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SCIENTIFIC SUB-COMMITTEE — 42.830 E

\- — O. Eng.

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Brussels, February 1999.

PROPOSED NEW SUBHEADING FOR "GAS CONDENSATES" IN HEADING 27.09

(Item II.10 on Agenda)

Reference documents :

42.241 (RSC/18)
42.500, Annex B/9 (RSC/18 - Report)
42.763 (SSC/14)
42.826 (SSC/140)

1. On 28 January 1999, the Secretariat received the following note from the US concerning gas condensates :

I. NOTE FROM THE US

2. "…We are writing to you concerning document 42.763… We are concerned that the nature of the product before the SSC is not sufficiently clear so as to permit a useful discussion. It is our opinion that there appears to be confusion over the products that are the subject of the document.

3. Our experience shows that there are two different types of condensates, i.e., condensate that is derived from gas field processing of raw natural gas (wet gas), and condensate that is derived from the well head or oil field stabilisation of crude oil. Condensate produced at the gas field is called "gas condensate", whereas condensate produced from the stabilisation of crude oil is simply referred to as "condensate" or, at times, as "natural gasoline". To complicate matters further, in the international movement of goods, the term "condensate" is used to describe both types of condensate. Since these products are similar in composition and usage, they are frequently blended for shipping purposes and are used interchangeably. However, for the purposes of the Harmonized System, the products may be different.

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4. Doc. 42.763 is somewhat confusing. Because the document refers to “gas condensates”, we would assume that it concerns the classification of condensate derived from the gas field processing of wet gas. The EC assumes this to be the case because they refer to a breakout in the EC tariff that appears to describe a gas field condensate. On the other hand, comments from the Chinese Administration imply that the product they are describing could be either type of condensate rather than merely the gas condensate. Therefore, we believe that before a serious discussion takes place in the Scientific Sub-Committee, the product under consideration be specifically identified.

5. We would like to offer a few additional comments for your consideration. Unlike crude oil which is “stabilised” at the oil well prior to transportation for processing, raw natural gas is not “stabilised” for transportation and further processing. “Stabilisation” of raw natural gas does not exist in the same context as crude oil stabilisation. In fact, we emphasise that a gaseous product cannot be stabilised by simply removing one of the gaseous/liquid components as is done in the stabilisation of liquid crude oil. Rather, the major processing of raw or wet natural gas takes place in the gas field production facilities where the wet natural gas is placed into a sophisticated separation facility at which the crude gas is separated into three separate components. This substantial gas field process is performed because the instability of the crude gas prevents it from being transported by long-range pipeline prior to undergoing such significant processing. Crude oil, once stabilised, is easily transported by long-range pipeline.

6. As a result of the inherent instability of raw or wet natural gas, the major processing into final usable articles of commerce actually takes place at the gas field. At the field production/refinery site the wet gas is separated into natural gas, gas condensate and water. The resultant natural gas is usable by the final consumer.

7. The gas separation process performed in the gas field is equivalent to the atmospheric distillation process by which a crude oil is separated into different components. We do note that, unlike the crude oil distillation process which essentially takes a liquid (crude oil), gasifies it and then cools it down to separate out the components, the gas refinery process takes a gaseous product (crude gas), expands it rapidly and then cools the expanded product so that the individual components separate out. Nevertheless, this separation process is equivalent to the crude oil atmospheric distillation process. We also note that the Scientific Sub-Committee has concluded in a previous session that atmospheric distillation is a significant process in which the end products may not be considered “crude” products of heading 27.09. For the same reason, the complex, expensive, refinery-like gas field processing would not be considered mere “stabilisation” within the meaning of the processes allowed for goods of heading 27.09.

8. Therefore, in order to engage in a meaningful discussion of this agenda item, we believe that the facts be clarified as to the nature of the product in question with an analysis as to the type of processing permitted for products of heading 27.09…”.

II. CONCLUSION

9. The Sub-Committee is requested to take the US note into account when examining this Agenda item.