

**DUTIABLE STATUS OF WATCHES ASSEMBLED IN  
INSULAR POSSESSIONS OF THE UNITED STATES**

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1778-4.

**HEARING**  
BEFORE THE  
**COMMITTEE ON FINANCE**  
**UNITED STATES SENATE**  
EIGHTY-NINTH CONGRESS

SECOND SESSION

ON

**H.R. 8436**

AN ACT TO AMEND THE TARIFF SCHEDULES OF THE  
UNITED STATES WITH RESPECT TO THE DUTIABLE  
STATUS OF WATCHES, CLOCKS, AND TIMING APPA-  
RATUS FROM INSULAR POSSESSIONS OF THE UNITED  
STATES

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JUNE 30, 1966

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Printed for the use of the Committee on Finance



U.S. GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1966

65-536

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# DUTIABLE STATUS OF WATCHES ASSEMBLED IN INSULAR POSSESSIONS OF THE UNITED STATES

THURSDAY, JUNE 30, 1966

U.S. SENATE,  
COMMITTEE ON FINANCE,  
Washington, D.C.

The committee met, pursuant to notice, at 9 a.m., in room 2221, New Senate Office Building, Senator Clinton P. Anderson presiding.

Present: Senators Long (chairman), Anderson (presiding), Douglas, Gore, McCarthy, Hartke, Ribicoff, Metcalf, Williams, Bennett, and Dirksen.

Also present: Tom Vail, chief counsel.

Senator ANDERSON. The meeting will come to order.

These hearings have been called to enable the interested parties to give testimony on the tariff treatment of watch movements assembled in the insular possessions. At present, these movements may be shipped duty free from the possessions if not more than 50 percent of their value is from foreign sources.

On June 8th the committee considered H.R. 8436 and ordered the bill reported with an amendment imposing a quota on the number of watch movements which could come in duty free from the possessions. The quota was set at 1.5 million watch movements. Without objection, a copy of the bill showing the committee amendment, together with a copy of the reports submitted by the executive departments, will be made a part of the record.

The Departments are not scheduled to testify at today's hearing. However, for the benefit of those who are present today, their views can be summarized as follows:

The Department of the Interior urges that a duty-free quota of one-sixth of U.S. watch consumption be reserved for the possessions, and that this quota be allocated only to companies which do not enjoy tax exemption.

The Commerce Department urges that duty-free treatment be denied for any watch assembled in the insular possessions.

The Treasury and the Labor Department feel there should be a general amendment to tighten up the rules governing free entry for all products assembled in the possessions.

The State Department indicates that since the question before the committee concerns only the United States and its insular possessions it has no position.

There are many witnesses to be heard today. In order to be fair to you all, I request that your statements be kept as brief as you can.

(H.R. 8436 and reports follow:)

[COMMITTEE PRINT]

JUNE 16, 1966

Calendar No.

89TH CONGRESS  
2D SESSION**H. R. 8436**

[Report No. ]

IN THE SENATE OF THE UNITED STATES

OCTOBER 22, 1965

Read twice and referred to the Committee on Finance

JUNE , 1966

Reported by Mr. LONG of Louisiana, with an amendment

[Strike out all after the enacting clause and insert the part printed in *italics*]

AN ACT To amend the Tariff Schedules of the United States with respect to the dutiable status of watches, clocks, and timing apparatus from insular possessions of the United States

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) paragraph (a) of general headnote 3 of title I of the Tariff Act of 1930 (Tariff Schedules of the United States, 28 F.R., part II, p. 11, Aug. 17, 1963; 77A Stat. 11) is amended by striking out "except that all articles" and inserting in lieu thereof "except that all articles (other than articles to which subparagraph (iii) applies)", and by adding at the end thereof the following new subparagraph:

"(iii) An article covered by schedule 7, part 2, subpart E (relating to watches, clocks, and timing apparatus) which

"(A) contains any foreign material; and

"(B) is imported from an insular possession (other than the Virgin Islands) of the United States which is outside the customs territory of the United States;

shall be dutiable at the rate of duty which is applicable to like articles the product of the foreign country which is the country of origin of the foreign material of chief value contained in such article."

(b) The amendments made by subsection (a) shall apply only with respect to articles entered, or withdrawn from warehouse, for consumption, after the one hundred and eightieth day after the date of the enactment of this Act.

That (a) paragraph (a) of general headnote 3 of the Tariff Schedules of the United States (19 U.S.C. 1202) is amended—

(1) by striking out "Article" in subparagraph (i) and inserting in lieu thereof "Except as provided in subparagraph (iii), articles";

(2) by striking out "except that all articles" in subparagraph (i) and inserting in lieu thereof "that all such articles"; and

(3) by adding at the end thereof the following new subparagraph:

"(iii) Articles provided for in schedule 7, part 2, subpart E which are the product of an insular possession of the United States outside the customs territory of the United States and which contain any foreign component shall be exempt from duty only as provided in headnote 6 of such subpart and shall be subject to the rates of duty set forth in columns numbered 1 and 22 of the schedules as provided in such headnote."

(b) The headnotes for schedules 7, part 2, subpart E of the Tariff Schedules of the United States are amended by inserting at the end thereof the following new headnote:

"6. Products of Insular Possessions.—(a) Except as provided in paragraph (b) of this headnote, any article provided for in this subpart which is the product of an insular possession of the United States outside the customs territory of the United States and which contains any foreign component shall be subject to duty—

"(i) at the rates set forth in column numbered 1, if the countries of origin of more than 50 percent in value of the foreign components are countries to products of which column numbered 1 rates apply, and

"(ii) at the rates set forth in column numbered 2, if the countries of origin of 50 percent or more in value of the foreign components are countries to products of which column numbered 2 rates apply.

"(b) If the requirements for free entry set forth in general headnote 3(a) are complied with, watches (provided for in item 715.05) and watch movements (provided for in items 716.08 through 719.—) which are the product of the Virgin Islands, Guam, or American Samoa and which contain any foreign component may be admitted free of duty, but the total quantity of such articles admitted free of duty during each 12-month period beginning on July 1 of each calendar year shall not exceed 1,500,000 of which number 87 percent shall be the product of the Virgin Islands, 22 percent shall be the product of Guam, and 11 percent shall be the product of American Samoa.

"(c) The Secretary of the Interior and the Secretary of Commerce, acting jointly, shall allocate each year on a fair and equitable basis among producers of watches and watch movements located in the Virgin Islands, Guam, and American Samoa the quotas for such year provided by paragraph (b) for articles which are the product of the Virgin Islands, Guam, and American Samoa, respectively. Allocations made by the Secretaries shall be final. The Secretaries are authorized to issue such regulations as they determine necessary to carry out their duties under this paragraph."

(c) The amendments made by subsections (a) and (b) shall apply only with respect to articles entered, or withdrawn from warehouse, for consumption on or after July 1, 1966.

Passed the House of Representatives October 21, 1965.

Attest:

RALPH R. ROBERTS, Clerk.

DATA RELATING TO H.R. 8436, PREPARED BY THE COMMITTEE STAFF

TABLE 1.—Assembled articles which qualify for duty-free entry from insular possessions

Ball point blanks-----	Brass blanks manufactured in United States, shipped to Virgin Islands where sapphire ball is placed in tip to form a ball point.
Bonded or laminated piece goods.	
Button blanks-----	Drilling and finishing.
Cellulose sponges-----	Consisting of foreign cellulose material.
Chemical composition---	Consisting of diethanolamine salt, and diethanolamine, unreacted (inert).
Costume jewelry-----	Consisting of beads, crude castings of alloy metals, to be electroplated and assembled.
Clinical thermometer blanks.	Consisting of capillary stem glass, glass tubing, and possibly mercury.
Cravenetting of piece goods.	
Dyestuff intermediate---	In the form of naphthol solution.
Dye pigments.	
Fire hose-----	Consisting of heavy linen yarn.
Fishing rods-----	Component parts.
Floral arrangements---	Assembled from leaves, flower heads and stems and containers.
Keyholders -----	Consisting of (a) swivel; (b) jump ring; (c) sliding part; and (d) key ring.
Herbicide -----	Consisting of acid mixed with timenthylamine.
Knitted fabrics-----	Consisting of fine count dyed worsted knitting yarns.
Lace-----	From cotton yarn.
Medicinal tablets-----	Consisting of isonicotinic acid hydrazide, para-amino-salicylic acid, sodium paraaminosalicylate.
Nerosol black RF-----	Consisting of acid chrome black ET Ex. Conc., anhydrous sodium sulfate and sulfamic acid.
Pocket knives-----	Consisting of two sides of the knife, two blades, spring, and rivet wire.
Polyester beads (plastic)	Coated with pearl lacquer.
Power transmission belts.	

**TABLE 1.—Assembled articles which qualify for duty-free entry from insular possessions—Continued**

Revolvers -----	Consisting of (a) barrel; (b) 6-shot cylinder and (c) frame assembly.
Rifles -----	Consisting of (a) 22 inch 30-06 barrel; (b) bolt-type rifle action; and (c) semifinished walnut stock.
Scissors and shears-----	Consisting of plated forgings of top blades with a recessed hole and bottom blades with a threaded hole, and steel screws.
Shavers and scissors-----	Assembled into completed products.
Shirts and other clothing.	Made from cloth imported from Japan or Europe.
Shoelaces -----	Consisting of cotton yarn.
Shoelaces, plastic or metal tips.	Consisting of imported braids.
Showerproofed piece goods.	
Silverplated tungsten wire.	To be electroplated.
Slacks and shorts, women's.	Cloth from Italy, cut and sewn in Virgin Islands.
Sports and casual wear.	Consisting of cloth made of cotton, linen, a mixture of linen and rayon, and possibly silk.
Starter pistols, blank---	Assembled in Virgin Islands.
Sulfadiazine tablets---	Powder form.
Trousers -----	Imported woolen material.
Tungstic acid-----	Made from imported tungsten ores and/or concentrates.
Universal joints-----	Consisting of component parts imported into Virgin Islands.
Vat-color print paste---	Mixing of various ingredients.
Watch assembly.	
Whiskey and sherry wine.	Rectified under formulas approved by the Alcohol and Tobacco Tax Division.
Wine -----	Consisting of grape wine of United States and sherry wine from Spain.
Zippers -----	From zipper chains in 100-yard lengths.

(Compiled by the staff, Senate Committee on Finance, from data submitted by the Bureau of Customs.

**TABLE 2.—Data relating to H.R. 8436**

[In millions of watches]

	U.S. watch consumption	Imports from foreign countries	Virgin Islands
1958.....	19.8	10.4	0
1959.....	24.8	13.5	0.005
1960.....	22.7	13.2	.044
1961.....	22.5	12.6	.173
1962.....	26.1	13.8	.420
1963.....	26.0	12.7	1.1
1964.....	27.4	13.0	2.4
1965.....	34.4	17.1	3.6

(Compiled by staff of Senate Committee on Finance, May 10, 1966.)



**DUTIABLE STATUS OF CERTAIN WATCHES**

**TABLE 3.—Value and source of Virgin Islands imports of watch parts**  
(In thousands of dollars)

Country	1960	1961	1962	1963	1964	1965
Japan.....	306	428	1,167	2,047	3,568	5,498
West Germany.....	10	14	69	444	1,389	1,773
France.....	17	114	460	722	1,401	1,741
Switzerland.....	270	159	131	118	28	43
Hong Kong.....					9	285
U.S.S.R.....			98	369	521	686
Other.....		2	6	31		21
<b>Total.....</b>	<b>603</b>	<b>717</b>	<b>1,931</b>	<b>3,729</b>	<b>6,916</b>	<b>10,047</b>

(Compiled from data supplied by Tariff Commission, May 16, 1966.)

**TABLE 4.—General imports into the United States from the Virgin Islands, of specified commodities, by specified years—Value only**

Commodity	1959	1962	1964	1965
Sugar.....	\$1,412,159	\$1,337,846	\$1,064,506	\$1,061,680
Wines and liquors.....	668,847	1,047,291	1,473,460	1,228,332
Yarns and fabrics of wool.....	0	8,962,249	2,004,303	3,911,746
Tungstic acid.....				434,806
Sodium compounds.....			270,446	608,621
Cosmetics and toilet goods.....	232,884	541,704	793,857	674,226
Unwrought tungsten alloys.....				651,485
Clinical thermometers.....	*206,369	*456,912	500,202	446,971
Watch movements.....	*26,035	2,796,909	14,168,504	21,304,055
Jewelry.....	1,282,566	1,369,918	1,376,529	1,500,273
<b>Total.....</b>	<b>3,828,860</b>	<b>16,512,829</b>	<b>21,651,807</b>	<b>31,822,095</b>
<b>Grand total, all commodities.....</b>	<b>5,467,205</b>	<b>19,038,647</b>	<b>23,634,602</b>	<b>34,573,839</b>

Source: Compiled from FT-800 (U.S. Department of Commerce) except figures noted by asterisk (\*) which were taken from FT-161.

(Department reports on H.R. 8436 follow:)

EXECUTIVE OFFICE OF THE PRESIDENT,  
BUREAU OF THE BUDGET,  
Washington, D.O., February 15, 1966.

HON. RUSSELL B. LONG,  
Chairman, Committee on Finance,  
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to Senator Byrd's request of October 27, 1965, for the views of the Bureau of the Budget regarding H.R. 8436, "To amend the Tariff Schedules of the United States with respect to the dutiable status of watches, clocks, and timing apparatus from insular possessions of the United States."

As passed by the House of Representatives, this bill would have the effect of excluding watches, clocks, timing apparatus, and their parts imported from Guam and American Samoa from the duty-free treatment granted by general headnote 3(a) of the Tariff Schedules of the United States. Briefly, that headnote grants duty-free treatment for articles imported from the insular possessions when those articles do not contain more than 50 percent by value of foreign materials.

This duty-free treatment as it relates to all insular possessions and to all products imported from them is being reviewed at this time within the Executive Branch, and legislation dealing with this subject is now under preparation.

The Bureau of the Budget believes that it is preferable to deal with duty-free imports from the insular possessions through general legislation rather than

by legislation affecting only a particular commodity. Consequently, we recommend that consideration of H.R. 8436 be deferred pending the presentation of general legislation.

