy product equivalents soared to an excessive 4 billion pounds. Such action was good, but perhaps too late to really provide the protection it was designed to furnish.

Due to such delays, I favor permanent legislation, rather than Executive or administrative action, which is so often too late and ineffective. Legislation, such as proposed by my bill and those my colleagues, would not allow for any delay and would have a preestablished base level for imports. I do not feel that such a critical commodity as dairy products should be left up in the air, waiting for administrative action, especially when we are competing with imports.

Present restrictions on dairy products and their equivalents are circumvented by use of imports such as cheese, curds, dried, powdered, and condensed products, as well as a variety of dairy products mixed in prepared products. Not only are tariff regulations being circumvented, but I feel that a serious health hazard has been, or may well be created.

As a consequence of these loopholes, and the slowness of the administration to enact section 22 of the Agricultural Adjustment Act, permanent legislation is the only answer. Your consideration and in-

terest in the dairy industry, and your action for some relief and protection, will be greatly appreciated by the many Members of this Congress, as well as those engaged in dairying.

Again, Mr. Chairman, I thank you and the members of this committee for all the courtesies extended.

Mr. HERLONG. Are there any questions, if not, then thank you Mr. Martin, for sharing your views with us.

The next witness is from New York, the Honorable Frank Horton. Mr. Horton, we appreciate your being with us this afternoon and you are recognized, sir.

STATEMENT OF HON. FRANK HORTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. HORTON. Part of the import legislation being considered is relief for the dairy farmers of America, who are faced with a shrinking market because of the tremendous increase in dairy imports that are not covered under section 22 of the Agricultural Adjustment Act in a sufficient manner to offer them adequate protection.

As one who is seriously concerned with the inability of the American dairy farmer to earn a return that is anywhere near comparable to returns on investments earned by other segments of the economy, I urge you and the Ways and Means Committee to include the provisions of dairy import proposals in any bill the committee might report out on this subject. Since the bill that I introduced last year on this area of concern is supported by the National Milk Producers Federation and other dairymen's associations, I am offering H.R. 7840 as an example of the type of legislation that is needed and wanted by dairymen and by those who are concerned with this problem.

I am also including for your review some statistics on the amount of dairy imports there are into this country, and their effect on the American dairy farmer. Your consideration of this statement, and your support for legislation of this nature will be appreciated.

Thank you, Mr. Chairman.

(The material referred to follows:)

[From the Congressional Record, Apr. 3, 1967]

CONGRESSMAN HORTON SUBMITS PLAN TO EASE PRICE SQUEEZE RESULTING FROM DAIRY IMPORT LOOPHOLES

(Extension of remarks of Hon. Frank Horton, of New York, in the House of Representatives, *Monday, April 3, 1967*)

Mr. HORTON. Mr. Speaker, during the past few weeks, the news spotlight has been centered on a struggle by a group of dairy farmers to obtain higher prices for the milk they sell to processors. While the methods employed to achieve this end may be questionable in many instances, the whole incident points up a serious malady in our Nation's dairy industry.

The quest by dairy farmers for a higher rate of return on their investment cannot be accurately compared with the desire of most economic segments of the Nation for greater income. In a very real sense, the dairy industry is fighting for its life. To illustrate the terrible truth of this statement, one need only look at the statistics showing the number of farms which reported sales of milk products during the years since World War II.

In 1945, 2.5 million American farms reported sales of dairy products. In that year, the population of the United States was just under 140 million persons. In 1960, after a 25-percent rise in our population, only 1 million farmers reported

sales of dairy products—down 40 percent from the 1945 figure. Since 1960, the rate of attrition from dairy farming has been even more rapid. There is no simple explanation for the shrinking of this industry, but many important factors can be cited. Foremost among these is the fact that historically in the United States, dairy farmers have been unable to earn a return that is anywhere near comparable to returns on investment earned by other segments of the economy. A comparison of the rise in national income and population with growth factors in the dairy industry is illustrated by the following tables:

NATIONAL ECONOMIC FACTORS AND MILK PRODUCTION, 1889–1965

Year	National income	Total population [1]	Milk production		Marketings of milk and cream	Average price for milk sold to plants and dealers [2]	Cash receipts from marketings of	
			On farms	Per capita			Milk and cream [3]	All farm products [4]
	Billions of dollars	Millions	Billions of pounds	Pounds	Billions of pounds	Dollars per hundredweight	Millions of dollars	Millions of dollars
1889			44.8					
1899			62.5					
1909			64.2					14,538
1919			67.1					11,021
1925		115.8	90.7	783	63.5	2.38	1,515	11,021
1930	75.7	123.1	100.2	814	75.3	2.21	1,607	9,055
1935	57.1	127.2	101.2	795	75.2	1.71	1,297	7,693
1940	81.6	132.6	109.4	829	86.2	1.82	1,521	9,105
1945	181.2	140.5	119.8	904	98.4	[5] 3.19	3,021	22,405
1950	241.9	152.3	116.6	771	98.3	3.89	3,719	28,795
1955	331.0	165.9	122.9	744	108.3	4.01	4,217	29,785
1960 [6]	414.5	180.7	123.0	680	113.8	4.21	4,753	34,692
1961	427.3	183.8	125.4	683	117.0	4.22	4,919	36,407
1962	457.7	186.7	126.0	675	118.3	4.10	4,854	37,923
1963	481.1	189.4	125.6	660	118.0	4.11	4,860	38,939
1964	514.4	192.1	127.0	661	120.5	4.16	5,035	39,067
1965	554.7	194.6	125.1	643	119.1	4.24	5,084	41,380

[1] July estimates of total population including Armed Forces overseas.
[2] Average test.
[3] Includes farm butter through 1954.
[4] Includes Government payments.
[5] Excludes production payments.
[6] Includes Alaska and Hawaii beginning with 1960.

In my bill, even this base period is not used as a hard and fast import quota, it also provides for increases or decreases in the quota corresponding to changes in total annual domestic consumption of milk and milk products.

SHRINKING PER CAPITA CONSUMPTION

As we have seen from figures I presented above, milk products account for a consistently smaller percentage of the American food dollar and market receipts for these products account for shrinking percentages of national income. In 1950, when the U.S. population was about 152 million persons, total dairy production was a little over 117 billion pounds.

In 1965, after a 22-percent population increase to 195 million, dairy production rose only 6.4 percent to 125 billion pounds, reflecting a large decrease in per capita consumption of dairy products. The following table shows that since 1950, per capita consumption of all milk products has fallen from 728 pounds to 582 pounds. Even the substantial increases in skim milk and nonfat dry milk products since 1950 do not compensate for large drops in the use of fluid milk and butter:

PER CAPITA CIVILIAN DISAPPEARANCE OF MILK AND DAIRY PRODUCTS IN TOTAL AND COMMERCIAL, 1910–65 (THE DIFFERENCE BETWEEN "TOTAL" AND "COMMERCIAL" ARE AMOUNTS BOUGHT WHOLLY OR PARTLY WITH GOVERNMENT FUNDS)

Year	Pounds of milk equivalent				Pounds of product								
	All products		Fluid milk and cream		Butter		Cheese		Cottage cheese	Ice cream	Evaporated and condensed	Nonfat dry milk	
	Total	Commercial	Total	Commercial	Total	Commercial	Total	Commercial				Total	Commercial
1910					18.3	18.3	4.3	4.3	0.6	1.9	5.8		
1920					14.9	14.9	4.0	4.0	.6	7.6	8.6	0.2	0.2
1925	802	802	337	337	18.1	18.1	4.7	4.7	.9	9.7	11.7	.4	.4
1930	819	819	337	337	17.6	17.6	4.7	4.7	1.2	9.8	13.6	1.3	1.3
1935	801	801	326	326	17.6	17.5	5.3	5.3	1.3	8.1	16.2	1.6	1.6
1940	819	819	331	330	17.0	16.7	6.0	6.0	1.9	11.4	19.3	2.2	2.2
1945	788	788	399	398	10.9	10.9	6.7	6.7	2.6	15.7	18.3	1.9	1.9
1950	740	728	349	345	10.7	10.4	7.7	7.5	3.1	17.2	20.1	3.7	3.4
1955	706	678	348	340	9.0	8.3	7.9	7.3	3.9	18.0	16.2	5.5	4.9
1960 [1]	651	625	322	308	7.5	7.0	8.3	8.1	4.7	18.3	13.7	6.2	5.5
1961	638	605	310	296	7.4	6.6	8.6	8.5	4.6	18.0	13.3	6.2	5.2
1962	638	596	308	293	7.3	6.4	9.2	8.4	4.5	17.9	12.5	6.1	5.0
1963	629	586	307	292	6.9	6.0	9.2	8.5	4.4	18.0	11.6	5.8	4.8
1964	630	584	305	289	6.8	5.9	9.4	8.6	4.6	18.2	11.3	6.0	5.0
1965	621	582	304	287	6.5	5.8	9.5	9.1	4.6	18.3	10.8	5.8	5.0

[1] Includes Alaska and Hawaii beginning with 1960.

