

TEMPORARY SUSPENSION OF THE IMPORT DUTY ON CERTAIN HORSES, AND OTHER MATTERS

SEPTEMBER 9 (legislative day, SEPTEMBER 8), 1977.—Ordered to be printed

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

REPORT

[To accompany H.R. 3259]

The Committee on Finance, to which was referred the bill (H.R. 3259) to continue to suspend for a temporary period the import duty on certain horses, 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. 3259, as amended by the committee, would accomplish three objectives:

To suspend until the close of June 30, 1980, the duty now applicable to certain horses, thus ending tariff discrimination among breeds and avoiding customs valuation and bonding problems;

To assure a continued Canadian crude petroleum supply at the lowest cost to U.S. refiners located near the Canadian border by permitting the duty-free entry of Canadian crude petroleum and crude shale oil provided that an equivalent amount of domestic or duty-paid foreign crude petroleum or crude shale oil is exported to Canada from the United States; and

To reduce the cost to patients of doxorubicin hydrochloride, an anticancer drug, by suspending until the close of June 30, 1980, the import duty on that drug.

II. REASONS FOR THE BILL

The provisions of the bill regarding horses end the tariff discrimination among breeds, some of which are now entitled to duty-free treatment while others are not, avoid customs valuation problems with respect to foals and horses which have not yet raced, and avoid bonding problems resulting when a horse entered under a temporary bond is purchased in a claiming race.

The provisions of the bill regarding Canadian petroleum are intended to assure a continued crude petroleum supply at the lowest cost to U.S. refiners located near the Canadian border. Because of lack of pipelines and other factors, northern tier U.S. refiners do not have economical access to sufficient sources of crude petroleum except from Canada. The Canadian Government has established export quotas on crude petroleum which would severely curtail exports to the United States, but has agreed to supply crude petroleum to the United States in excess of export quotas in exchange for exports to Canada from the United States of an equivalent quantity of crude petroleum. Duty-free treatment for imports of Canadian crude petroleum as provided by the bill would remove one economic barrier to such exchanges.

The provisions of the bill regarding doxorubicin hydrochloride are intended to reduce costs to cancer patients using the drug. There is no domestic production of doxorubicin hydrochloride. To the extent that savings from the duty-free treatment provided by the bill are passed along to the ultimate consumer, a cancer patient could have his drug bill reduced by as much as \$50 to \$75 per course of treatment.

III. GENERAL EXPLANATION

A. HORSES

The first section of H.R. 3259, as reported by the committee, would amend Tariff Schedules of the United States (TSUS) items 903.50 and 903.51, providing duty-free treatment of column 1 (MFN) imports of horses covered by TSUS items 100.73 and 100.75 entered, or withdrawn from warehouse, for consumption through June 30, 1980. As passed by the House, the closing date for duty-free treatment was June 30, 1978. Items 903.50 and 903.51 now provide for duty-free treatment for imports before July 1, 1976. Duty-free treatment under the bill would apply to horses entered, or withdrawn from warehouse, for consumption after the date of enactment, and upon request, to those entered or withdrawn after June 30, 1976, but before the date of enactment.

Imports of horses valued at not over \$150 per head are now dutiable under TSUS item 100.73 at a column 1 rate of duty of \$2.75 per head. Imports of horses valued at over \$150 per head are dutiable under TSUS item 100.75 at a column 1 rate of duty of 3 percent ad valorem. Column 1 imports under TSUS item 100.73 are eligible for duty-free treatment under the Generalized System of Preferences when they originate from designated beneficiary developing countries.

This bill would extend a suspension of duty which was first enacted in 1974. The duty on horses was originally suspended, in part, because the present tariff structure for horses operates discriminatorily among different breeds. For example, horses may be imported free of duty for breeding purposes under TSUS item 100.01. This applies only if the horse is certified by the Department of Agriculture as being of a

recognized breed and is duly registered on a book or record recognized by the Secretary of Agriculture for that breed. Since the American quarter horse does not qualify under these criteria, importers of such horses for breeding purposes are required to pay duty, usually under item 100.75 at 3 percent ad valorem, while other breeds may be entered free of duty.