Sincerely yours,

PHILLIP S. HUGHES,  
*Assistant Director for Legislative Reference.*

GENERAL COUNSEL OF THE DEPARTMENT OF COMMERCE,  
*Washington, D.C., February 18, 1966.*

Hon. RUSSELL B. LONG,  
*Chairman, Committee on Finance,*  
*U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in further reply to your request for the views of the Department of Commerce with respect to H.R. 8436, an act "To amend the Tariff Schedules of the United States with respect to the dutiable status of watches, clocks, and timing apparatus from insular possessions of the United States."

If enacted, H.R. 8436 would amend paragraph (a) of General Headnote 3 of Title I of the Tariff Act of 1930 (Tariff Schedules of the United States; 28 F.R., part II, page 11, August 17, 1963; 77A Stat. 11). In effect, the amendment would remove articles covered by schedule 7, part 2, subpart E (relating to watches, clocks, and timing apparatus) from the duty-free status allowed certain articles containing dutiable foreign materials coming into the United States from its insular possessions, except for such articles entered from the Virgin Islands. Further, the amendment would apply only with respect to articles entered, or withdrawn from warehouses, for consumption after the one hundred eightieth day after the date of enactment of this bill.

Under General Headnote 3(a) of the Tariff Schedules of the United States an article can be shipped duty-free into the United States from its insular possessions if the value of the foreign materials contained in the article is not more than 50 percent of its total value. Under present customs practice this test can be met in many instances with only token processing of foreign dutiable materials in the insular possessions. As a result, undesirable tariff avoidance practices have arisen.

This Department has been concerned with operations under headnote 3(a) particularly with respect to commodities on which high U.S. rates of duty have been established by government action for the relief of a domestic industry. The watch assembly operations in the Virgin Islands are a case in point since most of the watch movements being assembled in the Virgin Islands would have been dutiable under escape clause rates of duty had they been imported directly from foreign countries into the United States. There also have been other cases in which foreign goods normally dutiable at rather high tariff rates have been imported into the Virgin Islands where they are subjected to token processing in order to qualify under headnote 3(a) for duty-free entry into the United States. For example, the Virgin Islands Government found it necessary in 1963 to control the volume of production of wool textiles which were being subjected to a token waterproofing and entered into the United States free of duty.

Activities in the insular possessions involving only token processing of foreign dutiable materials and based on solely on the duty-free privilege of General Headnote 3(a) could subvert the purpose of that headnote of providing encouragement to economic development in the insular possessions. If left unchecked, such activities operating under an umbrella of rather high rates of duty on direct imports into the United States could also cause serious trade impact on domestic producers.

Thus, the problem created by watch assembly operations in the Virgin Islands or the spread of such operations to other insular possessions is only one area of concern with respect to duty-free entry of shipments from insular possessions. As the Committee is aware, the Administration is working on a proposal to amend headnote 3(a) so as to relate the duty-free privilege for shipments from the insular possessions more closely to the economic benefit resulting to the insular possessions.

This Department would support a general legislative solution to the tariff avoidance problem of General Headnote 3(a) applicable to all insular posses-

sions in preference to a commodity-by-commodity amendment of that provision. On the other hand, the spread of watch assembly operations in the insular possessions encouraged by existing tariff avoidance possibilities of headnote 3(a) is an immediate and growing problem, as is recognized by H.R. 8436.

The Act is designed to prevent the further spread of the assembly of watch movements from foreign watch subassemblies and parts in the insular possessions for subsequent shipment into the United States customs territory free of duty under General Headnote 3(a) of the Tariff Schedules of the United States. Watch assembly operations began in the Virgin Islands in 1959. These operations involve no manufacture of watch parts but merely the assembly of watch movements from foreign subassemblies and parts primarily for shipment into the United States customs territory free of duty. The watch subassemblies and parts of watches are currently being imported into the Virgin Islands from Japan, West Germany, France, the U.S.S.R., Switzerland and Hong Kong. Shipments of watch movements from the Virgin Islands to the United States increased from 5,000 units valued at \$34,000 in 1959 to 3,221,458 units valued at \$19,154,662 in the first eleven months of 1965. Such shipments virtually all consist of jeweled-lever movements. In 1965 they amounted to approximately 13 percent of apparent U.S. consumption of all watch movements and about one-third of jeweled-lever movements. Watch assembly operations began in Guam in November 1965 under circumstances similar to those in the Virgin Islands. Discussions have also taken place with regard to the establishment of watch assembly facilities in American Samoa.

While the Act would prevent the duty-free entry of watch movements from Guam or American Samoa it would not limit the volume of duty-free entries of watch movements into the United States from the Virgin Islands, nor would it prevent the growth of such operations in the Virgin Islands.

The Department of Commerce is aware that the Virgin Islands Government has taken action to control the volume of watch movements assembled in the Virgin Islands for shipment to the United States. This control is in the form of a production tax of \$2.47 which is imposed on each watch movement assembled for shipment to the United States in excess of an annual quota. The Virgin Islands Government evidently took this action to forestall legislation similar to H.R. 8436, and in this respect determined on its own accord that its assembly industry is entitled to one-ninth of United States market for watch movements. The annual quota is allocated among the manufacturers (assemblers) of watches in the Virgin Islands on the basis of their respective percentage of total payroll and number of watch movements assembled with greater weight given to the size of the payroll.

In connection with H.R. 8436, it is interesting to note that one provision of the Virgin Islands law imposing certain production taxes on watches manufactured in the Virgin Islands provides the following:

"(e). In the apportionment of quotas to a manufacturer hereunder, the Governor is authorized to take into account, and to make a corresponding deduction, watch for watch, where such is in his judgment necessary to protect the economic stability and the commercial relations of the Virgin Islands, of any quantity of watches shipped to the customs area of the United States by the same manufacturer, or a firm corporately or personally affiliated, from any other territory or possession of the United States."

This authority is apparently intended to discourage watch assemblers in the Virgin Islands from introducing similar operations in the other insular possessions. This Department is informed that the Government of Guam is proposing to limit the shipment of watch movements to the United States to 1.5 million units annually. The proposed action on the part of the Government of Guam emphasizes the discriminatory nature of H.R. 8436 as to the treatment of the insular possessions. More importantly it raises a serious question as to whether the U.S. Government should permit its tariff policy to be determined by action of the various local governments in the insular possessions.

Though, as previously indicated, the Department of Commerce would favor a general solution to problems arising under General Headnote 3(a), it would not object to legislation dealing with watches at this time because of the enormous growth of the assembly operations in the Virgin Islands and the prospect of development of another very sizable operation in Guam. The Department is of the opinion, however, that if such legislation is to serve a really useful purpose, it should apply to all insular possessions including the Virgin Islands. This Department, therefore, recommends that H.R. 8436 be so amended.

We have been advised by the Bureau of the Budget that there would be no objection to the submission of this report from the standpoint of the Administration's program.

Sincerely,

ROBERT E. GILES, *General Counsel.*

U.S. DEPARTMENT OF THE INTERIOR,  
OFFICE OF THE SECRETARY,  
Washington, D.C., February 16, 1966.

HON. RUSSELL B. LONG,  
*Chairman, Committee on Finance,*  
*U.S. Senate, Washington, D.C.*

DEAR SENATOR LONG: Your Committee has requested our views on H.R. 8436, an Act "To amend the Tariff Schedules of the United States with respect to the dutiable status of watches, clocks, and timing apparatus from insular possessions of the United States."

We strongly recommend against enactment of the bill.

Under paragraph (a) of general headnote 3 of the Tariff Schedules of the United States (19 U.S.C. 1202), articles the growth or the product of U.S. insular possessions outside the customs territory of the United States are free of duty when imported into U.S. customs territory if they do not contain foreign materials to the value of more than 50 percent of their total value.

H.R. 8436 would remove this exemption with respect to watches, clocks, and timing apparatus imported from Guam and American Samoa, and would maintain the exemption with respect to such imports from the Virgin Islands.

We agree that the exemption should be maintained with respect to watch imports from the Virgin Islands. We also believe strongly, however, that the exemption should be maintained with respect to watch imports from Guam and American Samoa.

The House Ways and Means Committee recognized the value of the present law for encouraging light industry in the United States insular possessions.

The watch-assembly industry provides one of the largest sources of private employment in the Virgin Islands. More than 500 persons, earning more than \$1.6 million per year, assemble watches from foreign watch parts and some United States components, such as watch dials. Wages and working conditions in the Virgin Islands watch industry are considerably better than the average for all private industry in the territory. For the mainly young women employed as watch assemblers, at a computed average wage of \$1.52 per hour, the practical alternative to watch industry employment is employment as maids or waitresses in the tourist hotels, for which the statutory minimum is 75 cents per hour.

There are indications that several watch firms are planning subsidiaries in Guam and American Samoa. During the latter part of 1965 a new watch-assembly firm established itself on Guam and presently employs approximately 36 local persons and could expand to perhaps 100 in one year. This firm was originally set up by members of a Virgin Islands firm but we understand that ownership of the firm has since passed out of their hands. Guam's industrial work force is almost entirely in the military establishment and is very vulnerable to a phasing out of Guam as a major base, which might result from any significant change in weapons technology. Presently there is no watch production on American Samoa, but this territory is badly in need of economic development; today it is almost wholly dependent upon tuna fish canning plants for industrial jobs. American Samoa would welcome and benefit from watch-assembly production.

The House Ways and Means Committee also expressed the opinion that the preferential tariff treatment for products of our insular possessions should not be permitted to operate in a manner that is detrimental to the United States watch industry.

Although we are not experts on the subject, the information available to us indicates that watch imports from the Virgin Islands probably have not adversely affected the United States watch industry, and we doubt that the development of a new watch industry in Guam or American Samoa would adversely affect the United States watch industry.

Shipments of watch movements from the Virgin Islands to the United States have increased steadily, from a negligible amount in 1959 to more than 2.4 million

in 1964. But Virgin Islands shipments appear to have affected, not primarily the level of United States production, but the level of imports from foreign countries. United States consumption of watches of the jeweled-lever type produced in the Virgin Islands was mainly consumption of foreign watches in 1959 (7.1 million imports as compared with 1.6 million domestic production) and mainly consumption of foreign watches in 1964 (7.3 million imports from foreign countries as compared with an estimated 1.8 million domestic production and 2.4 million assembled in the Virgin Islands). Meanwhile, the United States total watch production increased by about 700,000 movements. When comparison is made over the ten-year period since "escape clause" duties were imposed on watch movements with not more than 17 jewels, the decline in domestic production of jeweled-lever watches is of approximately the same magnitude (300,000 to 400,000 units) as the increase in imports of jeweled-lever movements from foreign countries; in the same ten-year period, total United States watch production increased 4.8 million.

This Department and the Governor of the Virgin Islands are aware that substantial increases in territorial production of watch movements can vitiate the intent of special United States tariff protection and of the "escape clause" duties which are, as of this date, still in effect. The Governor of the Virgin Islands has taken steps, with legislative approval, to insure that beginning in 1968 Virgin Islands watch movements entering the United States will stabilize at, or perhaps slightly below, the level of shipments in 1965.

We are confident that Guam and American Samoa are both willing and able to take similarly effective steps to control any watch industry that is or may be established there.

We believe that it would be most unfair to discriminate against Guam and American Samoa in the manner proposed by H.R. 8436. Those two territories should not be denied the same opportunity to develop a watch industry of a reasonable size that has been afforded the Virgin Islands. The industrial development of those two territories should not be impeded by discretionary legislation on the basis of alleged threats to the United States watch industry that have not been adequately documented.

In addition to the foregoing considerations, which we consider of controlling importance, it should also be pointed out that this bill addresses itself to the dutiable status of only one commodity from the insular possessions. The executive branch is now considering legislation which would treat generally the problem of imports from the territories. We believe this approach should be followed, instead of a single commodity approach.

It should also be noted that the President is now reviewing the question of the continuance of "escape clause" duties which now exist on watches. Until that review has been completed, legislation of the kind proposed by the bill would be premature even if the need for some change in the law should be demonstrated.

If the Committee schedules this bill for consideration the Governor of Guam, the Governor of American Samoa, and the Governor of the Virgin Islands have asked that they be heard. I strongly urge that their requests be granted.

The Bureau of the Budget has advised that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely yours,

HARRY R. ANDERSON,  
*Assistant Secretary of the Interior.*

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U.S. DEPARTMENT OF THE INTERIOR,  
OFFICE OF THE SECRETARY,  
Washington, D.C., March 30, 1966.

Hon. RUSSELL B. LONG,  
*Chairman, Committee on Finance,*  
*U.S. Senate, Washington, D.C.*

DEAR SENATOR LONG: We would like to supplement our report to you of February 16, 1966, on H.R. 8436, an Act "To amend the Tariff Schedules of the United States with respect to the dutiable status of watches, clocks, and timing apparatus from insular possessions of the United States."

We continue to recommend against the enactment of the bill. In the event, however, that your Committee decides that the special circumstances surrounding watch assembly in the United States territories indicate an adequate need

for legislation dealing with one commodity, rather than waiting for the more comprehensive measure which the Administration is considering and which would treat generally the problem of imports from the territories, we would like our views set out below to be given consideration in connection with the bill, and we recommend an amendment.

Our report of February 16, 1966, stated that the watch assembly industry in the Virgin Islands is a major factor in the economic life of the territory, accounting for approximately 830 jobs. The watch industry has just gotten started on Guam, and by mid-year at least 100 jobs are expected to be provided on Guam by the industry. We are also hopeful that the industry will shortly be established in American Samoa, which, having a per capita income of less than \$500 per year, needs the watch industry perhaps more urgently than any other territory.

Several watch firms had been negotiating with the Governor of American Samoa last year looking toward their early entry into that territory. Once H.R. 8436 was introduced in the House of Representatives, however, the Governor broke off discussions with such firms, believing it inconsistent with his position as a Federal official to be engaged in an action which might be construed as an attempt to frustrate the Congress, or to take advantage of the Congress' need to weigh and consider the matter in deliberate fashion. Due to the very limited land available in American Samoa, and because of certain tax and quota powers vested in the Governor, the prior consent of the Governor of American Samoa is needed, as a practical matter, before substantial new activities are started. This is not the case on Guam, where land is readily available and where the Governor did not at that time have any quota-imposition power. The fact that the watch assembly industry did get started on Guam after the introduction of H.R. 8436 should not imply any lack of responsibility on the part of the Governor of Guam.

