

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 LEGISLATION¹

Bill no., sponsor, and sponsor's state: S. 1063 (105th Congress), Senator Rockefeller (WV).

Companion bill: H.R. 1897 (105th Congress), Representative Wise (WV).

Title as introduced: To suspend temporarily the duty on KN001 (a hydrochloride).

Summary of bill:²

The bill would suspend through December 31, 1998, the column 1-general rate of duty on KN001 (a hydrochloride).

Effective date: 15 days after enactment.

Retroactive effect: None.

Statement of purpose:

The sponsor, Senator Rockefeller, stated in the *Congressional Record*, that this bill--

...will not only benefit the chemical workers in my state of West Virginia, but also will enable U.S. farmers to grow more crops at lower cost and protect the environment at the same time. ...This substance is a key raw material in a new, environmentally safe family of agricultural chemicals invented by DuPont... These new agricultural chemicals, called sulfonyleurea, are used in extremely small amounts by farmers to control weed growth in their fields without harming the crops that the farmers are trying to grow. Sulfonyleurea operate on plant enzymes, they do not affect insects or animals, and because they biodegrade rapidly, they are among the most environmentally friendly crop protection chemicals in use today. An additional benefit is the effect it will have on jobs in my home state of West Virginia. DuPont is in the process of constructing a \$20 million revitalization project which will enable the production of a new sulfonyleurea product family that uses KN001 as a feedstock. This revitalization project will preserve 50 existing jobs and create over a dozen new jobs.

¹Industry analyst: Cynthia Trainor (205-3354); attorney: Leo Webb (205-2599).

²See appendix A for definitions of tariff and trade agreement terms.

...This duty suspension is unlikely to result in any substantial revenue loss to the U.S. Treasury. Because it is used in the manufacture of new products, U.S. imports of this chemical are very small, and the resulting duty is also small. ...This substance is not manufactured in the United States by another company, so no U.S. producer should be disadvantaged by the duty suspension. It's rare that we get a chance to support legislation that benefits workers, farmers, and the environment at virtually no cost to the Treasury.³

Product description and uses:

2,4-Dichloro-5-hydrazino-phenol-monohydrochloride:⁴

The subject chemical (also known by the common name KN001 [a hydrochloride]) is a synthetic organic chemical produced through a series of complex chemical reactions. It is an intermediate used in the manufacture of Azafenidin, the active ingredient in Milestone®, a DuPont Agricultural Products' registered and trademarked preemergence herbicide product used for weed control in citrus, sugar cane and grapes.

Tariff treatment:⁵

<u>Product</u>	<u>HTS subheading</u>	<u>Col. 1-general rate of duty</u>
2,4-Dichloro-5-hydrazino-phenol-monohydrochloride	2928.00.25	6.6 % ad val.

Structure of domestic industry (including competing products):

2,4-Dichloro-5-hydrazino-phenol-monohydrochloride:

According to Commission records and industry sources, there was no U.S. production of the subject chemical during 1994-96. Although there is no chemical directly competitive with the subject chemical when it is used to produce the active ingredient and end-use product, other U.S. herbicide producers manufacture products that compete with the end-use product, Milestone®, for use on citrus, sugar cane, and grapes.

Competing products:

Roundup® Ultra--this product contains an active ingredient with the common name of glyphosate and is a registered trademark foliar preplant or preemergence nonselective herbicide for weed control in citrus; produced by Monsanto Corp., St. Louis, MO.

Gramoxone®--this product contains an active ingredient with the common name paraquat and is a registered trademark contact herbicide for industrial

³Statement of Senator Rockefeller, *Congressional Record*, Jul. 24, 1997, pp. S8092-S8093.

⁴See technical comments section.

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

weed control in fruit orchards and as a harvest aid in sugarcane; produced by Zeneca Ag Products (Bayport, TX).

Private-sector views:

The Commission contacted two companies which produce competing products.⁶ The companies had not submitted any written comments as of the date of preparation of this report.

U.S. consumption:

2,4-Dichloro-5-hydrazino-phenol-monohydrochloride:	<u>1994</u>	<u>1995</u>	<u>1996</u>
	-----(\$1,000)-----		
U.S. production.....	0	0	0
U.S. imports ¹	0	0	0
U.S. exports.....	0	0	0
Apparent U.S. consumption.....	0	0	0

¹Not publicly available. This chemical is classified in a residual, or “basket,” HTS subheading.

Principal import sources: Germany.

Principal export markets: None.

Effect on customs revenue:⁷

Future (1998) effect: Actual dutiable import values for this product are not publicly available. However, according to a representative of Dupont,⁸ the estimated average annual revenue loss is expected to be less than \$260,000 during the period.

Retroactive effect: Not applicable.

Technical comments:

The Commission suggests that the chemical nomenclature for KN001 (a hydrochloride) be presented as 2,4-Dichloro-5-hydrazino-phenol-monohydrochloride in the bill’s article description.⁹

⁶Telephone conversations with Mr. Thomas Helsher, Manager, Federal Government Relations, Monsanto Corp., Washington, DC, on Mar. 2, 1998; and with Dr. Edgar L. Ready, III, Manager, Environmental and Scientific Affairs, Zeneca Ag Products, Wilmington, DE, on Mar. 2, 1998.

⁷Actual revenue loss may be understated in the event of a significant increase in imports over the duty suspension period.

⁸Telephone conversation between Mr. Heine of DuPont and Commission staff on Mar. 2, 1998.

⁹Telephone conversation between Mr. Howrey of Dupont and Commission staff on Aug. 8, 1997.

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.

Rev. 8/12/97

APPENDIX B

**SELECTED PORTIONS OF THE
HARMONIZED TARIFF SCHEDULE OF THE UNITED STATES**

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

105TH CONGRESS
1ST SESSION

S. 1063

To suspend temporarily the duty on KN001 (a hydrochloride).

IN THE SENATE OF THE UNITED STATES

JULY 24, 1997

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

A BILL

To suspend temporarily the duty on KN001 (a hydrochloride).

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. TEMPORARY SUSPENSION OF DUTY.**

4 (a) IN GENERAL.—Subchapter II of Chapter 99 of
5 the Harmonized Tariff Schedule of the United States is
6 amended by inserting in numerical sequence the following
7 new heading:

“	9902.30.41	2-4-dichloro-5-hydroxyhydrazine hydrochloride (CAS No. 189573-21-5) (provided for in sub-heading 2928.00.25)	Free	No change	No change	On or before 12/31/98	”.
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1 (b) EFFECTIVE DATE.—The amendment made by
2 this section applies with respect to goods entered, or with-
3 drawn from warehouse for consumption, on or after the
4 15th day after the date of enactment of this Act.

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