UNITED STATES AND FOREIGN MILK PRODUCTION AND CONSUMPTION

PRODUCTION

	1964 cows (1,000 head)	1964 per cow (pounds)	1965 total milk (million pounds)
United States	16,061	7,907	125,061
France	8,909	6,192	56,750
Germany, West	5,833	7,873	46,740
United Kingdom	4,149	6,860	29,635
Italy	3,300	5,778	19,455
Canada	2,906	6,363	18,345
Netherlands	1,665	9,211	16,100
Australia	3,265	4,900	14,825
New Zealand	2,011	6,267	13,135
Denmark	1,370	8,419	11,765
Belgium	999	8,912	9,350
Finland	1,185	7,116	8,600
Sweden	1,220	6,565	8,115
Switzerland	897	7,408	7,145
Austria	1,117	6,160	7,055
Ireland	1,393	4,739	7,055
Norway	552	6,658	3,645

PER CAPITA CONSUMPTION, 1964

[In pounds]

	Fluid milk [1]	Butter	Cheese	Total in milk equivalent [2]
Finland	577	39.5	7.2	1,443
Ireland	500	35.8	3.5	1,439
New Zealand	433	43.2	7.7	1,315
Switzerland	423	14.9	19.4	998
Denmark	400	23.1	19.1	996
Sweden	393	20.4	17.6	975
Belgium	252	20.2	13.6	962
Australia	308	24.3	7.2	937
France	226	18.8	21.1	926
Norway	502	10.1	19.0	911
United Kingdom	371	19.0	10.5	882
Canada	314	19.1	7.5	870
Germany, West	213	18.9	9.7	769
Austria	348	11.4	7.6	708
Netherlands	170	11.3	17.0	678
United States	305	6.8	9.4	630
Italy	121	3.6	17.1	347

[1] Whole milk equivalent consumption of fluid cream included with fluid milk.
[2] Fluid milk and dairy products in terms of whole milk equivalent.

Judging from the figures presented in this table, much of the difficulty being experienced in the dairy industry can be attributed to a marked lack of success in selling milk products which compete with other nondairy drinks and dairy substitutes. In few industries has the level of per capita product usage fallen so rapidly. In my view, two competing factors can be cited as having brought about the poor competitive position of dairy products on the domestic market. First, the tight cost-price squeeze experienced by all dairymen has allowed them to invest only a minimum amount of money in advertising, promotion, and new product development. On the other end of the cycle, high costs of modern, sanitary dairy machinery and of milk production in general have kept supermarket prices of milk and other dairy products above the price levels of comparable quantities of competing products.

At the end of February, I submitted a bill which I think would help the dairy industry to overcome this promotional handicap. H.R. 6269 provides for a marketwide promotion program, establishing marketing research and development projects, advertising, and sales promotional and educational programs in Federal milk marketing orders. Under my bill, dairy farmers will be permitted to utilize their own money to sell their own product provided the program is first approved by two-thirds of the producers in the marketing order voting in a referendum on this issue.

By providing the guidance and cooperation inherent in my bill, I believe we can put the dairy industry in a more advantageous position vis-a-vis its competitors in the food industry. The Federal Government has long sought to cure the economic illness of this industry. The two bills I propose are tailored to meet specific and identifiable problems which are faced by American dairying—the problems of import flooding and product promotion and development.

There are reasons for the present unrest and attrition in American dairying. Some of the reasons are economic factors outside the area of possible or desirable control by Government. The two difficulties which I am seeking to alleviate, however, are crystallized and curable. I am confident that my colleagues in the House will help me to administer the carefully measured legislative medication which I have proposed to strengthen this large and important segment of our economy.

PARITY PRICES AND PRICES RECEIVED AND PAID BY FARMER, 1940–65

Year	All milk, wholesale price [1]			Ratio used in determining parity equivalent price of manufacturing milk	Index numbers (1910–14=100)		
	Parity [2] (dollars per hundredweight)	Received by farmers (dollars per hundredweight)	Percent [3] of parity		Prices paid by farmers for commodities, interest, taxes, and wage rates	Prices received by farmers	Parity ratio
1940	2.18	1.82	84	----------	124	100	81
1945	3.30	3.70	113	----------	190	207	109
1950	4.42	3.89	89	88.5	256	258	101
1955	4.67	4.01	87	83.7	276	232	84
1960	4.99	4.21	85	80.0	300	238	80
1961	5.12	4.22	83	79.7	302	240	79
1962	5.26	4.10	78	79.1	307	244	80
1963	5.35	4.11	77	78.4	312	242	78
1964	5.38	4.16	77	78.1	313	236	76
1965	5.59	4.25	76	[4] 77.9	321	248	77

[1] Includes production payments, 1945.
[2] Calculated on basis of 1950 law.
[3] 12-month simple average prices as percentage of annual parity prices.
[4] Percentage for 1966 is 78.