We believe it would be most unfortunate, however, if the Governor of American Samoa's forbearance, in order to give the Congress full opportunity to consider this matter, would have the practical result of depriving his territory of its rightful share of a territorial watch assembly industry. We also would not want to see the fledgling industry on Guam extinguished, nor, of course, substantial harm done the long-existing industry in the Virgin Islands.

We recommend that H.R. 8436 be amended by:

1. Deleting, on page 2, line 5, from proposed new subparagraph (iii) the parenthetical expression "(other than the Virgin Islands)"; and
2. changing, on page 2, line 11, the period at the end of the proposed new subparagraph (iii) to a comma and inserting:

*"Provided, That the provisions of this subparagraph shall not apply to such watches and watch movements as are subject to the United States Territorial Watch Quota. Such quota shall be one-sixth of the total United States consumption of watch movements as such consumption is determined by the Tariff Commission by April 15 of each year for the preceding calendar year. The total quota so determined shall be allocated by the Secretary of the Interior among the territories and possessions of the United States prior to June 1 of each year. In making such allocation the Secretary of the Interior shall give due regard to the special needs of each territory and possession, and to the existing impositions. The quota allotted by the Secretary to each of the territories and possessions shall be apportioned within such territories and possessions as the laws of the territory or possession shall provide among the producers of watches and watch movements who pay the territorial income tax, or the territorial equivalent of the Federal income tax, without rebate or subsidy. After July 1, 1966, each watch or watch movement imported from a territory or possession of the United States must have been produced pursuant to the above quota provisions in order to be entitled to the benefits of the above proviso."*

Due to the short time available the Bureau of the Budget has been unable to advise regarding relationship of this report to the President's program. It has said, however, that the informal checks which it was able to make during the time available indicate that the proposal made in this report may present serious problems and that therefore the Bureau continues to believe that consideration of this legislation should be deferred as suggested in its report.

Sincerely yours,

HARRY R. ANDERSON,  
Assistant Secretary of the Interior.

DEPARTMENT OF LABOR,  
OFFICE OF THE SECRETARY,  
Washington, D.C., January 18, 1966.

Hon. RUSSELL B. LONG,  
Chairman, Committee on Finance,  
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This is in further response to a request for our views on H.R. 8436, an Act "To amend the Tariff Schedules of the United States with respect to the dutiable status of watches, clocks, and timing apparatus from insular possessions of the United States."

H.R. 8436 would have the effect of making imports of watches, clocks, and timing apparatus from insular possessions other than the Virgin Islands dutiable at rates applicable to such imports from foreign countries. At the present time these imports enter the United States duty free under the provisions of General Headnote 3(a) of the Tariff Schedules of the United States which applies to shipments from the insular possessions.

The Administration is fully aware of the overall problem presented by General Headnote 3(a). The Department of Labor believes that a comprehensive approach is preferable to the commodity-by-commodity approach of H.R. 8436. Legislation to deal with the general problem is presently under consideration in the Executive Branch. We, therefore, oppose enactment of this legislation.

The Bureau of the Budget advises that there is no objection to the submission of this report from the standpoint of the Administration's program.

Sincerely,

W. WILLARD WIRTZ, *Secretary of Labor.*

DEPARTMENT OF STATE,  
Washington, February 15, 1966.

THE CHAIRMAN,  
Committee on Finance,  
U.S. Senate.

DEAR MR. CHAIRMAN: Your letter of October 27, 1965 requests the views of the Department of State on H.R. 8436, a bill "to amend the Tariff Schedules of the United States with respect to the dutiable status of watches, clocks, and timing apparatus from insular possessions of the United States."

The proposed legislation would have the effect of terminating the present duty free treatment provided for watches, clocks and timing apparatus entering from insular possessions of the United States (other than the Virgin Islands) under the conditions specified in General Headnote 3(a) of the Tariff Schedules of the United States and provide henceforth the usual United States duties shall apply.

The Department understands that the proposed legislation is intended to deal with a problem which has emerged under the present statutory standard for determining the dutiability of articles brought to the United States from its insular possessions. The Department considers that the legislation is of primary interest to other agencies of the executive branch and accordingly defers to their views.

The Bureau of the Budget advises that from the standpoint of the Administration's program there is no objection to the submission of this report.

Sincerely yours,

DOUGLAS MACARTHUR II,  
Assistant Secretary for Congressional Relations  
(For the Secretary of State).

THE GENERAL COUNSEL OF THE TREASURY,  
Washington, D.C., December 3, 1965.

THE CHAIRMAN,  
Committee on Finance,  
U.S. Senate,  
Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on H.R. 8436, "To amend the Tariff Schedules of the United States with respect to the dutiable status of watches, clocks, and timing apparatus from insular possessions of the United States."

The proposed legislation would make dutiable any watch, clock, or timing apparatus which is manufactured in an insular possession (other than the Virgin

Islands) of the United States outside the customs territory of the United States and which is composed in any part, however small, of foreign material.

This is only one facet of the dutiable status of articles manufactured in an insular possession by subjecting foreign materials to a sufficient manufacturing process to result in a duty-free status under General Headnote 3(a), Tariff Schedules of the United States. This Department is preparing a bill to cover all phases of this subject and hopes to have it ready for transmittal to the Congress in the near future.

The Department is of the opinion that an overall treatment of the practices in question is preferable to a piecemeal approach and, therefore, does not recommend approval of the bill.

The Department was advised by the Bureau of the Budget that there is no objection from the standpoint of the Administration's program to the submission of a similar report on this bill to the Committee on Ways and Means.

Sincerely yours,

FRED B. SMITH,  
Acting General Counsel.

U.S. TARIFF COMMISSION,  
Washington, January 26, 1966.

MEMORANDUM TO COMMITTEE ON FINANCE ON H.R. 8436, 89TH CONGRESS, AN ACT "TO AMEND THE TARIFF SCHEDULES OF THE UNITED STATES WITH RESPECT TO THE DUTIABLE STATUS OF WATCHES, CLOCKS, AND TIMING APPARATUS FROM INSULAR POSSESSIONS OF THE UNITED STATES"

H.R. 8436 would amend general headnote 3 of the Tariff Schedules of the United States (TSUS) so as to make all articles in part 2D of schedule 7 of the TSUS (i.e., watches, clocks, timing apparatus, and parts thereof), the product of an insular possession of the United States other than the Virgin Islands, subject to regular import duties if they contain "any foreign material". The country of origin of the "foreign material" of chief value in the article would constitute the country of origin of the article for purposes of ascertaining which rate of duty should apply.

The amendment would become effective as to articles entered, or withdrawn, from warehouse, for consumption, after the 180th day after the date of enactment. For all practical purposes the only articles that would be immediately affected by the bill are watches and watch movements—principally the latter—as the other articles described by the bill are not produced in significant quantities in any insular possession. Virtually all watches and watch movements which are assembled in the insular possessions of the United States consist in major part of foreign-made components. They are admitted into the customs territory of the United States duty-free pursuant to general headnote 3(a) of the TSUS because the cost of their foreign components does not exceed 50 percent of the article's dutiable value when entering the United States.<sup>1</sup>

*Production in and exports to the U.S. from insular possessions*

*Virgin Islands.*—Watch parts imported into the Virgin Islands from foreign countries<sup>2</sup> during 1960-64 and January-September of 1964 and 1965 are shown below:

[In thousands of dollars]

Year	Total	Japan	West Germany	Franco	U.S.S.R.	Switzerland	Hong Kong	Other
1960.....	603	306	10	17	-----	270	-----	( <sup>1</sup> )
1961.....	717	428	14	114	-----	159	-----	2
1962.....	1,931	1,167	69	460	98	131	-----	6
1963.....	3,729	2,047	444	722	369	116	-----	31
1964.....	6,916	3,568	1,389	1,401	521	28	9	-----
January-September:								
1964.....	4,945	2,667	966	924	361	20	7	-----
1965.....	6,977	3,523	1,439	1,362	447	36	150	20

<sup>1</sup> Less than 600 units.

<sup>2</sup> The Commission has no precise data on recent individual transactions involving exports to the U.S. from insular possessions. However, using as an example a typical 17-jewel, 0.6-0.8 inch lady's movement shipped from the Virgin Islands, on entering the U.S. the value is about \$6 as contrasted with a landed cost of foreign parts in the Virgin Islands of about \$2.75.

<sup>3</sup> Parts are also shipped from the United States to the Virgin Islands.



Since 1959 watch movements shipped to the United States from the U.S. Virgin Islands have accounted for an increasingly important share of the U.S. watch market, as shown in the following tabulation.

Period	Watch movements shipped from U.S. Virgin Islands to United States		U.S. apparent consumption of watch movements
	Quantity	Value	
	<i>1,000 units</i>	<i>1,000 dollars</i>	<i>1,000 units</i>
1959.....	5	34	24,769
1960.....	44	287	22,677
1961.....	173	1,087	22,468
1962.....	420	2,551	26,137
1963 <sup>1</sup> .....	1,057	6,319	25,937
1964 <sup>1</sup> .....	2,369	14,169	27,210
January-October:			
1964 <sup>1</sup> .....	1,831	11,246	( <sup>2</sup> )
1965 <sup>1</sup> .....	2,876	17,102	( <sup>2</sup> )

<sup>1</sup> Preliminary.  
<sup>2</sup> Not available.

Based on the above data, it is estimated that 3.6 million movements will be shipped from the Virgin Islands to the United States in 1965. That volume would account for about 13 percent of the apparent U.S. consumption of watch movements. Virtually all of the movements shipped from the islands are jeweled-lever movements and as such account for about one-third of the U.S. consumption of jeweled-lever movements.

Of approximately 600 persons employed in the 15 watch-movement assembly plants in the Virgin Islands, all but a few are indigenous young female workers who have good manual dexterity in the assembling of watch movements. In the fiscal year 1964, 9 of the watch-assembly plants that employed these young women paid a computed average wage of approximately \$1.52 an hour, or more than twice the hourly wage these same workers could have earned in the retail trade or working in laundries, restaurants, and hotels. (Now all these concerns are subject to the U.S. minimum wage law provision of \$1.25 per hour.) Aside from the assemblers employed in these watch-movement firms there are a few managerial, technical, and clerical personnel. These individuals are not native Virgin Islanders. Some are from the U.S. mainland; others are from Europe.

The workers in these plants accounted for about 4 percent of the approximately 20,000 persons currently employed in the Islands (including 1,000 self-employed and 3,000 from nearby islands). Because wages paid in the assembly plants are higher than those paid on the average elsewhere in the Virgin Islands, these plants accounted for a slightly greater share of the total island payroll than their share of the total island work force. If the current rate of employment in these plants, which is about 50 percent greater than in 1964, were to stabilize, the aggregate annual payroll of these plants would be about \$2 million.

A program of the Virgin Islands Government designed to stimulate the establishment of industry on the islands was instituted in 1961. Under the program, manufacturing concerns were to be granted exemptions from major taxes and given rebates of most other taxes under certain conditions. One of these benefits provided for a subsidy equal to 90 percent of the import duties paid on entries into the Virgin Islands from foreign countries. As the rate of duty assessed upon imports is 6 percent of invoice value, this subsidy results in an effective rate of duty of 0.6 percent for those concerns granted these benefits. By 1966 it appeared that only 4 of the 15 concerns assembling watch movements were being granted these tax and duty subsidies. During the last few years other watch-assembly concerns have petitioned for these subsidies but have not been granted them.

A recent development in the Virgin Islands is the enactment by the Virgin Islands Legislature of Act No. 1518, approved August 30, 1965, "To Impose Certain Production Taxes on Watches Manufactured in the Virgin Islands, and for Other Purposes".<sup>3</sup> Under the act a tax of \$2.50 will be imposed upon each

<sup>3</sup> A copy of Act No. 1518 is attached to this report.

watch or watch movement assembled in the Virgin Islands. A credit of \$2.47 will be allowed on each watch or movement: (1) destined for the retail trade in the Virgin Islands; (2) exported to other than the customs area of the United States; or (3) included within a quota assigned each of the concerns assembling watches or movements for the movements they ship to the customs area of the United States. The act provides an interim quota of 1.8 million units from October 1, 1965 to April 31, 1966. From April 1, 1966 the act provides for a quota determined by the Governor to be one-ninth of the U.S. annual consumption. The quota for each individual firm in the Virgin Islands will be based on two factors: the size of the payroll and the number of watch movements produced, with somewhat greater weight given to the first factor.

*Guam.*—The Stratton Watch Company began watch-movement assembly operations in Guam in the fall of 1965. The company shipped movements in November,<sup>4</sup> the first month that it was in full operation. At that time it had 36 persons on the payroll, about 30 of whom were native women employed as assemblers. The other 6 were probably managerial, technical, or clerical personnel, one or two of whom might have been resident aliens; however, none as far as it known is a foreigner previously associated with the construction trades.

The Guam Economic Development Authority has extended a 10-year 100-percent tax rebate to the Stratton Watch Company. This rebate plus the absence of a tariff on goods entering the island puts the infant watch-assembly industry on Guam in a relatively better competitive position than the comparable industry in the Virgin Islands.

There has been under discussion in Guam the enactment of tax legislation—similar to that enacted in the Virgin Islands—designed to limit exports from Guam to the customs territory of the United States.

*Samoa and other insular possessions.*—To date, no plants for assembling watches or watch movements have been established in insular possessions other than the Virgin Islands and Guam. However, the relatively high U.S. duties on watches and watch movements, together with the duty exemption accorded under general headnote 3(a), TSUS, to products of insular possessions, provide equally strong incentive for the establishment of assembly facilities in other possessions. For example, there have been active discussions by interested persons of establishment of assembly facilities in Samoa.

#### *Analysis of H.R. 8436*

Enactment of H.R. 8436 would constitute a partial reversal of congressional policy with regard to the United States insular possessions. The special duty-free provision for products of insular possessions was intended to serve as an incentive to industries to establish production facilities in the possessions for the purpose of bolstering their economies. It is believed that if duty-free entry is denied to all watches and watch movements assembled in insular possessions, unless they contain no foreign components,<sup>5</sup> such operations would cease. With the addition of the U.S. import duties to the cost of shipments from the possessions, movements assembled in possessions and containing 17 jewels or less would cost U.S. importers more than comparable movements imported directly from the major foreign producers, and movements containing more than 17 jewels would cost U.S. importers more than comparable movements produced in the United States.

