

March 13, 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. 1445 (105th Congress), Senator Helms (NC)

Companion bill: H.R. 1931 (105th Congress), Representative Holden (PA).

Title as introduced: To suspend until January 1, 2001, the duty on a chemical.

Summary of bill:²

Temporarily suspends the most-favored-nation (MFN) rate of duty on imports of tannic acid through December 31, 2000.

Effective date: The 15th day after enactment.

Retroactive effect: None.

Statement of purpose:

The sponsor made no statement in the *Congressional Record* at the time the bill was introduced. A spokesman for Crompton and Knowles Colors Incorporated (CKCI), the company on whose behalf the bill reportedly was introduced, stated that they rely on imported dye intermediate chemicals to profitably compete against firms who import the finished products from countries with lower production and environmental costs. If the bill is enacted, CKCI would not have to recover its cost of duties when it sells its domestically produced synthetic dyes.³

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 Written statement to the Commission dated May 31, 1997, from Mr. George Mackie, representing CKCI.

Product description and uses:

Tannic acid: A natural product produced from an extract of Turkish or Chinese nutgall. Commercial tannic acid, a yellowish-white to light brown powder, contains about 10 percent water and has an empirical formula usually given as $C_{76}H_{52}O_{46}$.⁴ Tannic acid has many uses such as, a mordant in dyeing; ink making; tanning leather; rubber manufacturing; preparation of certain pharmaceuticals; modification of certain plastics resins; and as a chemical reagent. Tariff treatment:⁵

<u>Product</u>	<u>HTS subheading</u>	<u>Col. 1-general rate of duty</u>
Tannic acid.....	3201.90.10	1.5% ad val.

Structure of domestic industry (including competing products):

Tannic acid: According to industry sources, there was no production of the subject chemical in the United States during 1994-97. The chemical is used by CKCI to produce certain synthetic dyes which compete with similar dyes made domestically or imported by other U.S. companies.

Private-sector views:

The Commission contacted 6 companies which market and produce intermediate chemicals and dyes and pigments. These firms are: BASF Corporation, Mount Olive, NJ (a subsidiary of BASF Aktiengesellschaft, Germany); Bayer Corporation, Pittsburgh, PA (a subsidiary of Bayer Aktiengesellschaft, Germany); Ciba Specialty Chemicals Corporation, U.S.A., Tarrytown, NY (a subsidiary of Ciba Spezialitätenchemie, AG, Basel, Switzerland); DuPont, Wilmington, DE; Hoechst Celanese Corporation, Somerville, NJ (a subsidiary of Hoechst Aktiengesellschaft, Germany); and PMC Specialties Group, a Division of PMC, Inc., Rocky River, OH. None of these companies have provided written comments to the Commission as of this time.

⁴ A chemical's empirical formula gives the ratio of the number of atoms of each element present in the compound. It is determined experimentally, but does not give any information on the actual molecular structure of the chemical.

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

U.S. consumption:

Tannic acid:	<u>1994</u>	<u>1995</u>	<u>1996</u>
	-----(\$1,000)-----		
U.S. production.....	0	0	0
U.S. imports.....	311	147	221
U.S. exports.....	0	0	0
Apparent U.S. consumption.....	311	147	221

Principal import sources: Italy
Principal export markets: None.

Effect on customs revenue:⁶

Future (1998-2000) effect:

<u>Product</u>	Estimated average annual <u>revenue loss</u> ⁷		
Tannic acid:	<u>1998</u>	<u>1999</u>	<u>2000</u>
	-----(\$1,000)-----		
	30.6	30.6	30.6

Retroactive effect: None.

Technical comments:

The Commission recommends that the HTS subheading shown in the bill be changed to the 8-digit HTS subheading number, 3201.90.10. The correct Chemical Abstracts Service (CAS) registry number for the subject chemical is CAS 1401-55-4. The Commission recommends that the CAS number shown in the bill be changed accordingly.

The Commission notes that the chapter 99 article description in the bill is "Tannic acid" while the complete chapter 32 article description for this product is "Tannic acid, containing by weight 50 percent or more of tannic acid." This variance may pose interpretative difficulties for the Customs

⁶ 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 calculated by Commission staff based on import data provided by Crompton and Knowles Colors Incorporated using the appropriate staged rates of duties as published in the *Federal Register*, Wednesday, Jan.4, 1995.

⁷ Estimated annual revenue losses were obtained from information provided by Mr. George Mackie, representing Crompton and Knowles Colors Inc..

Service unless it is addressed prior to enactment. The Committee may wish to amend the proposed chapter 99 article description to conform to that used in chapter 32.

Finally, the word "item" should be replaced by "heading" in line 6, page 1. Also, the Commission notes that the chapter 99 number may need to be revised when this bill is marked up depending upon the other proposed amendments to the HTS that are approved for mark-up.

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. 1445

To suspend until January 1, 2001, the duty on a chemical.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 7, 1997

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

A BILL

To suspend until January 1, 2001, the duty on a chemical.

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. SUSPENSION OF DUTY.**

4 Subchapter II of chapter 99 of the Harmonized Tar-
5 iff Schedule of the United States is amended by inserting
6 in numerical sequence the following new item:

“	9902.32.28	Tannic acid (CAS No. 1401-55) (pro- vided for in sub- heading 3201.90.10.00)	Free	No change	No change	On or before 12/31/2000	”.
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7 **SEC. 2. APPLICABILITY.**

8 The amendment made by section 1 applies with re-
9 spect to goods entered, or withdrawn from warehouse for

1 consumption, on or after the 15th day after the date of
2 enactment of this Act.

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