

May 7, 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.1650 (105th Congress), Senator Moynihan (NY)

Companion bill: None.²

Title as introduced: To suspend temporarily the duty on synthetic quartz substrates.

Summary of bill:³

To suspend temporarily the duty on synthetic quartz substrates.

Effective date: The 15th day after enactment.

Retroactive effect: None.

Statement of purpose:

Senator Moynihan made no statement regarding the bill in the *Congressional Record*. According to a member of the sponsor's staff,⁴ passage of this duty suspension bill will reduce the cost of a component not made in the United States, i.e., synthetic quartz substrates, for the only U.S. producer of photomask blanks.

Product description and uses:

Synthetic quartz substrates: These sheets of what is essentially high-purity glass are transformed into photomask blanks by coating them with two layers of specific materials. A photomask blank is transformed into an actual photomask by removing the outermost coating on the substrate to reveal the pattern of an electronic circuit in the underlying coating. Photomasks are used to

¹Industry analyst: James Lukes (205-3426); attorney: Leo Webb (205-2599).

²H.R. 3375, Representative Doggett (TX) and Representative Smith (TX), To provide for the temporary reduction of duty on synthetic quartz substrates. H.R. 3375 seeks to reduce the duty applicable to the same merchandise for the same period to 1 percent ad valorem, rather than suspend the duty as does S. 1650.

³See appendix A for definitions of tariff and trade agreement terms.

⁴Telephone interview with Ms. Linda Menghetti of Senator Moynihan's staff, Mar. 24, 1998.

project circuit patterns onto semiconductor material in manufacturing operations.

Tariff treatment:⁵

<u>Product</u>	<u>HTS subheading</u>	<u>Col. 1-general rate of duty</u>
Glass of headings 7003-7005, bent, edgeworked, engraved, drilled, enameled or otherwise worked, but not framed or fitted.....	7006.00.40	4.9% ad val.

Structure of domestic industry (including competing products):

There are no known U.S. producers of this product.

Private-sector views:

The Commission contacted the only company known to import this product.⁶ The company had not submitted any written comments as of the date of preparation of this report.

U.S. consumption:

<u>Synthetic quartz substrates:</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
	-----(\$Million)-----		
U.S. production.....	0	0	0
U.S. imports ¹	7	15	11
U.S. exports.....	0	0	0
Apparent U.S. consumption ¹	7	15	11

¹ Estimated by the staff of the U.S. International Trade Commission.

Principal import sources: Japan.

Principal export markets: None.

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

⁶ Commission staff contacted the only known U.S. importer of this product, DuPont Photomask Inc., on Mar. 24, 1998. The Commission contacted eight additional companies believed to be possible U.S. producers or consumers of synthetic quartz substrates: Feb. 20, 1998, Garner Glass Co., Houde Glass Co., Schott Glass Technologies; Feb. 23, 1998, Heraeus Amersil; Feb. 25, 1998, Corning Inc.; Mar. 13, 1998, IBM, Seagate, Quantum Corp.; and Mar. 26, 1998, SEH America, Inc. None of the firms contacted by the Commission indicated that they produced synthetic quartz substrates or knew of any U.S. producers of the product.

Effect on customs revenue:⁷

Future (1998-2000) effect:

Using an estimate that annual imports total \$11 million, enactment of this bill would result in an annual loss of customs revenue of \$539,000.

\$11,000,000	average annual dutiable imports (1995-97)
<u> x .049</u>	4.9% duty rate
\$ 539,000	estimated annual revenue loss

Retroactive effect: None.

Technical comments:

The Commission recommends that the phrase “synthetic quartz substrates” in the proposed bill be changed to read “substrates of synthetic quartz or synthetic fused silica”. The substrates are commercially or commonly referred to as synthetic quartz, but this nomenclature is misleading. The term “quartz” implies crystalline structure that is lacking in the product. The technically correct description of the substrates is synthetic fused silica. The proposed language change encompasses both the commercial and technically correct descriptions of the product.

The Committee may wish to delete the phrase “into the United States” since this may introduce some ambiguity with reference to the “customs territory of the United States”. The latter phrase is defined in General Note 2 of the HTS.

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

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
2D SESSION

S. 1650

To suspend temporarily the duty on synthetic quartz substrates.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 12, 1998

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

A BILL

To suspend temporarily the duty on synthetic quartz substrates.

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. SYNTHETIC QUARTZ SUBSTRATES.**

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:

“	9902.70.06	Synthetic quartz substrates imported into the United States in bulk or in forms or packages for retail sale (provided for in subheading 7006.00.40)	Free	No change	No change	On or before 12/31/2000	”.
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1 (b) EFFECTIVE DATE.—The amendment made by
2 subsection (a) applies with respect to goods entered, or
3 withdrawn from warehouse for consumption, on or after
4 the 15th day after the date of enactment of this Act.

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