The exception of products of the Virgin Islands from the proposed amendment of general headnote 3(a), as passed by the House, would appear to be discriminatory both in principle and in fact with respect to the other insular possessions. H.R. 8436 is discriminatory in principle because it reserves to the Virgin Islands duty-free access to the customs territory of the United States but denies this benefit to all other insular possessions. It is discriminatory in fact because, as has been previously stated, the relatively high United States duties on watches and watch movements, together with the duty exemption accorded under general headnote 3(a), TSUS, provide equally strong incentives for the establishment of

<sup>4</sup> Complete statistics are not yet available for November 1965, the first month that Stratton Watch Company shipped movements into the customs territory of the United States.

<sup>5</sup> For purposes of this discussion, the term "foreign material" in the bill has been construed to mean "foreign component." See discussion regarding "Technical aspects of bill."

assembly facilities in the other possessions. One assembly plant has already been established in Guam, and Samoa is being seriously considered as a potential place for assembly facilities. The recent enactment in the Virgin Islands of a tax statute designed to control exports to the United States does not divest the bill of its discriminatory nature.

In relation to the Virgin Islands tax statute, it is too early to appraise the over-all effect thereof, but there are certain facts which are worth noting at this time. It is understood that the validity of this enactment has been challenged and is presently an issue in the Federal court. It might be noted that this statute does not purport to maintain the status quo of Virgin Islands production but would permit producers of watches and watch movements in the Virgin Islands to share in the growing United States market. It is also of interest to note that the statute apparently applies only to watches and watch movements and would not apply to subassemblies or parts thereof or to clocks and other timing apparatus and their parts.

It is the Commission's view that the purposes of H.R. 8436 can best be accomplished if general headnote 3(a), TSUS, is amended to provide criteria for the establishment of import quotas on the articles in question when imported from insular possessions, such quotas to be fairly and equitably allocated from year to year among all the respective insular possessions by a Federal agency such as the Department of the Interior. This approach would eliminate the discriminatory aspects of H.R. 8436 and the need for local legislation in the respective insular possessions and would assure efficient and uniform administration of the quotas.

*Technical aspects of bill.*—The term "foreign material" in the bill is ambiguous in each of the two places it is employed. In its literal sense it suggests a natural material such as an ore, sand, clay, or stone, or an intermediate basic material such as metal, glass, ceramic, or cut (but not drilled) jewel, each of the foregoing as opposed to a component of a watch made from such a material. As watch components are not fabricated in the Virgin Islands, the intended thrust of the bill would seem to be aimed at foreign-made components rather than the basic material(s) from which these components were made.

A watch assembled in the Virgin Islands entirely with the use of Swiss components that were made entirely from basic materials produced in the United States would be dutiable as though it were a Swiss watch if "material" means a watch "component." However, it would be duty-free if material means "basic material". If the former meaning is intended the bill should be clarified to reflect that meaning.

The meaning of the requirement that a watch containing any foreign material "shall be dutiable at the rate of duty which is applicable to like articles the product of the foreign country which is the country of origin of the foreign material of chief value contained in such article" is not clear. It should be clarified in light of the intended meaning of the term "foreign material". Also, such language seems to require comparisons on a chief value basis between an individual material (component) the product of a foreign country with another individual component the product of another foreign country. It would seem that a more predictable and a more equitable rule would be one of comparing the aggregate value of *all* components the products of *all* countries entitled to rates of duty in rate column 1 with the aggregate value of *all* components the products of *all* countries subject to the rates of duty in rate column 2.

THE VIRGIN ISLANDS OF THE UNITED STATES,  
Charlotte Amalie, St. Thomas, August 31, 1965.

Mr. JOHN J. KIRWAN,  
Assistant Director, Office of Territories,  
Department of the Interior, Washington, D.C.

DEAR MR. KIRWAN: I am enclosing two copies of Bill No. 2638, "To Impose Certain Production Taxes on Watches Manufactured in the Virgin Islands, and for Other Purposes," which was approved by me as of August 30, 1965.

Sincerely yours,

RALPH M. PAIEWONSKY, Governor.

## ACT NO. 1518—BILL NO. 2638

## SIXTH LEGISLATURE OF THE VIRGIN ISLANDS OF THE UNITED STATES

SECOND SPECIAL SESSION, 1965

## To Impose Certain Production Taxes on Watches Manufactured in the Virgin Islands, and for Other Purposes

Be it enacted by the Legislature of the Virgin Islands:

Section 1. The following new sections 511 to 518 are added to Chapter 9, Title 33 of the Virgin Islands Code:

"§ 511 (a). There shall be imposed upon watches manufactured in the Virgin Islands, when sold, or removed for sale, consumption or use, a tax at the rate of \$2.50 per watch.

"(b). A credit of \$2.47 per watch shall be allowed upon:

(1) watches manufactured and sold for disposition in the course of retail trade in the Virgin Islands;

(2) watches manufactured and exported to other than the Customs area of the United States;

(3) Watches manufactured pursuant to a quota allocated to such manufacture in accordance with the provisions of sections 512 or 513 of this chapter.

"(c). For the purpose of sections 511 through 518 of this chapter, "Watches manufactured in the Virgin Islands" includes not only all watches resulting from the processing of raw materials or other component parts, whether by hand or machinery or both, but also all watches mechanical or otherwise, or assembly of watch movements with respect to which substantial industrial operations are undertaken in the Virgin Islands which, in the judgment of the Governor of the Virgin Islands, affect the economic stability and the commercial relations of the Virgin Islands.

"(d). The manufacturer liable for the payment of tax hereunder shall in each case submit such proof as may be required by the Governor as is satisfactory to establish the rate or rates of tax applicable under subsections (a) and (b) of this section to the watch production of such manufacturer.

"(e). It shall be obligatory that the tax imposed by subsection (a) of this section be paid periodically, either by the manufacturer, an immediate or secondary purchaser from the manufacturer, or a contract or common carrier, at such intervals and in accordance with such rules and regulations as shall be adopted pursuant to this title by the Governor.

"§ 512. An amount of 1,800,000 units of watches is hereby established as the maximum amount of watch production consistent with the protection of the economic stability and commercial relations of the Virgin Islands for the period October 1, 1965, to March 31, 1966. Of this amount, the Governor is authorized to allocate 1,500,000 units among manufacturers of watches having a continuous watch manufacturing and shipping record in the Virgin Islands since October 1, 1964, in accordance with the procedure and criteria set forth in section 514 of this chapter. The remaining 300,000 units of watches is reserved as a quantity to be granted in order to relieve against severe financial hardship, and to permit allocation to new manufacturers. All units of watches allocated as quotas to manufacturers under this section shall be entitled to a \$2.47 credit per watch.

"§ 513 (a). For each 12-month period subsequent to March 31, 1966, the Governor shall determine, after due investigation, the total annual consumption of watches of all kinds in the customs area of the United States and shall allocate among the manufacturers of watches in the Virgin Islands on that date in accordance with the criteria set forth in section 514 (b) such number of units as shall total 1/9 of annual consumption.

"(b). Of the maximum amount of watch production determined in accordance with subsection (a) of this section, not to exceed five per cent shall be reserved as a quantity to supplement quotas allocated to manufacturers and to relieve against severe financial hardship, in accordance with the provisions of section 515 of this chapter. The Governor is authorized to allocate the remainder among manufacturers of watches in the Virgin Islands in accordance with the procedure

and criteria set forth in section 514 of this chapter. All units of watches allocated as quotas to manufacturers under this section shall be entitled to \$2.47 credit per watch.

"§ 14(a). Each person engaged or proposing to engage in the manufacture of watches in the Virgin Islands may apply to the Governor for an allocation of the amount of watch production entitled to the \$2.47 credit. Such application shall be in writing, shall be on such forms, and shall contain such information, duly certified by an independent accountants or auditors as may be required by the Governor in accordance with the provisions of sections 511 to 518 of this chapter or regulations thereunder.

"(b) Except as to such portions thereof as shall have been set aside as a reserve, the total maximum amount of watch production entitled to the \$2.47 credit per watch shall be allocated for specific periods among applicants in accordance with the following criteria :

(1) "66% per cent of such amount shall be apportioned among manufacturers in accordance with their respective percentages of total payroll in the Virgin Islands subject to Social Security taxation (exclusive of managerial or administrative personnel) incurred in watch manufacture; for disposition in the course of retail trade in the Virgin Islands; for export to other than the Customs area of the United States; and for watches manufactured pursuant to a quota allocation in accordance with Sections 512 or 513 of this chapter; for such six month period nearest to the beginning of the period involved as the Governor may determine to be feasible."

(2) "33% percent of said amount shall be apportioned among manufacturers in proportion to the total number of watches: manufactured and sold for disposition in the course of retail trade in the Virgin Islands; exported to other than the Customs area of the United States; and manufactured and shipped under quota allocation to the Customs area of the United States;

during the same six month period as provided for in (1) above.

"(c) The Governor shall have the authority to grant an application on temporary basis during such period as may be necessary to conduct and make determinations in accordance with investigations pursuant to section 513(a) or to make final disposition of application.

"(d) The Governor may upon due notice and hearing, refuse an application for an allocation or may revoke, modify or suspend an apportionment made to a manufacturer hereunder as in his judgment may be necessary to protect the economic stability and the commercial relations of the Virgin Islands upon a finding that

(1) the manufacturer is not in good faith organized for the purpose of the manufacture of watches in the Virgin Islands; or

(2) the application is or was made for the purpose of frustrating or defeating the purposes of this Chapter in protecting the economic stability and commercial relations of the Virgin Islands; or

(3) the manufacturer has discontinued the manufacture of watches in the Virgin Islands; except that (i) a temporary interruption of production attributable to normal business reasons shall not be deemed in itself a discontinuance of manufacture of watches within the meaning of this subparagraph, and (ii) nothing in this subparagraph shall prohibit the sale of a business to which a quota has been assigned, but no quota may be purchased or sold apart from the sale of the business;

(4) the manufacturer has misrepresented material facts in connection with his application, or has failed or refused to submit information as required; or

(5) the manufacturer has failed to utilize wholly or partially, the quota assigned to him.

"(e) In the apportionment of quotas to a manufacturer hereunder, the Governor is authorized to take into account, and to make a corresponding deduction watch for watch, where such is in his judgment necessary to protect the economic stability and the commercial relations of the Virgin Islands, of any quantity of watches shipped to the customs area of the United States by the same manufacturer, or a firm corporately or personally affiliated, from any other territory or possession of the United States.

"(f). Whenever the Governor shall determine upon due notice and hearing, that all or part of a quota allocated to a manufacturer shall remain unused at

the end of a quota period, he may cancel the allocation, in whole or in part, as the case may be, and such allocation, in whole or in part may be reallocated to another manufacturer or placed in the reserves provided for in section 512 or 513(b) of this chapter.

"§ 515. In making grants out of the reserve amount provided for in sections 512, and 513(b) of this chapter, the Governor shall give special weight to the maintenance and promotion of employment, and to the complete assembly of watches from individual component parts and other characteristics of production contributing special value to the Virgin Islands. The Governor shall also take into account, but is not limited to the consideration of the following factors; investment in plant and equipment for watchmaking in the Virgin Islands; minimum quantities required for production without loss, and abnormal or unforeseeable economic circumstances.

"§ 516. The Governor is authorized to designate such individuals or groups from time to time as he may deem necessary for the purpose of assisting or advising him in the performance of his duties and responsibilities, and the exercise of his authority under the provisions of sections 511 to 518 of this chapter.

"§ 517. The Governor shall have authority to issue such rules, regulations, and requirements as he may deem necessary or appropriate to effectuate and implement the provisions of sections 511 to 517 of this chapter, including but not limited to the prescribing of forms and requirements of reports and the issuance of stamps or other evidence of payment of taxes.

"§ 518. Any decision or determination made by the Governor under the provisions of this chapter as to questions of fact shall be deemed final in any proceedings in any court except upon a conclusive showing that such decision or determination was arbitrary or fraudulent. The commencement of any proceedings in any court shall not operate as a stay of collection of any tax imposed by this chapter, or of compliance with any provisions of the same or any rules, regulations or orders issued thereunder."

Section 2. This Act shall become effective upon approval by the Governor.

Thus passed by the Legislature of the Virgin Islands on August 25, 1965.

Witness our Hands and the Seal of the Legislature of the Virgin Islands this 25th Day of August, A.D., 1965.

EARLE B. OTTLEY,  
DAVID PURITZ.

The above Bill is hereby considered and approved.

Witness my hand and Seal of the Government of the Virgin Islands of the United States at Charlotte Amalie, St. Thomas, V.I., this 30th day of August, A.D., 1965.

RALPH M. PATWONSKY, *Governor.*

Senator ANDERSON. Our first witness this morning is the Honorable A. B. Won Pat, representative of the territory of Guam.

**STATEMENT OF HON. ANTONIO B. WON PAT, ON BEHALF OF THE TERRITORY OF GUAM; ACCOMPANIED BY RICHARD TAITANO, ASSISTANT TO THE GOVERNOR OF GUAM**

Mr. WON PAT. Good morning, Mr. Chairman and members of the committee. I am A. B. Won Pat, elected representative in Washington of the people of Guam. I appear before you today as designated spokesman for the Governor of Guam and the Legislature of the Territory to state the position of the people of Guam on H.R. 8436 now before you in public hearing.

Hon. Manuel F. L. Guerrero, Governor of Guam, has requested me to express his deep regret that the press of governmental matters at home, with our legislature now in session, makes it impossible for him to be here today.

Accompanying me in this appearance before you is Mr. Richard Taitano, assistant to the Governor of Guam.

H.R. 8436 relates to the dutiable status of watches and other timing apparatus produced in the insular possessions of the United States, and, in its present form, has a heavy impact on the territory of Guam. The original justification for this legislation, which has the effect of limiting the now duty-free importation of watches assembled in the insular possessions, was stated in the House Ways and Means Committee report (Rept. No. 1076, Sept. 22, 1965) to be a threat to the U.S. watch industry and labor. I understand that a number of U.S. domestic watch manufacturers, directly or through subsidiaries in which they hold a substantial interest, are themselves engaged in watch production in one or more of the insular possessions and are therefore fully capable of controlling their own U.S. and insular production in a manner to avoid the concern that has been expressed. U.S. Tariff Commission Report to the President (No. TEA-IR-4-66) on Watch Movements, TC Publication 169, March 1966, states, at page 4:

All six of the concerns that produced watch movements in the United States in 1965 own foreign facilities for producing or assembling watch movements.

