

## SUSPENSION OF THE IMPORT DUTY ON SYNTHETIC TANTALUM/COLUMBIUM CONCENTRATE, AND OTHER MATTERS

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Mr. LONG, from the Committee on Finance,  
submitted the following

### REPORT

[To accompany H.R. 2982]

The Committee on Finance, to which was referred the bill (H.R. 2982) to suspend until the close of June 30, 1980, the duty on synthetic tantalum/columbium concentrate, having considered the same, reports favorably thereon with amendments to the text and an amendment to the title and recommends that the bill, as amended, do pass.

#### I. SUMMARY

H.R. 2982, as amended by the committee, would accomplish three objectives:

To suspend until the close of June 30, 1980, the duty on synthetic tantalum/columbium concentrate, employed in the production of tantalum and columbium steels used in the manufacture of such products as heavy equipment, machinery, and oil and gas pipelines;

To suspend until the close of June 30, 1980, the duty on concentrate of poppy straw used in producing codeine or morphine; and

To suspend until the close of June 30, 1980, the duty on certain bicycle parts.

#### II. REASONS FOR THE BILL

The provisions of the bill regarding synthetic tantalum/columbium concentrate would eliminate an unnecessary charge on a resource material which is not produced commercially in the United States and for which there is a growing demand as a result of increased prices and a shortfall in supply of the natural product.

The provisions regarding concentrate of poppy straw used in producing codeine or morphine are intended to permit a reduction in the price to consumers of prescription drugs containing morphine or codeine derivatives by temporarily eliminating the duty on a raw material used to make those drugs which is produced in the United States solely for research purposes.

The provisions of the bill relating to bicycle parts would increase the competitiveness of U.S. bicycle manufacturers. U.S. bicycle manufacturers generally now pay a 15-percent ad valorem duty on the parts covered by these provisions. The parts are generally not available from U.S. producers. In contrast, imports of 95 percent of all completed bicycles are dutiable at a rate of 5.5 percent ad valorem. This situation hinders U.S. bicycle manufacturers in competing with imported bicycles. The provisions of the bill relating to bicycle parts would increase the competitive position of U.S. manufacturers by making certain needed parts duty free.

### III. GENERAL EXPLANATION

#### A. SYNTHETIC TANTALUM/COLUMBIUM CONCENTRATE

The first section of the bill would add new item 911.27 to the Appendix of the Tariff Schedules of the United States (TSUS) providing for duty-free treatment of column 1 (MFN) imports of synthetic tantalum/columbium concentrate entered, or withdrawn from warehouse, for consumption before July 1, 1980. Imports of synthetic tantalum/columbium concentrate are now dutiable under TSUS item 603.70 (a basket provision for various metal-bearing materials) at a column 1 rate of 7.5 percent ad valorem, unless imported from a beneficiary developing country eligible for duty-free treatment under the Generalized System of Preferences.

Tantalum/columbium concentrate is principally used as a raw material for columbium and tantalum ferroalloys used in producing steel. Columbium and tantalum steels are used in heavy equipment and machinery, oil and gas pipelines, structural members of buildings and bridges, and for architectural trim.

Synthetic tantalum/columbium concentrate is produced from low-grade tin slag. There is no known domestic production of synthetic tantalum/columbium concentrate. The only known producer of this product is located in West Germany. The West German company has recently purchased one of the domestic companies involved in the production of columbium/tantalum metals. Another domestic producer of columbium/tantalum metals has accumulated substantial inventories of low-grade tin slag and has contracted with the West German producer to process the slag into synthetic concentrate.

There has been no domestic mine production of natural columbium concentrate since 1969 and domestic deposits allegedly cannot be mined profitably at current prices. The domestic industry must rely totally on imports. Natural columbium concentrate is imported free of duty under TSUS item 601.21, while natural tantalum concentrate is imported free of duty under TSUS item 601.42. A significant percentage of the duty paid by importers on synthetic tantalum/columbium concentrate is believed to be returned under drawback provisions because the products in which the concentrates are used are often exported from the United States.

Imports of synthetic tantalum/columbium concentrate from West Germany were valued at approximately \$1 million in 1975 and \$3 million in 1976. The increase is apparently attributable to a shortage of natural sources of tantalum and columbium and rising prices.

The Subcommittee on International Trade of the Committee on Finance held hearings on the provisions of H.R. 2982 on July 14, 1977. No objections to the bill were heard. The Department of Commerce submitted a report stating no objection to enactment of these provisions. The International Trade Commission submitted an information report.