The previous duty suspension also obviated problems at the border relating to valuation for customs purposes of foals and horses which had not yet raced. That suspension also obviated problems relating to temporary importation bonds posted by individuals who brought horses into the United States under such a bond for claiming races. The majority of races in the United States are claiming races. Claiming races are designed to insure that the horses in any specific race are of comparable ability by requiring that all horses in the race may be purchased at a price established for the particular race. For example, horses running in \$5,000 claiming races may be purchased for \$5,000. Absent a duty suspension, the importer of a horse under a temporary importation bond which is sold in a claiming race and not returned to the country of origin within the prescribed time limits has to forfeit his bond.

About 85 percent of imported horses are race horses. Virtually all imported horses are valued over \$150 per head. The value of imported horses valued over \$150 per head was approximately \$43 million in 1976. Of this amount, Canada supplied 62.3 percent, the United Kingdom 8.1 percent, Argentina 6.7 percent and New Zealand 5.1 percent.

The Subcommittee on International Trade of the Committee on Finance held hearings on H.R. 3259 on July 14, 1977. The subcommittee received favorable testimony on the bill. The committee received a report supporting enactment of H.R. 3259 from the Department of Commerce. The U.S. International Trade Commission submitted an information report.

B. CANADIAN PETROLEUM

Section 2 of H.R. 3259 regarding Canadian petroleum is a committee amendment containing the amended substance of S. 843, 95th Congress. It would amend the headnotes to part 10 of schedule 4 of the TSUS by adding a new paragraph 4 providing for duty-free treatment for Canadian crude petroleum, including reconstituted crude petroleum, and Canadian crude shale oil if an equivalent amount of domestic or duty-paid foreign crude petroleum or crude shale oil is exported to Canada from the United States. Imports of crude petroleum and crude shale oil are now dutiable under column 1 of TSUS item 475.05 and 475.10 at 0.125 cents or 0.25 cents per gallon, respectively, depending on viscosity. In addition to these duties, about half of crude petroleum imports are subject to a license fee of 21 cents per barrel which is administered by the Federal Energy Administration. For such imports, the TSUS duty is, in effect, deducted from the license fee. License fees have not been applicable to imports from Canada since May 1, 1976.

The U.S. refiners who depend most on the crude petroleum now imported from Canada for their refining are the priority one northern tier refiners. Because of lack of pipelines and other factors, northern tier U.S. petroleum refiners do not have economical access to sufficient sources of crude petroleum except from Canada. The Canadian

government has established export quotas on crude petroleum which would severely curtail exports to the United States, but has agreed to supply crude petroleum to the United States in excess of export quotas in exchange for exports to Canada from the United States of an equivalent quantity of domestic crude petroleum. Duty-free treatment for imports of Canadian crude petroleum would remove one economic barrier to such exchanges. Total crude petroleum imports from Canada for 1976 were 157,045,704 barrels.

The committee amended the original language of S. 843 to delete the following requirements:

(1) That the crude petroleum which is exported from the United States be "of the same kind and quality" as the imported Canadian petroleum, because this would create administrative problems by requiring careful chemical analyses of each shipment—both imports and exports—and the maintenance of separate records for many different qualities of crude petroleum; and

(2) that a U.S. importer of Canadian petroleum provide documentation with respect to exports to Canada during the preceding 30-day period in order to demonstrate he qualifies for duty-free treatment. The documentation is normally required of such an importer under the general rule that importers provide sufficient documentation to the U.S. Customs Service to show that they are eligible for a particular duty treatment. The Federal Energy Administration, Department of Commerce, and the U.S. Customs Service could maintain records which would permit a customs officer to determine the proper duty treatment for Canadian crude petroleum imports while permitting normal fluctuations in the timing of commercial shipments. The committee amendment would require, as a condition for duty-free entry, that documentation be filed with the appropriate customs officer within 180 days after entry. The documentation must show that: (1) The entry was made pursuant to a commercial exchange agreement approved by the Secretary of Energy; (2) the Secretary has issued an import license for the petroleum covered by the entry; and, (3) an equivalent amount of petroleum, which has not previously been used to effect the duty-free entry of Canadian petroleum, has been exported to Canada under the commercial exchange agreement and an export license issued by the Secretary of Commerce.

The Subcommittee on International Trade held hearings on S. 843 on July 14, 1977. Favorable testimony was received. The committee received a report from the Department of Commerce favoring enactment of S. 843 as amended by the committee. The U.S. International Trade Commission submitted an information report.