In addition, since 1962 the number of watches and watch movements produced in the United States has increased steadily to an unprecedented high in 1965. (Ibid., table 4, p. 16.)

But beyond that, we ask that you view this legislation in terms of its effect on the struggles of the territory of Guam to attain its economic objectives and hoped-for self-sufficiency as the westernmost possession of the United States.

Because of its geography and resources, with which the distinguished members of this committee are well familiar, Guam is limited in its developmental possibilities. Its local population has for years been largely dependent on U.S. military activity in the territory. It has been ravaged by war and visited by typhoons of unprecedented intensity. But Guam has moved forward from this chronicle of adversity; it has rebuilt; it has embarked on a broad program of industrial and commercial development and, with substantial Federal assistance, it is slowly but surely approaching its goal of self-sufficiency. We hope that realization will not be frustrated by legislation which will have the effect of eliminating, to a substantial degree, one of the few industries to which the resources of Guam are especially suited—the assembly of watches.

The Federal-Territorial Commission for Development of a Long-Range Economic Plan for Guam, Interim Report to the President and Congress, April 6, 1965, states:

Watch assembly is obviously feasible inasmuch as a plant is already in operation. The U.S. tariff is very high, shipping costs are low, and workers can be quickly initiated into the routinized assembly procedures \* \* \*. The only obstacle to successful operation is H.R. 8436, now awaiting Senate action \* \* \*. Several hundred people might ultimately be employed if the industry is allowed to develop.

There are today five watch manufacturers who are producing timing devices in Guam. These five companies are providing employment for 149 people; 138 of these are citizens of the United States and part of our local work force. This is not imported or alien labor. These positions have been filled from the local labor market and, after training, the personnel of these companies have become expert and efficient employees. Suited as they are to this type of specialized labor, this local Guamanian work force is producing watch movements at the

current rate of 35,500 units per week, with a projected annual production rate of 1,846,000 units.

It is understood that these five companies will expand their operations in Guam, providing more opportunities for employment and producing additional payroll. Estimated employment by the year end 1966, absent restricting legislation, will be 200 or more and annual production in 1967 is planned at 2,600,000 movements. In view of our territorial needs and requirements, this industry must not be impeded by quota legislation that will make production of the product there unprofitable and unattractive to investment.

I would like to emphasize that while much of our local labor force has been limited in its employment opportunities to civilian positions in support of the U.S. military in Guam, we cannot and must not base our island economy on that sole source of jobs.

Senator GORE. Mr. Chairman.

Senator ANDERSON. Senator Gore.

Senator GORE. I respectfully suggest that we do not need a long treatise on economic programs in Guam, et cetera. Let's ask the witness to come to the discussion of the pending bill.

Senator ANDERSON. I think with as many witnesses as we have, Mr. Won Pat, you had better try to deal with the present bill if you can.

Senator GORE. I know the witness, whom I know personally, will not regard my suggestion as indicating any lack of interest on my part in Guam, but we have many witnesses and we really do not need a lecture on Guam. I want to see it prosper. We are generally familiar with the statements you have made.

Mr. WON PAT. Well, sir, since you have before you my statement, and you are reading it, I could stop reading and answer any questions that you may have.

Senator GORE. You understand we need to get to the issue. I have read your statement. It is good. It sounds good here, and it sounds particularly good for Guam.

Mr. WON PAT. I thank you very much for that, sir. However, I say in the interests of time I am perfectly willing to stop reading.

Our transition from an agrarian economy has produced substantial underemployment and we must develop and maintain employment opportunities for our people.

As our Governor and legislature have repeatedly stated, we aspire to develop our own industrial base and diversify opportunities for employment of our expanding labor force. To this end the watch industry in Guam is especially suited and its presence has created interest in other industries.

Our legislature earlier this year passed a bill, similar in substance to quota legislation adopted by the local government of the Virgin Islands, which had the practical effect of limiting duty-free production of watch movements in Guam to 1.5 million units per year. Governor Guerrero did not sign that bill and it has not become law; trusting in the wisdom and fairness of the Congress, and knowing that legislation like H.R. 8436 was to be considered, he preferred to defer to Federal action and await the product of this legislative consideration. He urges that you fully consider the importance of this industry to Guam, its people, its economy and its objectives and that—if a quota there must be—that quota for Guam be at least 1.5 million units per year.



We will sacrifice some of our current production and opportunities for future expansion but we must preserve the industry we have.

To this end, the quota proposed in the Senate print of H.R. 8436 must be increased if the other insular possessions are to receive an allocation, as they rightfully deserve. And with that increase in total annual quota for all territories, the percentage allocation to Guam—with its special needs and unique requirements—must be increased to preserve the major portion of its current annual production. Guam pleads for fair and equitable treatment and its rightful and deserved share of any quota the Congress may, over our respectful protest, see fit to impose.

And finally, in an expanding domestic economy, population and market, we suggest that the annual quota, in whatever amount, should not be fixed as a static, unchanging sum. It should not be necessary to seek legislative amendment of the quota as the domestic market for and consumption of watch movements increases. The U.S. Tariff Commission Report to the President, TC Publication 169, *supra*, states, at pages 3-4:

Since 1954, when the escape action was taken, the trend of apparent U.S. consumption of watch movements has been upward. The apparent consumption of watch movements in 1965 (34 million units) was 25 percent greater than in 1964. The increase in consumption in 1965 was far greater than in any other year.

This can be avoided and a fair share of the market reserved for insular possessions production if the total annual quota is stated as a percentage of total U.S. consumption of watch movements in the preceding calendar year, based on U.S. Tariff Commission data. (See letter from Assistant Secretary of Interior to Senate Finance Committee dated March 30, 1966, and letter from Governor Guerrero to chairman, Senate Finance Committee, dated June 24, 1966.)

That annual quota, as so determined, would be allocable to Guam, the Virgin Islands, and American Samoa by a fair and equitable percentage. A collective allocation to the three territories concerned could properly be one-sixth of total U.S. consumption, reserving five-sixths to domestic producers. Guam, under such a formula, should be allocated at least 33 percent of such total quota, the actual number of movements exempt from duty being determined annually and based on total U.S. consumption during the preceding calendar year.

I wish to express the appreciation and gratitude of the people of Guam for the privilege of this presentation, and I respectfully request amendment of H.R. 8436 to accommodate the needs of the territory of Guam as herein expressed.

Thank you.

Senator ANDERSON. How new is the watch industry in Guam?

Mr. WON PAT. How new?

Senator ANDERSON. How new? Were there any watches being produced in Guam at the time the House passed the bill prohibiting it?

Mr. WON PAT. The record will show that in July 1965, license had been issued to the first company and—

Senator ANDERSON. Yes, but I asked about production. Taking the date of July 1965, which you have just used, was a single watch assembled?

Mr. WON PAT. It started in October 1965.

Senator ANDERSON. But there weren't any being produced in July 1965?

Mr. WON PAT. No, sir.

Senator ANDERSON. This is a relatively new expansion, is it not?

Mr. WON PAT. Yes, sir, it is a new industry.

Senator GORE. How many people are employed?

Mr. WON PAT. Employed now? One hundred and forty-nine.

Senator GORE. 109?

Mr. WON PAT. 149.

Senator GORE. Are they engaged in assembly work?

Mr. WON PAT. Yes, sir.

Senator GORE. Where were they trained?

Mr. WON PAT. They are trained there by technicians who are brought to Guam.

Senator GORE. Did the U.S. Government pay for their training?

Mr. WON PAT. No, sir.

Senator GORE. Was there a loan?

Mr. WON PAT. They were trained by private industry.

Senator GORE. Was there any Government loan in any way for the training program?

Mr. WON PAT. No, sir. The type of training program we have is under MDTA.

Senator GORE. Who owns this company?

Mr. WON PAT. These companies are owned by people who are in the United States.

Senator ANDERSON. Who are they?

Mr. WON PAT. They are Stratton Watch Co., Maro Watch Co., Westminster Time Corp., Phoenix Industries, Hallmark Factory. Those are the five now operating and producing watches.

Senator ANDERSON. Your testimony is that a year ago none of them were produced.

Mr. WON PAT. A year ago only one. That was the Stratton Watch Co., producing since 1965.

Senator GORE. What is the origin of the parts?

Mr. WON PAT. The parts are imported from France, Germany, and Japan.

Senator ANDERSON. Mainly from Japan?

Mr. WON PAT. No, I would not say mainly. I think it is mainly from the European countries.

Senator GORE. What is the value per watch added in Guam?

Mr. WON PAT. You mean the value of the watches as produced there?

Senator GORE. Yes, or as assembled there.

Mr. WON PAT. I believe that that could be best answered by the witness from the watch industry now operating in Guam.

Senator GORE. I am not very good at mathematics. I have a lot to learn about the watch industry. But according to my calculation, the value added in Guam is approximately 19 cents per watch.

Mr. WON PAT. I could not affirm that, sir.

Senator ANDERSON. Your associate is shaking his head. What is the value added in Guam? I do not mean the markup from wholesale to retail or anything like that, but how much material is in there?

Mr. TAITANO. Are you addressing me?

Senator ANDERSON. Yes. How much material is in there?

Mr. TAITANO. What I have been told, sir, the operations have started very recently and they have not had the experience to really come out with a good statement. But what I was told, that their sales have been averaging about 20 to 25 percent profit. Now whether this is true or not, this is hearsay, but I have been told that the amount added to every watch as it is exported from Guam is more than 19 cents. In fact, we were discussing the dollar figure and I was told it is more than \$1.

Senator ANDERSON. The provision of the law was that they could bring them in free if half the value has been added where this work is done on assembly. If all you do is assemble a little bit and the cost is a few pennies and there is a wholesale markup, there isn't much of a contribution is there? Isn't that what is actually going on?

Mr. WON PAT. Yes, that is correct, sir.

Senator ANDERSON. Marking up the wholesale price in order to get to 50 percent.

Senator GORE. This raises an interesting question of just how much work is being done in Guam. My calculations here show, based on another statement, that the wages paid in Guam amount to very little.

According to your Governor's letter: "The five watch plants employ 136 young women, over 90 percent of their total employment."

At 40 hours a week and at \$1.25 an hour, that would be \$6,800 per week in wages, and we are told that this involves 35,500 watch or clock movements per week. If you divide 35,500 by \$6,800, it seems to me to come out with 19 cents per watch insofar as labor is concerned. Now if that be true, and I am not saying it is—I have just made a calculation here from the statistics in the Governor's statement—then the added value in Guam is not very much.

Mr. WON PAT. May I interpose?

The minimum wage, of course, is \$1.25, but the current employees there are paid a maximum of \$2 per hour. The minimum is \$1.25 and the maximum is \$2.

Senator GORE. Then these tentative calculations, which I have made on the basis of \$1.25 per hour would be low if \$2 is paid. But if \$2 is paid, why, it would raise the added value to a level of approximately 30 cents per watch.

Now, if that be true, then Guam is more or less a transit point.

Mr. WON PAT. I am sure that what is happening with respect to the labor part of the assembly I think is also true in the Virgin Islands, and I may say it is probably more in Guam because of the fact that Guam is quite remote from the area of sources of supply as far as transportation of the finished product to the mainland.

Senator GORE. Which would indicate—

Mr. WON PAT. Which would indicate it costs more.

Senator GORE. Speaking of the Virgin Islands as well, it would indicate that this industry is located there strictly because of and only because of the tariff situation. Now I am not very knowledgeable in this whole business. I was one who requested this hearing. I thought the interests of so many people were involved, and so many wished to be heard, that they were entitled to be heard. I have

reached no firm conclusion as to the merits of the pending bill, but I did want to get into the record, and I hope you will supply for the record, the actual value added, not the profit, not the markup, not the difference between wholesale and retail, but the actual value added by the processing in Guam. Thank you, Mr. Chairman.

(The following information was subsequently submitted for the record:)

As requested by your committee during hearing June 30 on H.R. 8436 CMA direct labor costs per unit of watch movements assembled in Guam as reported by four watch companies in Guam follow:

First company advised 75 cents to \$1 per unit; second company estimated unit cost at 70 cents; third company estimated cost at between 65 and 85 cents; and fourth company advised unit costs at about 70 cents per unit.

Fifth company not able to report on time to include this cable. Cost information all furnished by watch firms here and reflect record of short operations.

Senator ANDERSON. I think you will find the biggest value is the bookkeeping value.

Senator WILLIAMS.

Senator WILLIAMS. No questions.

Senator ANDERSON. Senator Metcalf.

Senator METCALF. No questions.

Senator ANDERSON. Thank you very much.

We will go on to the next witness, Mr. Paiewonsky.

#### STATEMENT OF HON. RALPH M. PAIEWONSKY, GOVERNOR, THE VIRGIN ISLANDS

Governor PAIEWONSKY. Thank you, Mr. Chairman and members of the committee.

Senator ANDERSON. Good morning.

Senator GORE. Mr. Chairman, what I would like to suggest, and I do not want to repeat these questions all through the hearings, is that you request the staff to obtain comparable value added statistics with respect to the importation and assembly of parts in Guam, in the Virgin Islands, in the United States, and at whatever point these statistics would be applicable. (See p. 39.)

Senator ANDERSON. I think, Senator, we can do that. Of course, if the principal added value is just a markup, those figures will show even though there is no value added in materials. We have had this problem right along.

Senator GORE. I was not inquiring about markup in profit. I was inquiring about the value added by reason of the labor performed in a particular location.

Senator ANDERSON. We will try to get something on that. Go ahead, Governor Paiewonsky.

Governor PAIEWONSKY. Mr. Chairman, gentlemen, I much appreciate this opportunity to appear before your committee, before it recommends to the Senate legislative action relating to the watch industry in the territories. Of course, I appear in my capacity as Governor of the Virgin Islands and not as a spokesman for the Department of the Interior.