It must be remembered that immediately after World War II, Europe was unable to produce enough dairy and other farm products to feed itself. Thus, much of American milk and dairy production was exported. In the above table, this fact is reflected by parity ratios above 100 percent for the years 1945 to 1950. Some of the shrinkage and attrition from the dairy industry in the last 20 years can be attributed to the disappearance of this lucrative export market. Today, in fact, one of the major problems faced by dairymen is a steady erosion of the domestic market by imports from Western Europe and elsewhere. In 1965 and 1966, and again this year, dairy farmers are leaving the industry at an almost blinding rate. At the same time, dairy imports in 1966 were more than triple what they were in 1965. Again in 1967, total dairy imports at the current rate will be 20 percent higher than last year, and almost 400 percent of the 1965 rate. The

following table illustrates the rapid import rise, and compares the actual quantities imported to quantities supposedly allowed under Federal law:

SUMMARY OF DAIRY PRODUCT IMPORTS—COMPUTED ON BASIS OF MILK EQUIVALENT OF BUTTERFAT, CALENDAR YEARS 1953-66

[In millions of pounds]

Year	Imports		Cheese imports			Imports other than cheese		
	Total imports [1]	Total import quotas [2]	Total [1]	Within quota [3]	Outside quota [4]	Total [5]	Within quota [6]	Outside quota [7]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1953	525	97.7	479	81	398	46	8.0	38.0
1954	441	189.4	421	110	311	29	16.0	4.0
1955	458	189.4	438	155	283	20	16.0	4.0
1956	514	189.4	453	165	288	61	43.0	18.0
1957	661	235.5	419	143	276	242	62.2	179.8
1958	507	221.5	464	146	318	43	43.0	0
1959	578	221.5	535	161	374	43	43.0	0
1960	604	248.1	540	170	370	54	64.0	0
1961	760	274.7	688	172	516	72	42.5	29.5
1962	795	281.1	689	189	500	106	43.3	62.7
1963	915	282.4	747	205	542	168	44.6	123.4
1964	830	282.4	685	184	501	145	44.6	100.4
1965	918	282.4	710	179	531	208	49.8	158.2
1966	2,800	291.5	1,264	188	1,076	1,536	49.8	1,486.2
1967	3,500	282.4						

[1] U.S. Department of Agriculture, 1967 preliminary estimate.
[2] Computed from import quotas, by products, and yields used by U.S. Department of Agriculture in 1966, as follows: Cheddar cheese, 9.8; Italian cheese, 7.98; Edam and Gonda cheese, 7.58; blue mold cheese, 9.093; butter, 21.55; butteroil 1.25 multiplied by 21.55; dried cream, 18.6; dried whole milk, 7.35; dried buttermilk, 1.43; and malted milk, 2.65.
[3] Computed from imports within quota, of all cheese varieties multiplied by 8.33, a weighted average yield factor.
[4] Col. (3) minus (4).
[5] Col. (1) minus (3).
[6] Col. (6) minus (8).
[7] Computed from imports outside quotas, by products, and yields used by U.S. Department of Agriculture in 1966.

Imports of dairy products displaced a market for American dairy products in an amount representing 2.8 billion pounds of milk in 1966. This was approximately 10 times the amount of imports authorized by quotas established under section 22 of the AAA.

The result is lower prices to dairy farmers at a time when all costs of production are increasing. The Minnesota-Wisconsin manufacturing milk price series, which is a nationwide indicator of prices paid farmers for manufacturing milk, dropped from $4.34 per hundredweight in September 1966, to $4.02 per hundredweight in February 1967. It can reasonably be expected that this price will go down further in coming months.

Dairy farmers have faced milk surpluses and lower milk prices since 1953. In 1965 through reductions in cow numbers and the exodus of farmers from dairying, the market came into balance for the first time and farm prices rose above minimum levels established by the Government.

The influx of imports, however, destroyed the market. Milk prices in February stood at 85 percent of parity—the measurement of prices comparable to those in the balance of the economy.

In the State of New York, approximately one-half of all milk sold by farmers is made into manufactured dairy products. The reduction of the manufactured price, of about 32 cents per hundredweight, since September, means an annual loss to New York farmers of some $17,000,000.

More devastating than this is that the fresh cream market has been destroyed. Cream, normally used in the production of ice cream, has been largely displaced by mixture of butterfat and sugar from abroad. These imports, in total, are in circumvention of quotas established by the Federal Government for the importation of butteroil.

As a result of the imports from abroad, the Department of Agriculture is again purchasing substantial volumes of dairy products in an effort to support farm prices at minimum levels. In effect, these purchases mean the expenditure of