Exhibit H

REPORT TO THE BOARD OF DIRECTORS
MANUFACTURING CHEMISTS ASSOCIATION

G. O. TRABUE, JR., CHAIRMAN
INTERNATIONAL TRADE COMMITTEE

OCTOBER 12, 1976

In an effort to illustrate to you the relative importance of matters that are now pending pertaining to international trade, I would like to quote from Ambassador Frederick Dent of the Office of Special Trade Representative (STR). The occasion was a plenary meeting in Washington some two weeks ago for a group of Industry Sector Advisory Committees (or ISAC). Ambassador Dent told us that imports into this country in 1976 are expected to be up 20% over those of 1975, while exports will be up only 5%. The expected trade deficit will be approximately [illegible]2 billion dollars. Imports of petroleum products in the U.S.A. in 1973 were valued at 7 billion dollars. This year they are expected to reach 32 billion dollars.

Gentlemen, the need for industry support in the international trade area has never been as great as it is now. Today in the United States the cost of feedstock for the petrochemical industry is less than the corresponding cost in the Common Market (EC), but it is expected to be equal to that of the Common Market in about four years. Your International Trade Committee suggests that strong continued industry support on international trade is a must.

I am advised that the subject of trade did not appear in the top 10 items which certain MCA member companies agreed to be those subjects of the greatest concern to them according to a recent survey. However, it does appear that we could have long-range problems in our economy, unless international trade for our country increases to offset these deficits.

With this scenario in mind, I would now like to give you an outline of what I hope to cover in the next 10 to 12 minutes. First, I plan to spend about 3 minutes on the status of the GATT negotiations. The main part of my presentation to you will last about 8 minutes, and this is devoted to the work that is going on in ISAC-5 (Chemicals). I would like to wind up with a brief comment concerning OCITA (Office of Chemical Industry Trade Advisor).

In regard to GATT, I am aware that Dr. Dawson has pretty much kept you up to date in this area. The written report of these remarks that you will receive will give you the details of how the tariff formula, which was first tabled by the U.S.A., differs from the one that the Common Market brought out in July. The tariff formula tabled by the U. S. suggests that all tariffs above 6.7% be cut by 60% (the maximum allowed by the Trade Act), and those below 6.7% by a formula of cuts between 50-60%. The EC formula proposes tariffs would be cut by their own amount, a process that would be repeated four times. That is to say, a tariff of 50% would initially be cut by 50%, the result being a 25% tariff. Doing this four more times would mean an ultimate tariff of 13%. The European version tends to embrace more "harmonization" in that it cuts the higher duties more than our formula does.

We remain critical of the EC proposal in that it specifically excludes agricultural products. The Common Market still hopes to keep this delicate subject separate from other trade areas. The International Trade Committee shares the feeling that the EC formula is not ambitious enough since it would result in an av rage reduction of the current duties of about 32% and that is before any exceptions are taken into account. I understand that Mr. Ford during his visit to the Summit Meeting in Puerto Rico stated that the U. S. should shoot for a target cut of 35% of the current tariffs of our EC trading partners. Since Mr. Ford was referring to a cut after exceptions are taken into account, you can see this leaves a wide gap for our negotiators to close.

As to the timing of the final decision on the tariff formula, you are aware that the Swedes have recently settled their elections. Soon it will be the West Germans and the Japanese. At the first of this coming year, there will be a replacement of eight of the nine EC Ministers in Brussels. All of this, coupled with our own elections in November, leads your Committee to the conclusion that not only will there be an agreement on the formula, but, also, no serious negotiations will begin before early to mid-1977 at best.

Government continues, however, to let us know that things are indeed busy in Geneva with various Multilateral Trade Negotiation (MTN) subgroups at work hammering out preliminary details. These subgroups have been meeting with our trading partners in an effort to come to a mutual understanding on how to treat such matters as: subsidies, countervailing duties, access to supply, government procurement, standards and codes, GATT reform, and the very important subject of non-tariff barriers. Due to a wide variety of non-tariff barriers currently employed, it is thought by many that the settlement of this matter is more critical than the agreement upon a tariff formula. ISAC-5, six members of whom are from the MCA International Trade Committee, are providing U. S. chemical industry overviews on how we wish these matters to be handled when negotiations do finally take place.

