

June 11, 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. 1851 (105th Congress), Senator Mack (FL).

Companion bill: None.

Title as introduced: To suspend temporarily the duty on certain rocket engines.

Summary of bill:²

The bill would suspend through December 31, 2001, the general rate of duty on certain rocket engines classified in subheading 8412.10.00 of the Harmonized Tariff Schedule of the United States (HTS).

Effective date: The 15th day after enactment.

Retroactive effect: None.

Statement of purpose:

Senator Mack made no statement about the bill in the *Congressional Record*.

A representative of United Technologies Corporation (UTC)/Pratt & Whitney (P&W) indicated that the firm supports suspending the duty on the subject engines to enhance the RD-180 program.³ According to the official, this program is a joint venture between UTC's P&W Space Propulsion Division and NPOEnergomash, a Russian aerospace concern. The joint venture, known as RD AMROSS, LLC, is engaged in business activities requiring the importation of Russian-built rocket engines into the United States for integration into U.S. manufactured satellite launch vehicles. The recent exclusion of these Russian-built rocket engines from duty-free entry under the U.S. Generalized System of Preferences (GSP) program reportedly caused a financial hardship for RD AMROSS. Thus, on behalf of RD AMROSS, UTC/P&W is attempting to obtain this duty suspension for the subject engines, contracted for delivery over a four-year period beginning in 1998.

¹ Industry analyst: Zachary Falls (205-3360); attorney: Jan Summers (205-2605).

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

³ Telephone interview with representative of United Technologies/Pratt & Whitney, Apr. 23, 1998.

Product description and uses:

Certain rocket engines: The bill would affect imports of dual thrust chamber rocket engines each having maximum static sea level thrust exceeding 800,000 lbs. and nozzle exit diameters exceeding 50 inches. A dual thrust chamber rocket engine is a liquid fuel engine designed to propel specific launch vehicles into space.

Tariff treatment:⁴

<u>Product</u>	<u>HTS subheading</u>	Col. 1-general
		<u>rate of duty</u>
Certain rocket engines...	8412.10.00	2% ad val.

Structure of domestic industry (including competing products):

Certain rocket engines: There are three major producers of rocket engines in the United States: UTC/P&W, Boeing/Rocketdyne, and Thiokol. These producers import parts for rocket engines under HTS heading 8412 and other applicable provisions. The majority of rocket engines used on launch vehicles in the United States are made and supplied by domestic producers.

Private-sector views:

The Commission staff contacted two companies that produce rocket engines and one industry association representing manufacturers.⁵ No written comments had been submitted as of the date of preparation of this report.

U.S. consumption:

Certain rocket engines:	<u>1995</u>	<u>1996</u>	<u>1997</u>
	-----(\$ millions)-----		
U.S. production.....	0	0	0
U.S. imports.....	0	0	(¹)
U.S. exports.....	0	0	0
Apparent U.S. consumption.....	0	0	(¹)

¹Withheld to avoid disclosure of business confidential information.

Principal import sources: Russia.

⁴ See appendix B for column 1-special and column 2 duty rates.

⁵ On Apr. 27, 1998, staff contacted Thiokol Corp., The Boeing Co., and the Aerospace Industries Association.

Principal export markets: None.
Effect on customs revenue:⁶

Future (1998-2001) effect: \$420,000 per year.⁷

Retroactive effect: None.

Technical comments:

We suggest that the word “each” be inserted before the word “having”. Further, to be consistent with the rest of the HTS, the units of measure in the proposed provision should be converted to and appear only as their metric equivalents. Thus, “50 inches” should be replaced by “127 cm”; the exact metric conversion of “800,000 lbs” is “3,558.719 kN” (the abbreviation refers to kilonewtons), according to industry sources. With regard to the latter figure, it is not desirable to be this precise given possible variations from one engine to another, and we suggest using “3,550 kN”--especially for a physical criterion that is a threshold unit of measure, in terms of qualifying for the duty suspension.

The proposed article description should be specific enough to exclude from coverage any rocket engines other than the specific engines designated by the company. UTC/P&W has indicated to the Commission that only the 18 engines currently under contract would be the subject of claims for duty-free entry under the proposed provision, and that any additional engines contracted for delivery in the future would be entered under subheading 8412.10.00 with payment of the appropriate duty. However, the new tariff provision would not bind the company to this course of action.

⁶ Actual revenue loss may be understated if a significant increase in imports occurs during the duty suspension period.

⁷ This figure is an average duty over the four years based on data submitted to the Commission by a U.S. producer.

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. 1851

To suspend temporarily the duty on certain rocket engines.

IN THE SENATE OF THE UNITED STATES

MARCH 24, 1998

Mr. MACK (for himself and Mr. GRAHAM) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To suspend temporarily the duty on certain rocket engines.

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 ON CER-**
4 **TAIN ROCKET ENGINES.**

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

“	9902.84.12	Dual thrust chamber rocket engines having a maximum static sea level thrust exceeding 800,000 lbs. and nozzle exit diameter exceeding 50 inches (provided for in subheading 8412.10.00)	Free	No change	No change	On or before 12/31/01	”.
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1 (b) EFFECTIVE DATE.—The amendment made by
2 this section applies to goods entered, or withdrawn from
3 warehouse for consumption, on or after the 15th day after
4 the date of enactment of this Act.

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