Let me say first that I welcome congressional action at this time. The government of the Virgin Islands is confident that it has acted lawfully in controlling watch production in its territory. We have

acted to protect our economic stability. We have been mindful of our commercial relations with others. We have shared a controlled level of production fairly among many claimants. Nevertheless, questions have been raised concerning the extent of our legal authority. These questions are very unstabilizing. We accordingly welcome the present efforts of the two Houses of the Congress to remove these uncertainties by giving this industry what we hope will come to be regarded as a clear enabling act.

Senator ANDERSON. As you go along, Governor, you keep using the term "controlling the watch industry." How much control is there over that right today?

Governor PAIEWONSKY. What, sir?

Senator ANDERSON. How much control do you have over the production of watches today?

Governor PAIEWONSKY. We still have the production tax in the Virgin Islands that is still applicable. We do have a quota that we have established which was established on the basis of one-ninth.

Senator ANDERSON. Wasn't there a court case down there that stopped your control?

Governor PAIEWONSKY. That is on appeal so it is still under control, sir. They questioned the legality or the constitutionality of the act, but this is now on appeal to the Third Circuit Court.

Senator ANDERSON. Didn't some court hold it invalid?

Governor PAIEWONSKY. The local District Court of the Virgin Islands held the act to be illegal or unconstitutional.

Senator ANDERSON. And is it your understanding that when an act has been declared unconstitutional, it is still in effect while you are pleading it?

Governor PAIEWONSKY. It is on appeal, yes, sir, and we are still enforcing the quota that was established. There was no restraining injunction against the act. They just declared it illegal, and we have taken it on appeal to the Third Circuit Court.

Senator ANDERSON. Very well.

(Pursuant to the above discussion, the following letters were submitted:)

GOVERNMENT OF THE VIRGIN ISLANDS  
OF THE UNITED STATES,  
DEPARTMENT OF LAW,

Charlotte Amalie, St. Thomas, V.I., July 1, 1966.

His Excellency RALPH M. PAIEWONSKY,  
Governor of the Virgin Islands,  
Charlotte Amalie,  
St. Thomas, V.I.

DEAR GOVERNOR PAIEWONSKY: You have requested that I advise you as to the current status of the litigation involving the watch production tax law, with specific reference as to whether or not the Government continues to enforce the law.

Currently, there are pending four lawsuits, initiated by three Virgin Island watch manufacturers, challenging the validity of both the original watch production tax law (Act No. 1518, approved August 30, 1965) and the revised version (Act No. 1631, approved March 22, 1966). In such of the cases as it has been disposed of thus far the District court has held that the law, either in its original or its revised form, constitutes an invalid imposition of export taxes by the Government of the Virgin Islands. The Government has appealed, or is in the process of appealing all of these District Court decisions. (Of course,

insofar as the cases involve the original statute, the outcome of the appeals is relevant only with regard to the question of the liability of the watch manufacturers for the production tax during the period such statute was in existence.)

Pending the decision of the appellate court, the Government continues to enforce the existing statute, Act No. 1631 since the appeals automatically stay the lower court's decisions. Accordingly, all requests that have been made by manufacturers for refund of production taxes paid under either law on the basis of the District Court rulings have been rejected. Quotas have been assigned by you in accordance with the law, and the administrative officials to whom you have delegated duties under the law continue to perform the same. In any instances where watch manufacturers may refuse to pay the taxes, either for production within or in excess of quota, the position taken by this office is that action to collect the same be withheld until the cases have been finally disposed of on appeal.

Sincerely,

FRANCISCO CORNEIRO, *Attorney General.*

THE VIRGIN ISLANDS OF THE UNITED STATES,  
OFFICE OF THE GOVERNOR,  
*Charlotte Amalie, St. Thomas, July 26, 1966.*

HON. RUSSELL B. LONG,  
*U.S. Senate,*  
*Washington, D.C.*

DEAR SENATOR LONG: During the Senate hearings on H.R. 8436 concern was expressed about the tax subsidy issued to four of the sixteen firms engaged in watch production in the Virgin Islands. These tax subsidies were granted several years ago, one dating back to 1959 and the three others in 1962, at a time when the Virgin Islands Tax Exemption Board acted in good faith on the basis of the facts available at that time. Later it was determined by a continuing economic analysis as a result of hearings conducted by the Virgin Islands Government that this industry had developed into a profitable one, and on the basis of need could not justify their claim for a subsidy. As a result twelve other watch manufacturing firms which were established later were denied this subsidy.

Since the subsidy or tax exemption is by Virgin Islands law a binding contractual obligation, the Virgin Islands Government is unable to cancel the tax exemption issued to these four watch firms. However, your Committee can accomplish this by adopting the proposal made by the Secretary of the Interior in his letter to you dated March 30, 1966, (see p. 9), namely to provide, "that quotas be granted among the producers of watches and watch movements who pay the territorial income tax, or the territorial equivalent of the Federal income tax without rebate or subsidy."

This recommendation is based on the presently established total quota for the Virgin Islands of one-ninth of U.S. consumption of watches for 1965—or approximately 3,600,000 units—which I earnestly hope will be retained by the Senate. If a lesser quota is established it could very well change the factor of profit and thereby create a need for subsidy.

Such an amendment would permit the four watch producing companies holding tax exemption to be eligible to qualify and continue to hold their present quota position by relinquishing their income tax subsidy but need not relinquish their other tax benefits.

Sincerely yours,

RALPH M. PAIEWONSKY, *Governor.*

Governor PAIEWONSKY. Before going on to any other matter, let's emphasize the central fact in this watch industry picture. We have built up this Virgin Islands watch industry without injuring any other factor in U.S. watch supply. We have not injured the mainland watch producers, and we have not injured the foreign importers.

The watch industry in the Virgin Islands has been developing during the course of about 8 years. That is from 1959. In 1963, the

Virgin Islands supplied 1,057,000 watches and watch movements out of a total U.S. consumption of 25,937,000. Then we were barely 4 percent.

It was in 1964-65 that our industry first came under critical attention. And, by the way, it was also in 1965 that our territorial government established control, through a stiff \$2.50 production tax. In 1965, U.S. watch consumption rose by 7 million watches—a rise of over 25 percent, from 27,353,000 to 34,354,000, in a single year. But that 7 million increase was not met by Virgin Islands supply exclusively or even principally. Out of the 7 million increase, some 4.1 million came from foreign imports; some 1.7 million came from additional mainland production; and only 1.2 million came from the Virgin Islands.

In 1965, almost half of all U.S. watch consumption—17,120,000 out of 34,354,000—was supplied by foreign imports. About 40 percent was supplied by U.S. mainland manufacture. And just under 11 percent was supplied by the Virgin Islands. We built up this 11 percent—3,578,000 watches—approximately one-ninth of the market—while every other factory was also expanding its supply. We had not injured others. But we were concerned that, in the future, we might injure both others and ourselves, if we came to rely too much on this one industry.

The Virgin Islands now have about 830 persons employed in watch production. This is a small number for others, but it is a significant fraction of our total skilled employment.

Our watch factories—16 of them now actually producing and shipping—have a capacity to employ more and ship more. But an unlimited expansion of watch production would have created a dangerous concentration of employment in this one occupation. At a later time, and under changed market circumstances, this concentrated employment might have been subjected to sharp fluctuations, which we would be powerless to control. Accordingly, the government of the Virgin Islands imposed a production tax on its watch output. It was the purpose of this tax to raise a very high fiscal barrier—substantially as high as the U.S. customs duty—to any inordinate expansion of the watch industry. After extensive deliberation and consultation, we decided that this high barrier should be erected at the point where Virgin Islands production of watches reached the limit of one-ninth of U.S. watch consumption—a limit which we had then already attained. We were gratified to find that others agreed that this one-ninth limit was a reasonable one. And we were particularly confirmed in our judgment that our action had been fair and reasonable when the House of Representatives of the U.S. Congress passed a bill confirming the access of the Virgin Islands production to the U.S. market, subject to the general provisions of section 301 of the tariff act—now general headnote 3(a) of the Tariff Schedules of the United States—with the understanding that the Virgin Islands government would itself limit this production to one-ninth of U.S. consumption.

We have had reason to believe that, within its one-ninth share of the U.S. market, the Virgin Islands watch industry could look forward to a modest expansion of its sales. Accordingly, for the period

ending March 31, 1966, we determined the output free of heavy taxation at an annual rate of 3,600,000 watches—a trifle above the 3,578,000 actually shipped in 1965. And for the current period, which started April 1, 1966, we have set an initial limit at an annual rate of 3,800,000 watches. As we believe that total U.S. consumption in the year April 1, 1966, through March 31, 1967, will be at least 36 million watches, we have counted on there being some further margin—if that enlarged demand did in fact materialize.

Naturally, our Virgin Islands watch producers have been able to hold their share of the U.S. market only by being competitive with foreign importers. In this connection, it should be emphasized that the foreign import supply of watches, and watch movements, is now roughly five times as great as Virgin Islands supply. The foreign importers increased their sales in a single year by more watches and watch movements than the Virgin Islands produces altogether. And by far the greater part of the foreign imports are competitive in the same price class as Virgin Islands supply.

It is, of course, true that, within the framework of section 301 of the tariff act, our watch producers benefit from duty-free imports of watch components. If they did not, and if our other manufacturers did not benefit from similar advantages, it would hardly be possible for the Virgin Islands to have any manufacturing at all. In an island group of 50,000 people, we cannot hope to have the close industrial hinterland, which permits a liberal interchange of locally produced parts and processes, of a large mainland area. To deprive us of the benefits of section 301 is, therefore, to relegate us to the service trades. It is to tell our educated young people that they should leave the islands, because in their island home there is employment only for cooks and dishwashers.

We endeavor to encourage valuable industries—industries which will diversify our island economy and raise the quality of our employments. We do not, however, grant benefits of tax exemption or subsidy to fill private pockets. Since August of 1962 I have, accordingly, refused to grant any territorial tax exemption or subsidy for watch manufacture. I am aware that this refusal has arrayed against my administration great vested interests. But watch manufacture is now a proven industry in the Virgin Islands, and, under present U.S. Customs tariffs on watches, there is no ground for territorial tax exemptions or subsidies for the manufacture of this product. We will not yield on this principle.

What we, for the Virgin Islands, ask of your committee and of the U.S. Senate is, in substance, that you join in the support already indicated by the House of Representatives for our Virgin Islands watch control program. Our 16 producing firms need, and deserve, secure access to no less than one-ninth of the U.S. market. No economical production would be possible for these firms within the framework of 1 million watches per year.

We also would welcome confirmation by the Congress of the authority of our territory government to share our production, within the one-ninth limit, as may be determined by territorial law. Our present basis is the share of each watch firm in payrolls and shipments, as these things develop in successive periods. By giving two-thirds



weight to payroll and one-third to quantity of watches shipped, the manufacturer is given an incentive to do as much work as he can on each watch. We believe that, given security of outlook through such legislation, these principles of sharing will incline all our watch firms to move gradually in the direction of deeper production, requiring higher skills. And, under these circumstances, we are confident that the Virgin Islands watch industry will be a benefit both to the Islands and to the United States.

Time considerations have not permitted the Bureau of the Budget to advise the relationship of this testimony to the program of the President.

Senator ANDERSON. On page 5, Governor, you speak of 16 watch companies.

Governor PAIEWONSKY. Yes, sir. These are the companies that are in actual production.

Senator ANDERSON. Sixteen of them?

Governor PAIEWONSKY. Sixteen of them, and we had applications from eight additional companies which we have refused to recognize for quota purposes since they were not in operation as required by local law establishing quotas.

Senator ANDERSON. You granted the tax exemption to all 16 or just to 4?

Governor PAIEWONSKY. Only four, sir.

Senator ANDERSON. Why?

Governor PAIEWONSKY. Because these four companies came in during an early period, and they were given tax exemption before we realized the extent of the profit that was involved. The tax incentive program of the Virgin Islands provides that any new company established and investing a certain amount of money giving employment to a certain number of persons, if they can show need, would be entitled to tax exemption. So, the early companies that came in were granted tax exemption.

Senator ANDERSON. Only the ones that can show need?

Governor PAIEWONSKY. We have had hearings. We have had two hearings, one here in Washington and one in the Virgin Islands, and there is a volume of testimony which shows that these companies, in order to qualify under section 301—must add a profit, thereby indicating that the 301 is sufficient inducement for their establishing their business in the Virgin Islands. Therefore, there is no need for the Virgin Islands government to grant to these firms additional benefits in the form of tax exemptions.

Senator ANDERSON. You mean you have to guarantee a profit to certain companies in order to get them under the law?

Governor PAIEWONSKY. No. I am saying that we discovered that in order for them to come in duty free, they have to sell their watches at a certain figure, which would permit the foreign components to be less than 50 percent of the total value of the watches sold so that there is a built-in profit in this operation.

Senator ANDERSON. What is wrong with the other 12 companies? Why can't they get the same thing? Don't they need the same profit that you are talking about?

Governor PAIEWONSKY. Well, we feel that the whole program of 301 and the philosophy of 301, as we have interpreted it, that while there is a certain amount of loss to the Treasury of the United States in duty, that the Virgin Islands should get commensurate benefits equal to or close to this loss.

Senator ANDERSON. Is there anything in section 301 that says that?

Governor PAIEWONSKY. There is nothing in the law that actually says that, but I believe that when this provision was written into the organic act in 1954, I think the whole philosophy back of this was to write into the act for the territories a kind of aid similar to what you give Latin America or to other foreign countries. I mean it can be considered in this particular category.

Senator WILLIAMS. What percentage of the watch business in the Virgin Islands is controlled by these four companies?

Governor PAIEWONSKY. I think it is under 50 percent. It is going to vary because with the production, what we have done in production here is to give a quota based on two factors. Two-thirds based on payroll and one-third based on actual shipments. This is to encourage the watch companies to do more of the assembling, requiring more labor per unit assembled.

In other words, not to just put watches together by three subassemblies, but to do the complete assembly, which would employ more labor in the process of doing this, and there has been a substantial change in the Virgin Islands watch industry as a result of this labor requirement.

Now we would welcome the Congress to include the recommendations made by the Secretary of the Interior, that no tax exemption be given to any watch company operating in the territories under the provisions of 301.

Senator McCARTHY. Could I ask what kind of tax that is: a value added tax of some kind?

Senator ANDERSON. Value added.

Senator McCARTHY. It is value added.