This leads me into the subject of how ISAC-5 is progressing. At our meeting some two weeks ago in Washington, we were told by repr sentatives of the Department of Commerce, as well as the Office of Special Trade Representative, that ISAC-5 was better prepared and better organized than any of the remaining 25 ISACs.

This praise by the government is not meant to imply that we necessarily expect to do better in the negotiations than we did in the Kennedy Round nor better than any of the other idustries of the United States, but we do want you to know that we see no reason for government to eventually point the finger at our industry and tell us that we failed in doing our homework.

There still remains an inadequate two-way flow of information in these large and complex government private sector committee structures. At the same time, it is agreed that they are functioning better than they were at the start. STR continues to tell us that they are determined to further improve the ISAC system and that the outcome of the negotiations will depend, to a great extent, on just how well we have prepared the Geneva negotiators, which in turn, is saying just how well the ISAC functioned.

Due to the complexity of the chemical industry, we were forced in ISAC-5 to fragment into seven subcommittees which are: Benzenoid Intermediates, Pigments, Fertilizers, Pesticides, Inorganics, Miscellaneous Organics, and Dyestuffs. The full ISAC-5 Committee is expected to meet four times this year, while the subgroups will meet at least that many times. At the present time, we are hard at work trying to determine just which chemical products would be most sensitive to tariff cuts. This is the exceptions list. There is one key area that I solicit the help of those of you present today in this respect, and that is in the field of inorganic products. More input into our Committee is definitely required by industry to be sure that correct decisions by ISAC-5 members are being made. This input, as it pertains to sensitivity, should be made directly to the Department of Commerce, and the appropriate address is given in the written report of these remarks. Mr. Ed J. Gealy, Industry Consultation Policy Staff, Department of Commerce, Washington, D. C. 20230

As ISAC-5 works with this exceptions list and brings it to a conclusion, we are informed by government that our next step will be one of being certain that we can ultimately provide the necessary justification for our decisions. By utilization of a checklist, we are preparing ourselves to address these questions from government. We are also establishing priorities within the xceptions list itself. Thus, the critical area for our industry will probably reside in the rules for determining exceptions, and the ultimate ability of our negotiators to obtain exceptions for the import sensitive products whether it is on a multilateral or bilateral basis.

In addition to this work on exceptions, we continue to press government for the conversion of our specific and compound duties to an ad valorem basis, the selection of the base year being the critical matter. Some base year has to be agreed upon in order to provide a starting point for the calculation of the value of the concessions to be negotiated. This is more important for the chemical industry than perhaps any other due to the fact that we have such a large number of specific and compound duties and to the sharp rises in the chemical prices over the last several years.

Finally, I wish to report that Dr. Dawson, in the capacity of the Chemical Industry Trade Advisor, has reactivated the Technical Advisory Committee. We will have our first meeting tomorrow in New York City. Dr. Dawson has restructured this Committee, and it is planned that this is yet another way that our industry can be sure of addressing all agencies of our government with uniform voice. In addition to MCA; DCMA, SOCMA, SPI, and various members of ISAC-5 will all be brought together tomorrow under one committee. This organization is not restricted as is the ISAC program in that two-way communication is possible.

One item that was not included in my outline that may be of interest to you, Gentlemen, deals with a recent survey sent to the chemical industry by the Stanford Research Institute (SRI) in conjunction with the U. S. Department of Labor. Due to the detail that the survey called for, an overwhelming number of U. S.-based chemical companies have declined to respond.

In conclusion, within the next 12 months, there is a reasonable chance that our negotiators will begin a serious dialogue with our trading partners. There continues to be a serious need for continued industry input to insure we take advantage of all available opportunities. Having been in the position of Chairman of this Committee only about four months now, I am happy to see Dave Dawson out there amongst you, and he has agreed to help me answer any questions.

Thank you.