#### B. CONCENTRATE OF POPPY STRAW

Section 2 of the bill is a committee amendment which contains the substance of H.R. 3790, 95th Congress. It would add new item 907.70 to the Appendix of the TSUS, providing for duty-free treatment under columns 1 (MFN) and 2 (non-MFN) for imports of concentrate of poppy straw when entered, or withdrawn from warehouse, for consumption before July 1, 1980, for use in producing codeine or morphine. Imports of concentrate of poppy straw used for producing codeine or morphine are now dutiable under TSUS item 439.30 at a column 1 rate of duty of 1.5 percent ad valorem and at a column 2 rate of duty of 10 percent ad valorem, or under TSUS item 437.14 at a column 1 rate of duty of \$1.50 per ounce and a column 2 rate of duty of \$3 per ounce. Column 1 imports under item 439.30 from designated beneficiary developing countries are eligible for duty-free treatment under the Generalized System of Preferences (GSP).

Concentrate of poppy straw contains a much higher proportion of anhydrous morphine than raw opium. It is used to produce morphine and codeine for medicinal purposes. Poppies are grown in Turkey, Yugoslavia, and India under the supervision of the United Nations International Narcotics Control Board. Processing of poppy straw is carried on principally in the Netherlands, France, and Hungary. Processing in the United States at this time is solely for research purposes.

Under the Controlled Substances Act, the Justice Department has authorized the importation of poppy straw and poppy straw concentrate to relieve shortages of raw materials—such as opium—used in the production of medicinal codeine and morphine. Three U.S. companies process imported poppy straw into morphine and codeine. One company plans to import poppy straw and produce poppy straw concentrate but currently produces only small amounts of the concentrate. The companies sell morphine and codeine and their derivatives in bulk form to various formulators. The formulators sell their products to distributors and directly to pharmacies, hospitals, or physicians.

According to statistics collected by the U.S. Customs Service and by the Drug Enforcement Agency, total imports of poppy straw concentrate were 2,301 pounds in 1975 and 41,913 pounds in 1976. The principal suppliers to the United States during the period July 1975 to December 1976 were the Netherlands, France, and Hungary. Poland, Yugoslavia, and Switzerland also supplied significant amounts of imports. During this period, U.S. imports were (1) dutiable at 1.5 percent ad valorem for imports from the Netherlands, France, Poland, Yugoslavia (in 1975 only), and Switzerland, (2) dutiable at 10 percent

ad valorem or at 14.4 percent ad valorem equivalent for imports from Hungary, a non-MFN source, and (3) duty free from Yugoslavia in 1976 as an eligible country under GSP.

The U.S. Customs Service collected, from January 1975 through March 10, 1977, about \$523,000 in duties on imports valued at about \$15,040,000, for an overall weighted average duty of 3.8 percent ad valorem. About 71 percent, in terms of value, of all imports during the period were dutiable at 1.5 percent ad valorem and accounted for \$160,327 or 30.7 percent of the total duties collected. Most of the remaining imports, or 22.9 percent, were dutiable at 10 percent ad valorem or 14.4 percent ad valorem equivalent, and accounted for \$362,216 or 69.3 percent of the total duties collected. Yugoslavia, a beneficiary developing country under the GSP<sup>5</sup> was the source of the remaining 6.0 percent of the imports, which were duty free.

The Subcommittee on International Trade held hearings on H.R. 3790 on July 14 1977. Favorable testimony was heard. The Department of Commerce submitted a report stating no objection to enactment. The U.S. International Trade Commission submitted an information report.

#### C. BICYCLE PARTS

Section 3 of the bill is a committee amendment containing the substance of H.R. 5263, 95th Congress. It would add parts of generator lighting sets to TSUS item 912.05, and coaster brakes, alloy butted frame tubing, alloy cotterless crank sets, alloy rims, and parts thereof to TSUS item 912.10. It would delete derailleurs from item 912.10, thus ending duty-free status for imports of that product. The section would make imports of the preceding articles (except derailleurs) and generator lighting sets, caliper brakes, drum brakes, three-speed hubs incorporating coaster brakes, three-speed hubs not incorporating coaster brakes, click twist grips, click stick levers, and multiple free-wheel sprockets, and parts thereof, all of which had been duty free (except parts) under items 912.05 and 912.10 through December 31, 1976, duty free when entered, or withdrawn from warehouse, for consumption under column 1 before July 1, 1980. In addition, the articles would be eligible for duty-free treatment, upon request, if imported after December 31, 1976, and before the date of enactment of this provision. The present column 1 duties on the parts and accessories covered by this section of the bill now range from 15 to 19 percent ad valorem.