C. DOXORUBICIN HYDROCHLORIDE

Section 3 of H.R. 3259 is a committee amendment containing the substance of H.R. 4018, 95th Congress. It would add a new item 907.20 to the Appendix of the TSUS providing duty-free treatment for imports of doxorubicin hydrochloride under column 1 entered, or withdrawn from warehouse, for consumption before July 1, 1980. Imports of doxorubicin hydrochloride are now dutiable under either

TSUS item 437.32 or 438.02 at a column 1 rate of duty of 5 percent ad valorem.

Doxorubicin hydrochloride is a drug used in the treatment of many cancers, including breast and bladder cancers. There is no U.S. production of the drug. All imports, valued at approximately \$10 million annually, are imported from Italy by a single U.S. firm. The imports are channeled to the ultimate consumer principally through the National Cancer Institute and hospitals. To the extent that savings from the duty-free treatment provided by section 3 of the bill are passed along to the ultimate consumer, a cancer patient receiving the drug could have his drug bill reduced by as much as \$50 to \$75 per course of treatment.

The Subcommittee on International Trade held a public hearing on H.R. 4018 on July 14, 1977. Favorable testimony was received by the subcommittee. No objections to the bill have been received from any source. The committee received a report from the Department of Commerce favoring enactment of H.R. 4018. The U.S. International Trade Commission submitted an information report.

IV. CUSTOMS REVENUE EFFECTS OF CARRYING OUT THE BILL

In compliance with section 252(a) of the Legislative Reorganization Act of 1970, the committee estimates that the following customs revenue effects will occur in carrying out this bill:

With respect to the provisions on horses, an annual revenue loss of approximately \$350,000;

With respect to the provisions on Canadian petroleum, no revenue loss, or a small annual gain in revenues; and

With respect to the provisions on doxorubicin hydrochloride, an annual revenue loss of approximately \$500,000.

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 estimate, 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

SCHEDULE 4.—CHEMICALS AND RELATED PRODUCTS

Item	Articles	Rate of duty	
		1	2
PART 10.—PETROLEUM, NATURAL GAS, AND PRODUCTS DERIVED THEREFROM			
<u>Part 10 headnotes:</u>			
<p><i>4. (a) For purposes of this headnote, the term 'petroleum' means crude petroleum (including reconstituted crude petroleum) or crude shale oil provided for in items 475.05 or 475.10.</i></p> <p><i>(b) Petroleum shall, if a product of Canada, be admitted free of duty and any entry therefor shall be liquidated or reliquidated accordingly if, on or before the 180th day after the date of entry, documentation is filed with the customs officer concerned establishing that, pursuant to a commercial exchange agreement between United States and Canadian refiners which has been approved by the Secretary of Energy—</i></p> <p><i>(i) an import license for the petroleum covered by such entry has been issued by the Secretary; and</i></p> <p><i>(ii) an equivalent amount of domestic petroleum or duty-paid foreign petroleum has, pursuant to such commercial exchange agreement and to an export license issued by the Secretary of Commerce, been exported from the United States to Canada and has not previously been used to effect the duty-free entry of like Canadian products under this headnote.</i></p> <p><i>(c) The Secretary of the Treasury, after consulting with the Secretary of Commerce and the Secretary of Energy, shall issue such rules or regulations as may be necessary governing the admission of Canadian products pursuant to the provisions of this headnote.</i></p>			

APPENDIX TO THE TARIFF SCHEDULES

Item	Articles	Rates of duty		Effective date
		1	2	
PART I.—TEMPORARY LEGISLATION				
*	*	*	*	*
	Subpart B.—Temporary Provisions amending the Tariff Schedules			
*	*	*	*	*
	Horses, other than for immediate slaughter (provided for in part 1, schedule 1):			
903.50	Valued not over \$150 per head (item 100.73) ..	Free	No change	On or before [6/30/76] 6/30/80
903.51	Valued over \$150 per head (item 100.75)	Free	No change	On or before [6/30/1976] 6/30/80
*	*	*	*	*
907.20	Doxorubicin hydrochloride (provided for in item 407.85, part 1, or in item 457.32 or 458.02, part 3, schedule 4, depending on source)	Free	No change	On or before 6/30/80.