Governor PAIEWONSKY. Yes.

Senator ANDERSON. Yes.

Senator McCARTHY. The tax is related to the value added. In this case the tax pretty much reflects the amount you get in escaping the tariff.

Governor PAIEWONSKY. In order for the manufactured item to enter duty free in the United States—

Senator McCARTHY. I understand that. What about the tax? You tax some of the companies but not the others.

Governor PAIEWONSKY. No, all companies are taxed, but we have an incentive program in the islands to try to induce industries to establish in the islands, and we give them—

Senator McCARTHY. But what is the basis for the tax that you do impose?

Senator WILLIAMS. These are income tax exemptions, are they not? (The following memorandum prepared by the staff of the Joint Committee on Internal Revenue Taxation was submitted for the information of the committee:)

## SUMMARY OF VIRGIN ISLANDS TAX SYSTEM

## TAXATION UNDER TWO INTERNAL REVENUE CODES

Since 1921, the residents of the Virgin Islands have been subject both to our Internal Revenue Code as citizens of the United States and an Internal Revenue Code which is the same as ours but reads "Virgin Islands" every place ours reads "United States." Therefore, the residents of the Virgin Islands were subject to two identical tax systems. Under this dual system (mirror system) an individual had to file returns and pay income tax to both the United States and to the Virgin Islands. Double taxation was avoided by offsetting foreign tax credit provisions.

## EFFECT OF REVISED ORGANIC ACT

However, the Revised Organic Act of the Virgin Islands (passed in 1954) provided that citizens of the United States who are inhabitants of the Virgin Islands are to satisfy their income tax obligations to the United States by filing their tax returns with the taxing authority of the Virgin Islands and by paying into the Treasury of the Virgin Islands a tax on income derived from all sources, both within and without the Virgin Islands.

## SUBSIDIES PROVIDED BY VIRGIN ISLANDS LEGISLATURE

This change relative to the payments of all taxes into the Virgin Islands treasury became particularly significant in view of the enactment of a law (Act No. 224) designed to encourage the establishment of new businesses and industries in the Virgin Islands through the granting of special subsidies. Although the Revised Organic Act provided the Virgin Islands no authority to rebate income taxes paid to it (either with respect to income derived from sources within the Islands or from sources derived in the United States), nevertheless the legislature achieved substantially the same effect by providing subsidies ranging from 50 to 75 percent of the income taxes paid by corporations and residents with respect to certain specified types of new investment. These subsidies were granted with respect to the tax attributable both to income from sources within the Virgin Islands and from sources within the United States.

## LIMITATION IMPOSED BY CONGRESS IN 1960

With a view to precluding the Virgin Islands from utilizing this subsidy incentive device, except with respect to certain Virgin Islands source income, the Congress, in 1960, provided that laws enacted by the Virgin Islands may not make any grant, subsidy or other payment which has the effect, either directly or indirectly, of reducing tax liabilities incurred and payable to the Virgin Islands except in the following cases:

*Corporations.*—The Virgin Islands may allow reduction or remission of tax liability to a domestic (U.S.) or a Virgin Islands corporation to the extent the corporation derived its income from sources outside the United States, provided it meets these tests:

(1) 80% or more of its gross income for the 3-year period immediately preceding the close of the taxable year (or for an applicable shorter period) was derived from Virgin Islands sources; and

(2) 50% or more of the gross income for that period was derived from the active conduct of a trade or business within the Virgin Islands.

*Citizens residing in Virgin Islands.*—The Virgin Islands may allow reduction or remission to an individual U.S. citizen who is a bona fide resident of the Virgin Islands during the entire taxable year, to the extent his income is derived from Virgin Islands sources and is not compensation for services performed as an employee of the United States or of any U.S. agency. Gain or loss from the sale or exchange of a security is not treated as derived from a Virgin Islands source.

The exemption relating to United States or Virgin Islands corporations provides that subsidies can be paid to these corporations under much the same conditions as those under which income tax exemptions are presently available in the case of U.S. corporations carrying on a trade or business in most other U.S. possessions (Sec. 931 of the Code). The exception relating to citizens of the United States who are bona fide residents of the Virgin Islands permits the granting of subsidies in much the same manner as bona fide residents of Puerto Rico

may claim an exemption from U.S. income tax with respect to their income derived from sources within Puerto Rico (Sec. 983 of the Code). These exceptions permit the Virgin Islands to provide, through the subsidy program, what amount to much the same treatment as that already provided by income tax exemption with respect to other possessions in the case of U.S. corporations, or along the lines of the treatment provided residents of Puerto Rico in the case of citizen residents.

Senator McCARTHY. What kind of tax do you impose?

Governor PAIEWONSKY. We impose a tax for control of production.

Senator McCARTHY. What kind of tax is it? Is it income tax?

Governor PAIEWONSKY. This is a production tax. This is a production tax that we are imposing.

Senator McCARTHY. What is it based on, units, value or what?

Governor PAIEWONSKY. It is based after a certain number of units are produced. Everything over that is taxed at \$2.50 per unit, which is almost equal to your duty here, which is the method that we have used in order to control the quota.

Senator ANDERSON. Senator McCarthy, we are trying to find out why he picked out four firms and gave them income tax exemption and left the other 12 firms outside of it. How do you do that?

Governor PAIEWONSKY. Senator, the first company received its tax incentive in 1959, prior to my becoming Governor of the islands, the other companies established soon after, and they were in the same category. I don't know if the record will show, but they all had difficulty first in getting plants established, in training people, and they showed that there was a need, and under the need clause of the incentive program, they were granted tax exemption.

I warrant to you that I have consistently refused to grant similar tax exemptions since 1962 to any firm in this business, and because of this I have been attacked and even taken to court by one firm because I have refused to do this.

Senator ANDERSON. That is the whole point. You do grant it to four firms and the other firms you say, "I am sorry, you are not my friends, I can't recognize you, you are out."

Governor PAIEWONSKY. That is not the case.

Senator ANDERSON. That isn't the case? What is the case?

Governor PAIEWONSKY. We have not granted it to the 12 firms because after we held hearings and looked into the industry, we found out and we felt that 301 was established for the purpose of benefiting the economy of the territories through labor and taxes and various payments made and moneys spent in the island developing the economy, and not as a windfall to any particular firm.

Since we found that the watch industries were all making a high profit, we did not think that they should get tax exemption, and as a matter of fact we would welcome the removal of tax exemption from any of the firms today, to put them all on an equal basis.

Senator ANDERSON. You granted it on the basis of these 4, and you state that the other 12 don't need an exemption from income tax?

Governor PAIEWONSKY. No, I don't think, Senator, that the watch industry—

Senator ANDERSON. Aren't you trying to treat them all alike? If 4 of them need that help, what about the other 12? Have you examined into it? Don't they need it too?

**Governor PAIEWONSKY.** Sure we have examined that.

**Senator ANDERSON.** Why don't you give it to them?

**Governor PAIEWONSKY.** We have found in examining the whole watch industry, what we did not know at the time when the watch industry was first established in 1959 there was that much profit in this operation and there was no justifiable reason under local law why these companies should get what would amount to a windfall. The benefit should go to the people of the island so that the taxes paid could be used to build schools, hospitals and other things for the benefit of the people of the Virgin Islands.

**Senator ANDERSON.** Then why don't you terminate the favor to these four?

**Governor PAIEWONSKY.** I would like to very much, sir.

**Senator ANDERSON.** You would like to?

**Governor PAIEWONSKY.** Very much, sir.

**Senator ANDERSON.** What have you done about it?

**Governor PAIEWONSKY.** Well, I think there is a contract. We have been taken to court in one case where we did, in another 301 industry, where we abolished the tax exemption, where we find the same reasoning, that they were not entitled to it, should not get it, and we canceled it. They took us into court and the court said it is a contract that had been granted by the Government and cannot be nullified.

**Senator WILLIAMS.** Is that a perpetual tax exemption?

**Governor PAIEWONSKY.** No, for a period of 10 years. We are now completely overhauling the tax incentive laws, because I think we need to have, as we are moving into areas of new industries, I think we need to have a much more sophisticated type of a tax exemption law.

**Senator WILLIAMS.** Would you furnish the committee the names of these 16 companies, all 16, and the ownership of the companies along with the amount, and the value of the tax exemption which these 4 have enjoyed, so that we can examine it for the record?

**Governor PAIEWONSKY.** Surely, I will be glad to.

(The following letters were subsequently submitted:)

DEPARTMENT OF THE INTERIOR,  
OFFICE OF TERRITORIES,  
Washington, D.C., July 12, 1966.

Hon. RUSSELL B. LONG,  
Chairman, Senate Finance Committee,  
U.S. Senate,  
Washington, D.C.

DEAR Mr. CHAIRMAN: Information has been requested on 1) the names, 2) ownership and, 3) the amount of any tax subsidy received by watch assembly plants in the Virgin Islands. There are sixteen watch assembly plants now operating in the Virgin Islands; their full names, according to information available in our files, are presented below. The ownership of six Virgin Islands plants by United States manufacturers of wrist watches or other products is expressly stated in testimony, court actions or letters in our files. The remaining Virgin Islands companies are believed to be either subsidiaries of affiliates of non-manufacturing U.S. companies (e.g. wholesale or retail distributors), according to letters in our files, statements of company representatives, or informal reports from other government agencies. Ownership interest in this second group of nine companies, as well as in the one company believed to have a German affiliation, generally is not fully documented and frequently must be described as "on information and belief." We recommend that you verify what-

ever "clues" we can supply with information available to other government agencies.

**1. Subsidiaries of U.S. watch manufacturers or U.S. manufacturers of other products**

<i>Virgin Islands Company</i>	<i>U. S. Company</i>
Standard Time Corp.....	Hamilton Watch Co.
Atlantic Time Products Corp.....	Bulova Watch Co.
Master Time Co., Ltd.....	Elgin National Watch Co.
Virgo Corp.....	United States Time (parent company of Virgo is Timex, Bermuda).
Antilles Industries, Inc.....	General Time Corp. (U.S. manufacturer of clocks and pocket watches, not wrist watches).
Quality Products, Inc.....	Benrus Watch Co., Inc. (U.S. manufacturer of cases, not watches; subsidiary manufactures other timing devices).

**2. Subsidiaries or affiliates of other U.S. companies**

<i>Virgin Islands Company</i>	<i>U. S. Company</i>
Admiral Time, Inc.....	Webster Watch. <sup>1</sup>
Unitime Corp.....	Unisales (U.S. representative).
Belair Time Corp.....	Enicar. <sup>1</sup>
Multi Jewel Watch Corp.....	Baldwin Bracelet.
R. W. Summers Time Corp.....	Sheffield Watch, Pan-American trading. <sup>1</sup>
Virgiline Watch Co., Inc.....	Henrilline Watch Co., Inc.
Belmont Industries, Inc.....	Leichter Watch Co. <sup>1</sup>
Watches, Inc.....	A. Schwarcz & Son, Inc.
Sussex Watch Corp.....	Croton Watch Co., Inc. <sup>1</sup>

**3. Other**

Roza Watch Corp.....	German ownership interest. <sup>1</sup>
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<sup>1</sup> On information and belief.

Four watch assembly companies have been granted tax exemption and tax subsidies in the Virgin Islands. The tax subsidy amounts to 75% of income taxes and 90% of customs duties (the 6% ad valorem Virgin Islands duty) collected. We believe the procedure is to collect the tax and to pay the subsidy in the following year, provided no question on income tax subsidies has been raised by the Internal Revenue Service under the procedures established by 26 U.S.C. 934. Our files report subsidies paid in fiscal years 1961 through 1964; we recommend that inquiry be made of the Government of the Virgin Islands as to any subsidies paid in fiscal 1965 or 1966, or as to subsidies, based on claims filed in earlier years, that were approved for payment after January 19, 1965, or otherwise are not included in the following list:

*Income tax subsidies*

Period	1961	1962	1963	1964
Standard Time, Aug. 5, 1959-69.....				\$217,068.05
Admiral Time, Nov. 4, 1961-71.....			\$566.99	12,288.61
Quality Products, Apr. 16, 1962-72.....				
Unitime Corp., Dec. 26, 1961-71.....				

*Customs duties*

Period	1961	1962	1963	1964
Standard Time, Aug. 5, 1959-69.....	\$11,332.92	\$36,327.54	\$54,280.26	\$99,560.02
Admiral Time, Nov. 4, 1961-71.....			15,672.71	34,115.94
Quality Products, Apr. 16, 1962-72.....			17,480.59	21,419.86
Unitime Corp., Dec. 26, 1961-71.....			32,308.08	64,471.62

It is entirely possible that the large payment made to Standard Time in 1964 represented a return of taxes paid in several prior years. On the other hand, it may be that Quality Products and Unitime, to which no income tax subsidies were paid as of January 19, 1965, received such subsidies, based on calendar or fiscal 1963 income, at a later date.

Sincerely yours,

Mrs. RUTH G. VAN CLEVE, *Director.*

DEPARTMENT OF THE INTERIOR,  
OFFICE OF TERRITORIES,  
Washington, D.C., July 28, 1966.

Hon. RUSSELL B. LONG,  
*Chairman, Senate Finance Committee, U.S. Senate,*  
Washington, D.C.

DEAR MR. CHAIRMAN: Please refer to our letter of July 12, 1966, furnishing certain information on the watch industry in the Virgin Islands requested by you following the hearings on June 30, 1966, on H.R. 8436. The enclosed information, supplementary to that contained in our earlier letter, has been obtained from the Government of the Virgin Islands.

Sincerely yours,

JOHN J. KIRWAN,  
*Acting Director.*

*Income tax subsidies*

	Fiscal year <sup>1 2</sup>			
	1963	1964	1965	1966
Standard Time.....		\$217,088	\$209,276	\$239,220
Admiral Time.....	\$567	12,259	130,326	\$160,218
Quality Products.....	None	None	40,322	95,489
Unitime Corp.....	None	None	\$81,125	\$345,741
Total.....	567	229,347	461,049	840,668

<sup>1</sup> None earlier than 1963.

<sup>2</sup> Nearest dollar.

<sup>3</sup> Paid this year but includes claims for fiscal years 1962 and 1963.

<sup>4</sup> Claimed but not paid pending audit by IRS.

<sup>5</sup> Paid this year but includes claims for fiscal years 1962 and 1963.

