April 16, 1998

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

MEMORANDUM TO THE COMMITTEE ON FINANCE OF THE UNITED STATES SENATE ON PROPOSED TARIFF LEGISLATION[1]

Bill no., sponsor, and sponsor's state: S. 1010 (105th Congress) Senator Thurmond (SC).

Companion bill: None.

Title as introduced: To suspend the rate of duty on certain chemicals.

Summary of bill:[2]

Permanently eliminates the most-favored-nation (MFN) rate of duty on imports of menthol and benzyl alcohol.

Effective date: The 15th day after enactment.

Retroactive effect: None.

Statement of purpose:

The sponsor made the following statement in the *Congressional Record*[3] at the time the bill was introduced:

> The first chemical, benzyl alcohol, is used to produce esters. In 1996, this product was listed in the pharmaceutical category and carried a duty-free status which has been overturned.
>
> The second chemical, benzophenone,[4] is primarily used to produce pharmaceuticals, ultraviolet protection products, and fragrances. Currently, no domestic producer of this product exists. Therefore, suspending the duties on this item would not adversely affect domestic industries.
>
> Mr. President, suspending the duty on these chemicals will benefit the consumers by stabilizing the costs of the end products. I hope the Senate will consider this measure expeditiously.

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[1] Industry analyst: Eric Land (205-3349); attorney: Leo Webb (205-2599).
[2] See appendix A for definitions of tariff and trade agreement terms.
[3] *Congressional Record* , July 11, 1997, p. S7303.
[4] This is a chemical not included in this bill; there were no comments concerning menthol.

Product description and uses:

Menthol: Menthol is a naturally occurring monocyclic terpene used as a fragrance, flavor, and antipruritic. It is an important ingredient in pharmaceuticals, confections, and cigarettes. The aromatically active form of menthol (l-menthol) that is used in these applications is found naturally and is extracted from the plant, Mentha arvensis. L-menthol may also be obtained synthetically, involving an isolation from the racemic mixture of active and non-active forms (d,l-menthol).

Benzyl alcohol: Benzyl alcohol is a colorless liquid with a faint aromatic odor and found in jasmine, hyacinth, ylang-ylang oils, Balsam Peru, Balsam Tolu, and storax. It is used to manufacture other benzyl compounds; as a component of various flavors and fragrances in personal care products, pharmaceuticals; and also in ophthalmic solutions, inks, and plastics.

Tariff treatment:[5]

Product	HTS subheading	Col. 1-general rate of duty
Menthol	2906.11.00	2.1% ad val.
Benzyl alcohol	2906.21.00	5.7% ad val.

Structure of domestic industry (including competing products):

Menthol: The majority of domestic demand for menthol involves the naturally occurring material (chemically l-menthol), which is not produced in the United States. Only one company, Haarmann-Reimer Florasynth, produces synthetic l-menthol (using imported d,l-menthol as a feedstock). However, there are at least 5 other domestic firms that have produced synthetic racemic d,l-menthol during the past five years.

Benzyl alcohol: There are currently two domestic producers of benzyl alcohol, Kalama Chemical Company of Kalama, Washington, and Velsicol Chemical Corporation of Rosemont, Illinois. Both of these companies produce significant supplies of benzyl alcohol that are sold for the domestic market.

Private-sector views:

The Commission contacted seven companies which market and produce intermediate chemicals and flavor and fragrance chemicals. These firms are: Bush Boake Allen Corporation; Givaudan-Roure; Haarmann & Reimer Florasynth; Kalama Chemical; SCM Glidco, Union Camp, and Velsicol. Kalama Chemical Company and Velsicol Chemical Corporation have supplied written submissions concerning benzyl alcohol.[6]

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[5] See appendix B for column 1-special and column 2 duty rates.

[6] Fax submission received from Merlin Kister, Business Manager, Intermediates, of Velsicol Chemical Corporation on Mar. 12, 1998. Fax submission received from James H. Harris, Vice President Marketing, of Kalama Chemical on Mar. 12, 1998. See appendix C.

U.S. consumption:

Menthol:

	1994	1995	1996
	----------($1,000)----------		
U.S. production..............................	([1])	([1])	([1])
U.S. imports..................................	16,854	21,651	33,737
U.S. exports..................................	3,379	2,927	4,295
Apparent U.S. consumption...........	([1])	([1])	([1])

[1] Not available

Principal import sources: India, China, Japan.
Principal export markets: Mexico, Canada.