U.S. production of bicycles relies heavily on imported parts, and the parts and accessories covered by section 3 are not available from United States sources except that caliper brakes are assembled by a North Carolina firm from complete kits imported from Japan. There are seven U.S. producers of bicycles. U.S. production of complete bicycles rose from 6.5 million units in 1971 to 10.1 million units in 1974, but decreased in 1975 to 5.6 million units. Production increased to 6.4 million units in 1976. The share of the U.S. market accounted for by imported bicycles, which rose from 26 percent (2.3 million units) in 1971 to 37 percent (5.2 million units) in 1972, dropped steadily to less than 24 percent (1.72 million units) in 1975 and to about 21 percent (1.67 million units) in 1976.

The Subcommittee on International Trade held a hearing on July 14, 1977, on H.R. 5263. Testimony favoring enactment was heard from the Bicycle Manufacturers Association of America, which represents manufacturers accounting for 80 percent of U.S. production. The Schwinn Bicycle Co. also supported enactment of these provisions. The American Association of Bicycle Importers, Inc., objected to the bill because of the decline in the share of the U.S. market supplied by imports. The Department of Commerce submitted a report favoring enactment of H.R. 5263. An information report was received from the U.S. International Trade Commission.

One company testified against inclusion of coaster brakes in the duty suspension. The company produces, using U.S. materials, coaster brakes in Mexico for sale to U.S. bicycle manufacturers, and has not produced coaster brakes in the United States since 1973. It alleged it must have a 15 percent ad valorem tariff advantage over other imports of coaster brakes, largely from Japan, to stay in business. It has petitioned to have coaster brakes included on the list of articles eligible for duty-free treatment under the Generalized System of Preferences. If it is successful, imports from Mexico will be duty free. U.S. bicycle manufacturers alleged that the company has been successfully competing with Japanese products without any duty advantage. They also stated that, even with a tariff advantage, the company could only supply about 60 percent of U.S. demand for coaster brakes. This would mean U.S. bicycle manufacturers would still have to buy significant quantities of dutiable coaster brakes from Japan.

After considering the objections, the committee has decided to approve the provision as passed by the House. The committee believes the economy as a whole, and the domestic manufacturers of bicycles and their employees in particular, would benefit most if domestic bicycles are more competitive with foreign imports and parts suppliers are required to compete for sales under the same tariff treatment.

#### IV. COST OF CARRYING OUT THE BILL

In compliance with section 252(a) of the Legislative Reorganization Act of 1970, the committee estimates the cost of carrying out the bill, as amended, will be less than \$238,000 per annum for the provisions on tantalum/columbium concentrate; approximately \$450,000 per annum for the provisions on concentrate of poppy straw; and approximately \$4.6 million per annum for the provisions on bicycle parts.

In compliance with section 403 of the Congressional Budget Act of 1974, the Director of the Congressional Budget Office has submitted a statement to the committee that the director has examined the revenue estimates prepared by the committee and agrees with them.

#### V. REGULATORY IMPACT OF THE BILL

In compliance with paragraph 5 of rule XXIX of the Standing Rules of the Senate, the committee states that the bill, as amended, will not regulate any individuals or businesses.

## VI. VOTE OF COMMITTEE

In compliance with section 133 of the Legislative Reorganization Act of 1946, the committee states that the bill, as amended, was ordered favorably reported by voice vote.

## VII. CHANGES IN EXISTING LAW

In compliance with paragraph 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown below (existing law proposed to be omitted is enclosed in black brackets, new matter is in italic, existing law in which no change is proposed is shown in roman):

## TARIFF SCHEDULES OF THE UNITED STATES

## APPENDIX TO THE TARIFF SCHEDULES

Item	Articles	Rate of duty		Effective date
		1	2	
PART 1.—TEMPORARY LEGISLATION				
*	*	*	*	*
	Subpart B.—Temporary Provisions Amending the Tariff Schedules			
*	*	*	*	*
907.70	Concentrate of poppy straw (however provided for in part 3 of schedule 4) when imported for use in producing codeine or morphine.-----	Free	Free	On or before 6/30/80.
*	*	*	*	*
911.27	Synthetic tantalum/columbium concentrate (provided for in item 603.70, pt. 1, schedule 6)-----	Free	No change	On or before 6/30/80.
*	*	*	*	*
912.05	Generator lighting sets for bicycles and parts thereof (provided for in item 653.39, part 3F, schedule 6)-----	Free	No change	On or before [12/31/76] 6/30/80.
912.10	【Derailleurs, caliper】 Caliper brakes, drum brakes, three-speed hubs incorporating coaster brakes, three-speed hubs not incorporating coaster brakes, click twist grips, click stick levers, multiple free-wheel sprockets, coaster brakes, cotterless type crank sets, rims, part of all the foregoing, and parts of bicycles consisting of sets of steel tubing cut to exact length and each set having the number of tubes needed for the assembly (with other parts) into the frame and fork of one bicycle (provided for in item 732.36, part 5C, schedule 7).-----	Free	No change	On or before [12/31/76] 6/30/80.

