

September 9, 1997

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

MEMORANDUM TO THE COMMITTEE ON WAYS AND MEANS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES ON PROPOSED TARIFF LEGISLATION¹

Bill no., sponsor, and sponsor's state: H.R. 1214 (105th Congress), Representative Bunning, (KY)

Companion bill: None.

Title as introduced: To suspend temporarily the duty on the chemical P-Toluenesulfonamide.

Summary of bill:²

This bill would temporarily suspend import duties on the chemical p-toluenesulfonamide,³ the effective period to end on or before December 31, 1999.

Effective date: The 15th day after enactment.

Retroactive effect: None.

Statement of purpose:

Although there was no formal statement given by the sponsor of H.R. 1214 in the Congressional Record, background information was furnished by the staff of Representative Bunning from H&S Chemical Co.⁴ The following is an abstract of that information:

There is no production of p-toluenesulfonamide (PTSA) in the United States because of cost disadvantages. Consequently, H&S Chemical Company, Inc. (H&S) of Cincinnati, OH, is required to import high-purity PTSA assaying greater than 99.9% under the adverse conditions of high duties, to produce the strategic human antiseptic, Chloramine-T. H&S Chloramine-T product exceeds U.S. Pharmacopeia (U.S.P.) specifications, and is recognized as the highest purity Chloramine T in the world; H&S is the only producer of this product in the United States. Chloramine-T is used extensively in hospitals and nursing homes for its hydrotherapeutic whirlpool effectiveness in treating burn victims, for treating wounds, and for the promotion of the healing of wounds, in general. Except for H&S, there is only one other producer of Chloramine-T in the world, Akzo Nobel, which

¹ Industry analyst Raymond Cantrell: (205-3362); attorney: Leo Webb (205-2599).

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

³ See technical comments section.

⁴ Correspondence from Mr. Michael Haywood, Legislative Assistant/Press, Jul. 24; and Mr. David Schneider, H&S Chemical Company, Inc., Jul. 28, 1997;

manufactures both PTSA and Chloramine-T in the Republic of Korea. Monsanto Chemical formerly manufactured PTSA and Chloramine-T in the United States, but in 1986, the Monsanto process was sold to Akzo. Akzo has distinct cost advantages over H&S in the global marketplace, since onsite preparation of PTSA circumvents import duties paid by H&S. H&S currently accounts for an estimated 10-15% of total global consumption of Chloramine-T, with about 65-70% of the U.S. and Canadian markets, but only a fraction of the European, Asian and South American markets. By suspending duties on PTSA, H&S projects to compete more effectively with Akzo, and gain significantly in export markets, reaching an estimated 40-60% of total global Chloramine-T demand by 1999. This action would, in addition, generate new jobs and revenues at the new H&S production facility presently under construction at Covington, KY. Additionally, import duty rates for similar products like o-toluenesulfonamide are much lower: currently, 6.9% vs. 2.6¢/kg + 14.6% for p-toluenesulfonamide, while mixtures of o- and p-toluenesulfonamide receive duty-free treatment.

Product description and uses:

p-Toluenesulfonamide: This synthetic organic chemical is a white crystalline powder with a melting point of 137 °C.⁵ The compound is registered under the Chemical Abstract Service (CAS) registration number 70-55-3, and is also known as toluene-4-sulfonamide.⁶ This chemical is used as an intermediate in the preparation of pharmaceuticals and dyestuffs. An important therapeutic compound derived from PTSA is Chloramine-T (p-toluenesulfonchloroamide), which is used by hospitals and nursing homes as an antiseptic to heal wounds, and is especially useful in the hydrotherapeutic whirlpool treatment of burn victims. There was no information found indicating major competition from other types of compounds.

Tariff treatment:⁷

<u>Product</u>	<u>HTS subheading</u>	<u>Col. 1-general rate of duty</u>
p-Toluenesulfonamide (CAS No. 70-55-3)...	2935.00.95	2.6 ¢/kg + 14.6%

Structure of domestic industry (including competing products):

p-Toluenesulfonamide: According to industry sources, there are currently no domestic producers of the subject product. However, it is imported by a number of distributors supplying the domestic market. H&S Chemical Company, Inc., of Cincinnati, OH, is reportedly a major importer of the product from producers located in China, Taiwan, and Hong Kong. The Republic of Korea was also a major U.S. import

⁵ Handbook of Chemistry and Physics, The Chemical Rubber Publishing Co., Cleveland, OH, Apr. 1962, p. 1252.

⁶ ITC research staff.

⁷ See appendix B for column 1-special and column 2 duty rates.

source during 1994-96. Imports from Korea are sold by U.S. distributors to downstream producers of pharmaceuticals and dyestuffs. H&S imports of this product are used in the manufacture of Chloramine-T. Akzo Nobel manufacturers both PTSA and Chloramine-T products in the Republic of Korea, and is a major trader of Chloramine-T in global markets. Akzo Nobel's U.S. office in Chicago, IL, has imported or purchased PTSA in the past from distributors for downstream sales to consumers associated with the pharmaceutical and dyestuff industry. According to Akzo Nobel,⁸ the firm has been unable to be competitive in PTSA markets due to the current high duty rate in the United States.⁹ Therefore, Korean manufacturers of PTSA other than Akzo are presumably the source of significant import quantities to the United States.