Benzyl alcohol:

	1994	1995	1996
	----------($1,000)----------		
U.S. production..............................	([1])	([1])	([1])
U.S. imports..................................	5,497	7,299	7,518
U.S. exports..................................	854	787	2,551
Apparent U.S. consumption...........	([1])	([1])	([1])

[1] Not available

Principal import sources: Netherlands, Germany, Belgium.
Principal export markets: Taiwan.

Effect on customs revenue:[7]

Future (1998-2000) effect:

Product	Estimated average annual revenue loss		
Menthol:[8]	1998	1999	2000
	-------------($1,000)---------------		
	506	506	506

Retroactive effect: None.

[7] Actual revenue loss may be understated in the event of a significant increase in imports over the duty suspension period. Estimated annual revenue losses were based on import data provided by H&R Florasynth using the appropriate staged rates of duties as published in the *Federal Register*, Wednesday, Jan.4, 1995.

[8] H&R Florasynth argues that there are no duties being effectively applied to imports of menthol since most duties paid are refunded through drawback exports.

Product	Estimated average annual revenue loss[9]		
Benzyl alcohol:	1998	1999	2000
	-------------($1,000)---------------		
	450	475	500

Retroactive effect: None.

Technical comments:

The Commission recommends that the Chemical Abstracts Service (CAS) registry numbers for menthol (CAS 1401-55-4), and that for benzyl alcohol (CAS 100-51-6) be included in the legislation.

Line 10, page 1, should be amended by striking “5.9%” and inserting “5.7%”, which is the correct column 1-general rate of duty.

[9] Estimated annual revenue losses were obtained from information provided by H&R Florasynth.

APPENDIX A

TARIFF AND TRADE AGREEMENT TERMS

In the **Harmonized Tariff Schedule of the United States** (HTS), chapters 1 through 97 cover all goods in trade and incorporate in the tariff nomenclature the internationally adopted Harmonized Commodity Description and Coding System through the 6-digit level of product description. Subordinate 8-digit product subdivisions, either enacted by Congress or proclaimed by the President, allow more narrowly applicable duty rates; 10-digit administrative statistical reporting numbers provide data of national interest. Chapters 98 and 99 contain special U.S. classifications and temporary rate provisions, respectively. The HTS replaced the Tariff Schedules of the United States (TSUS) effective January 1, 1989.

Duty rates in the **general** subcolumn of HTS column 1 are most-favored-nation (MFN) rates, many of which have been eliminated or are being reduced as concessions resulting from the Uruguay Round of Multilateral Trade Negotiations. Column 1-general duty rates apply to all countries except those enumerated in HTS general note 3(b) (Afghanistan, Cuba, Laos, North Korea, and Vietnam), which are subject to the statutory rates set forth in **column 2**. Specified goods from designated MFN-eligible countries may be eligible for reduced rates of duty or for duty-free entry under one or more preferential tariff programs. Such tariff treatment is set forth in the **special** subcolumn of HTS rate of duty column 1 or in the general notes. If eligibility for special tariff rates is not claimed or established, goods are dutiable at column 1-general rates. The HTS does not enumerate those countries as to which a total or partial embargo has been declared.

The **Generalized System of Preferences** (GSP) affords nonreciprocal tariff preferences to developing countries to aid their economic development and to diversify and expand their production and exports. The U.S. GSP, enacted in title V of the Trade Act of 1974 for 10 years and extended several times thereafter, applies to merchandise imported on or after January 1, 1976 and before the close of June 30, 1998. Indicated by the symbol "A", "A*", or "A+" in the special subcolumn, the GSP provides duty-free entry to eligible articles the product of and imported directly from designated beneficiary developing countries, as set forth in general note 4 to the HTS.

The **Caribbean Basin Economic Recovery Act** (CBERA) affords nonreciprocal tariff preferences to developing countries in the Caribbean Basin area to aid their economic development and to diversify and expand their production and exports. The CBERA, enacted in title II of Public Law 98-67, implemented by Presidential Proclamation 5133 of November 30, 1983, and amended by the Customs and Trade Act of 1990, applies to merchandise entered, or withdrawn from warehouse for consumption, on or after January 1, 1984. Indicated by the symbol "E" or "E*" in the special subcolumn, the CBERA provides duty-free entry to eligible articles, and reduced-duty treatment to certain other articles, which are the product of and imported directly from designated countries, as set forth in general note 7 to the HTS.

Free rates of duty in the special subcolumn followed by the symbol "IL" are applicable to products of Israel under the **United States-Israel Free Trade Area Implementation Act** of 1985 (IFTA), as provided in general note 8 to the HTS.

Preferential nonreciprocal duty-free or reduced-duty treatment in the special subcolumn followed by the symbol "J" or "J*" in parentheses is afforded to eligible articles the product of designated beneficiary countries under the **Andean Trade Preference Act** (ATPA), enacted as title II of Public Law 102-182 and implemented by Presidential Proclamation 6455 of July 2, 1992 (effective July 22, 1992), as set forth in general note 11 to the HTS.

Preferential or free rates of duty in the special subcolumn followed by the symbol "CA" are applicable to eligible goods of Canada, and rates followed by the symbol "MX" are applicable to eligible goods of Mexico, under the **North American Free Trade Agreement**, as provided in general note 12 to the HTS and implemented effective January 1, 1994 by Presidential Proclamation 6641 of December 15, 1993. Goods must originate in the NAFTA region under rules set forth in general note 12(t) and meet other requirements of the note and applicable regulations.

Other special tariff treatment applies to particular **products of insular possessions** (general note 3(a)(iv)), **products of the West Bank and Gaza Strip** (general note 3(a)(v)), goods covered by the **Automotive Products Trade Act** (APTA) (general note 5) and the **Agreement on Trade in Civil Aircraft** (ATCA) (general note 6), **articles imported from freely associated states** (general note 10), **pharmaceutical products** (general note 13), and **intermediate chemicals for dyes** (general note 14).

The **General Agreement on Tariffs and Trade 1994** (GATT 1994), pursuant to the Agreement Establishing the World Trade Organization, is based upon the earlier GATT 1947 (61 Stat. (pt. 5) A58; 8 UST (pt. 2) 1786) as the primary multilateral system of disciplines and principles governing international trade. Signatories' obligations under both the 1994 and 1947 agreements focus upon most-favored-nation treatment, the maintenance of scheduled concession rates of duty, and national treatment for imported products; the GATT also provides the legal framework for customs valuation standards, "escape clause" (emergency) actions, antidumping and countervailing duties, dispute settlement, and other measures. The results of the Uruguay Round of multilateral tariff negotiations are set forth by way of separate schedules of concessions for each participating contracting party, with the U.S. schedule designated as Schedule XX.

Pursuant to the **Agreement on Textiles and Clothing** (ATC) of the GATT 1994, member countries are phasing out restrictions on imports under the prior "Arrangement Regarding International Trade in Textiles" (known as the **Multifiber Arrangement** (MFA)). Under the MFA, which was a departure from GATT 1947 provisions, importing and exporting countries negotiated bilateral agreements limiting textile and apparel shipments, and importing countries could take unilateral action in the absence or violation of an agreement. Quantitative limits had been established on imported textiles and apparel of cotton, other vegetable fibers, wool, man-made fibers or silk blends in an effort to prevent or limit market disruption in the importing countries. The ATC establishes notification and safeguard procedures, along with other rules concerning the customs treatment of textile and apparel shipments, and calls for the eventual complete integration of this sector into the GATT 1994 over a ten-year period, or by Jan. 1, 2005.

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APPENDIX B

SELECTED PORTIONS OF THE
HARMONIZED TARIFF SCHEDULE OF THE UNITED STATES

(Appendix not included in the electronic version of this report.)

APPENDIX C

OTHER ATTACHMENTS

(Appendix not included in the electronic version of this report.)

105TH CONGRESS
1ST SESSION

S. 1010

To suspend the rate of duty with respect to certain chemicals.

IN THE SENATE OF THE UNITED STATES

JULY 11, 1997

Mr. THURMOND introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To suspend the rate of duty with respect to certain chemicals.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. DUTY SUSPENSIONS.

(a) IN GENERAL.—The Harmonized Tariff Schedule of the United States is amended—

(1) in subheading 2906.11.00 (relating to dl menthol), by striking "2.1%" and inserting "Free"; and

(2) in subheading 2906.21.00 (relating to benzyl alcohol), by striking "5.9%" and inserting "Free".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to goods entered, or withdrawn from warehouse for consumption, on or after the date that is 15 days after the date of enactment of this Act.

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