Private-sector views:

The Commission contacted four firms and one trade association whose membership was believed to be actively engaged in importation, distribution, or use of the subject product.¹⁰ Three companies provided written responses to the Commission as of August 4, 1997 (see attachments).¹¹

U.S. consumption:

p-Toluenesulfonamide:	<u>1994</u>	<u>1995</u>	<u>1996</u>
	-----(\$thousands)-----		
U.S. production.....	0	0	0
U.S. imports ¹	(?)	400	950
U.S. exports.....	(?)	(?)	(?)
Apparent U.S. consumption....	(?)	400	950

¹Commission estimates, supported by data provided by U.S. importing firms and distributors.

²Data are not available..

Principal import sources: Republic of Korea; China, and Taiwan, in order of importance.

Principal export markets: None.

⁸ See attached statement.

⁹ Correspondence, AKZO NOBEL, Susan Booth, International Transport Services Manager, and Jim McCann, Marketing Manager Chelate, Thio and Sulfo Products, Jul. 29, 1997.

¹⁰ Mr. David J. Schneider, H&S Chem. Co., Inc., Cincinnati, OH, 7/25/97; Ms. Dawn Rzonca, AKZO NOBEL, Chicago, IL, Jul. 28, 1997; Public Relations Dept., Unitex Chem. Co., Greensboro, N.C., Jul. 28, 1997; Ms. Karen Mosher, Focus Chemical Corp., Portsmouth, NH, July 31, 1997; Ms. Mary Beth Kelliher, Chemical Manufacturers Association (CMA), Arlington, VA, Jul. 28, 1997--referred to the CMA International Trade Committee.

¹¹ H&S Chem. Co., Inc., Cincinnati, OH, David J. Schneider, Ph.D., V.P., Director of Marketing, Jul. 28, 1997. AKZO NOBEL, Chicago, IL, Ms. Susan Booth, International Transport Services Mgr., and Mr. Jim McCann, Marketing Manager, Chelate, Thio and Sulfo Products, Jul. 29, 1997. Focus Chemical Corp., Portsmouth, NH, Ms. Karen L. Mosher, Operations Manager, Aug. 4, 1997.

Effect on customs revenues:

Future (1997-1999) effect: According to industry sources, the value of total PTSA imports in 1997 will amount to \$850,000 and then likely rise by \$400,000, or 47%, to \$1,250,000 by the end of 1999. The effect of the proposed duty suspension will be tempered by staged tariff reductions mandated under the Uruguay Round GATT provisions.¹² The estimated annual loss of revenues, follows:¹³

$$1997: [431,470 \text{ kg} \times 2.6\text{¢/kg}] + [\$850,000 \times 14.6\%] = \$135,300$$

$$1998: [532,990 \text{ kg} \times 2.2\text{¢/kg}] + [\$1,050,000 \times 13.4\%] = \$152,400$$

$$1999: [634,520 \text{ kg} \times 1.9\text{¢/kg}] + [\$1,250,000 \times 12.3\%] = \$165,800$$

The increase in PTSA imports is expected to result principally from expanded new plant capacity for Chloramine-T.

Retroactive effective: None.

Technical comments:

The correct nomenclature for this chemical should be as follows: p-toluenesulfonamide.

¹² In 1997, PTSA import duties are equal to the sum of [2.6¢/kg + 14.6%]. By the end of 1999, duties will fall to the sum of [1.9¢/kg + 12.3%]. Thus, staged GATT tariff reductions will cut revenues in 1999 by about \$33,200, or 17% vs. 1997 rates. Provisions of the GATT Uruguay Round, resulted in staged reductions of PTSA over a period of 10 years, beginning in 1995 and ending in the year 2004, with a nominal floor rate of 0¢/kg + 6.5%.

¹³ Rounded to the nearest \$100.

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.)

APPENDIX C

OTHER ATTACHMENTS

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

105TH CONGRESS
1ST SESSION

H. R. 1214

To suspend temporarily the duty on the chemical P-Toluenesulfonamide.

IN THE HOUSE OF REPRESENTATIVES

MARCH 21, 1997

Mr. BUNNING (by request) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To suspend temporarily the duty on the chemical P-Toluenesulfonamide.

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 (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:

“	9902.32.14	P-Toluenesulfonamide (CAS No. 70-55-3) (provided for in subheading 2935.00.95)	Free	No change	No change	On or before December 31, 1999	”.
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1 (b) **EFFECTIVE DATE.**—The amendment made by
2 this section applies to articles entered, or withdrawn from
3 warehouse for consumption, on or after the 15th day after
4 the date of the enactment of this Act.

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