<sup>6</sup> Paid this year but includes claims for fiscal years 1964 and 1965.

*Custom duties returned*

	Fiscal year					
	1961	1962	1963	1964	1965	1966
Standard time.....	\$11,333	\$36,328	\$54,280	\$99,590	\$94,634	\$131,449
Admiral Time.....	None	None	15,673	34,118	50,834	65,234
Quality Products.....	None	None	17,481	21,420	40,102	42,470
Unitime Corp.....	None	None	32,308	64,472	65,295	93,245
Total.....	11,333	36,328	119,742	219,598	250,865	332,398

Senator ANDERSON. What are the four big companies?

Governor PAIEWONSKY. I have a list here of the 16 companies.

Senator ANDERSON. What are the four that get special treatment?

Governor PAIEWONSKY. The ones that were established first. I may have the names here, sir.

Senator ANDERSON. Wouldn't you know? I understand the other 12 have been threatening you with a law suit, so you must know who they are.

Governor PAIEWONSKY. They have all been threatening.

Senator ANDERSON. Not the four that are eating high on the hog, are they?

Governor PAIEWONSKY. They are threatening. They want more quotas, every one. I think Master Time—

Mr. MICKY. Senator, to save time I can tell you the next witness can answer that question.

The CHAIRMAN. Would you mind, Governor, if the next witness comes up and gives us the information that you don't know?

Governor PAIEWONSKY. I will be glad to. I have Admiral Time, Unitime, and Quality Time.

The CHAIRMAN. Will you give your name for the record, please.

Mr. SINKLER. I am Arthur Sinkler, Mr. Chairman, president of the Hamilton Watch Co. Our subsidiary is Standard Time Corp. of the Virgin Islands. We have the tax subsidy. The others are Admiral, Unitime, and Quality.

The CHAIRMAN. Thank you very much.

Senator McCARTHY. I know Hamilton, but what about the others? Are they independent producers? What kind of watch companies are they?

Governor PAIEWONSKY. I think they are subsidiaries of the large manufacturers here, subsidiary of Hamilton, subsidiary of Bulova, subsidiary of—

Senator McCARTHY. Most of them are subsidiaries.

Governor PAIEWONSKY. Most are subsidiaries. We have a few independent companies too.

Senator ANDERSON. That is interesting. When you brought them in you gave them this exemption on the basis of need. Was Hamilton Watch Co. in such bad shape?

Governor PAIEWONSKY. No. They bought the firm from the people that owned it first. I think there was a gentleman that came in and established Standard Time, a small operator.

Senator ANDERSON. He is not a subsidiary?

Governor PAIEWONSKY. Not at the time when he got it, sir.

Senator ANDERSON. If it was on the basis of need and the need no longer existed why didn't you cancel it?

Governor PAIEWONSKY. The need existed because he showed a loss for the first couple of years of operation, and his production did not reach the peak which it has reached today.

Senator ANDERSON. When did you give that exemption?

Governor PAIEWONSKY. In 1959.

Senator ANDERSON. That is fine. Now let's talk about 1959. You listed the number of watches and U.S. watch consumption.

Governor PAIEWONSKY. Yes, sir.

Senator ANDERSON. At about 25 million in 1959.

Governor PAIEWONSKY. Yes, sir.

Senator ANDERSON. That increased to 34 million in 1965.

Governor PAIEWONSKY. Yes, sir.

Senator ANDERSON. About a 40-percent increase.

Governor PAIEWONSKY. A 25-percent increase.



Senator ANDERSON. Twenty-four to thirty-five—

Governor PAIEWONSKY. No, not 24. I think I mentioned—

Senator ANDERSON. I used 24. That is sufficient, is it not?

Governor PAIEWONSKY. These figures were taken out of the official Bureau of the Census.

Senator ANDERSON. I won't argue with you about it. I will have our staff prepare this.

Governor PAIEWONSKY. On page 2, in 1965, there was a rise of over 25 percent from 27,353,000 units.

Senator ANDERSON. I recognize that.

Governor PAIEWONSKY. To 34,354,000.

Senator ANDERSON. Can you go back to the figures I was trying to use, that there were 24.8 million watches consumed in the United States in 1959.

Governor PAIEWONSKY. Oh, in 1959.

Senator ANDERSON. And it was raised to 34 million in 1965. I said that was about 40 percent.

Governor PAIEWONSKY. Yes, I didn't hear you. I thought you said in 1 year.

Senator ANDERSON. How about the Virgin Islands? In 1959 they had 5,000. In 1965 they had 3,600,000, or 72,000 percent. Is that comparable? Tell us about that, will you?

Governor PAIEWONSKY. You will have to check with the watch companies, sir.

Senator ANDERSON. All right. But you said that this fellow came in there, this small watch company, and had all these problems at that time. He couldn't have been very heavily in there with 5,000 watches.

Governor PAIEWONSKY. Not if he only produced 5,000 watches. I don't think he could even have existed with that.

Senator ANDERSON. Wasn't that your testimony, that he needed it?

Governor PAIEWONSKY. You asked on tax exemption. They are two separate things. On the tax exemption, our law said that any person that is employing—I don't know exactly the number of persons—and invests a certain amount of money to create employment, and if he can show need, that he will be given tax exemption from property taxes and other taxes.

Senator ANDERSON. And you said this firm got tax exemption.

Governor PAIEWONSKY. Yes.

Senator ANDERSON. In 1959.

Governor PAIEWONSKY. Well, the tax exemption, they go before a tax incentive board, and they hold hearings and they bring their testimony in and the balance sheets, and on the testimony that they give, the board votes whether this firm is entitled to, under the law, to tax incentives, and evidently this is what happened at that time.

Senator ANDERSON. Are you going to supply the material that Senator Williams requested?

Governor PAIEWONSKY. Yes, sir.

Senator GORE. I have seen a telegram which indicates that the production per employee in the Virgin Islands is far in excess of the production per employee in the continental United States. Now this production per employee, I take it, is the number of watches assembled,

the number of watches completed. For instance, you have 600 or 800 employees that produce 3 or 4 million watches, produce, assemble or whatever you do. Now, could you explain to me the difference in the actual labor on watches, say, in New York and in the Virgin Islands?

Governor PAIEWONSKY. I am not conversant with what they do in New York, but I know in the Virgin Islands when some of the watch companies started, they brought in subassemblies, and they would put together maybe several subassemblies into a working unit.

Senator GORE. How long does it take a worker to take what you receive from Japan or from Switzerland or Germany or from whatever source—how many hours and how many minutes of labor on the average is involved in assembling these instruments?

Governor PAIEWONSKY. I am not conversant with the watch industry to that extent.

Senator GORE. Somebody ought to know.

Governor PAIEWONSKY. But you do have members of the industry right here who can give you this information. What I do know—

Senator GORE. Would you mind—excuse me, complete your statement.

Governor PAIEWONSKY. What I could give you, I know that we have made a calculation based on the cost of labor that goes into the watch from the various firms, and it ranges from about 45 cents up to \$1 per unit, depending on the type of assembly that is being done.

In other words, there are some firms that do the complete assembly. They take all of the parts that go into a watch, and they put it together. Other firms just put together subassemblies, and putting in subassemblies, of course, there is less labor.

Our law in controlling the quota places emphasis on labor, so that more labor is put into the watch so that the benefits to the Virgin Islands would accrue from the 301 indirectly through the amount of labor that is paid per unit into the watch. But, the question of the comparison of what it would cost to assemble a watch in New York and the period of time, I think this can best be answered by people of the watch industry who will be testifying here.

May I say one other thing. That the wages paid to the persons in the watch industry in the Virgin Islands, we have tried to make them pay high wages, because we are trying to get a segment of the population trained in this as skilled labor. My understanding is that the labor pay is \$1.60 an hour, and it is considered a very good paying occupation in the Virgin Islands for this segment of the population that normally cannot get this type of employment, and that is the women.

Senator GORE. Please understand that my questions do not indicate any lack of sympathy with employment opportunities in the Virgin Islands.

Governor PAIEWONSKY. Yes.

Senator GORE. I know how badly jobs are needed there, everywhere as a matter of fact.

My questions are elementary, and I must apologize, Mr. Chairman. I have a meeting of the Senate Foreign Relations Committee with Secretary Ball at 10, and I must leave. But I wish that the chairman would direct the staff to prepare these comparable figures. I

would like to know, for instance, if this per unit labor cost includes the salary of management. We ought to get this broken down in comparable terms with respect to these various locations, because the best I can make of it, and again let me say it is only preliminary, what we have here is a fight over who is going to get the benefit of the tariff concessions. I may be in error about this.

Governor PAIEWONSKY. Mr. Chairman, may I say this.

Senator ANDERSON. May I first ask the reporter to note in his notes here the request that Senator Gore has made. I will ask the staff to supply the record with the information requested by the Senator.

(The information requested by Senator Gore regarding comparable figures follows:)

MEMO PREPARED BY THE STAFF OF THE COMMITTEE ON FINANCE

On the basis of information furnished the staff, it appears that the value of labor included in assembling or producing a watch in the insular possessions of the United States ranges as follows: Guam (5 companies), 65 cents to \$1; Virgin Islands (16 companies), 35 to 40 cents up to \$1.50 with one company reporting labor costs as high as \$3 to \$4 per movement.

Governor PAIEWONSKY. Mr. Chairman, may I just say this for the benefit of Senator Gore. That in giving the allocation on quota, we have taken exactly what you have said into consideration. No salaries of the executive staff or office staff enter into the picture. It is only the people who are actually working on the watches, and even the technical people who are brought in to teach them, whose salaries may range to about \$10,000, we have limited this to the social security figure, so that our law definitely includes only the question of social security payments of the actual persons engaged in the production of the watches, and does not include managerial and office.

Senator GORE. And this amounts on the average to how much per instrument?

Governor PAIEWONSKY. This amounts to—it ranges in different areas, depending upon the amount of work that is performed—from about 45 cents per unit up to a little over \$1 per unit.

Senator GORE. I must admit surprise at my rough calculations that in Guam it amounted to about 30 cents per instrument.

Governor PAIEWONSKY. Maybe the labor costs in Guam might be less.

Senator GORE. Yes.

Governor PAIEWONSKY. I do not know, and maybe they are putting together subassemblies.

Senator GORE. But the comparison between 30 cents and 45 cents is still not—

Governor PAIEWONSKY. I know.

Senator GORE. We are not talking about big amounts.

Governor PAIEWONSKY. I know that we do have the figures from the Virgin Islands, and we can give you these.

Senator GORE. Thank you, Mr. Chairman.

Governor PAIEWONSKY. We can give you the payroll; too.

Senator ANDERSON. Senator Bennett.

Senator BENNETT. I am curious, Mr. Chairman. Is there any attempt made to guide the total production among these 16 producers, or does each producer produce as many watches as he can sell, and then

when the total reaches 9 percent of the domestic market, according to your testimony, then the \$2.50 charge goes against everybody? How do you allocate?

**Governor PAIEWONSKY.** The allocation is done on the basis of taking two important factors into consideration. Each of the 16 companies are given a quota. It depends upon their payroll based on the actual labor that goes into the production of watches, and this is given the weight of two-thirds, so that the weight of labor is important, and one-third is given to the factor of the number of units that the company ships. I can give you a breakdown and leave it with your clerk as to the total allocation of the units, the 3,500,000—approximately—units that is allocated to each company.

**Senator BENNETT.** It is an allocation made between the companies themselves or is it officially set by the government?

**Governor PAIEWONSKY.** It is set by a board. They submit on a form, with an affidavit saying that this is correct, their payrolls, and it is audited, and the number of employees is checked, and the number of units. We get the information from the customs, and on this basis the allocation is made.

Now this can very well change as it has changed, depending upon the amount of work done on each watch, and most of the companies rather than putting subassemblies together are all going toward the concentration of building the watch wheel by wheel or part by part, so that the maximum amount of labor goes into the production of the watch, and this is what we are encouraging by our law.

**Senator BENNETT.** The organization you call the "Board" is an official organization connected with the government of the islands?

**Governor PAIEWONSKY.** It is; yes, sir.

**Senator BENNETT.** This is a case of governmental OK's. That is all, Mr. Chairman.

**Senator ANDERSON.** Senator Ribicoff.

**Senator RIBICOFF.** No questions.

**Senator ANDERSON.** Senator Dirksen.

**Senator DIRKSEN.** Mr. Chairman, I would like to get some basic information. If the Governor doesn't have it, perhaps somebody else can respond. I see in the House report, or in your statement, that in the current year, which would end in March of 1967, you believe the American market will consume 36 million watches; is that correct?

**Governor PAIEWONSKY.** Yes, sir.

**Senator DIRKSEN.** I don't know if that figure means very much unless we take a better look at it. How many of those watches contain movements that are made in the United States?

**Governor PAIEWONSKY.** Based on the import figures that I have given here, I think 50 percent of these would be imported from foreign areas, 40 percent would be produced in the United States, and about 10 to 11 percent in the Virgin Islands or in the territories.

**Senator DIRKSEN.** So only 40 percent contain movements that are made on the U.S. mainland.

**Governor PAIEWONSKY.** Yes, sir; but if the Virgin Islands was not in the picture, the statistics might move instead of 50 percent, the foreign shipments to the United States might go up to 60 percent foreign and the domestic manufacturer would still remain at 40 percent.

Senator DIRKSEN. Of the 40 percent, how many of those are Swiss movements?

Governor PAIEWONSKY. You mean of the 50 percent?

Senator DIRKSEN. Or 40 percent, whatever it is, whatever is in excess of whatever is made in the United States.

Governor PAIEWONSKY. You mean what part of the U.S. manufacture is Swiss movements?

Senator DIRKSEN. Yes.

Governor PAIEWONSKY. I cannot give you that. Maybe someone else can give you the answer, sir.

Senator DIRKSEN. And you don't know how many are made in Japan.

Governor PAIEWONSKY. No, sir; I do not know that.

Senator DIRKSEN. How many watch movements made in Switzerland come to your island for assembly?

Governor PAIEWONSKY. None.

Senator DIRKSEN. None?

Governor PAIEWONSKY. No, Switzerland has a tight control on the manufacture of watches, and I am told by the watch manufacturers that they are unable to secure any parts from Switzerland. They have to buy their parts from France, from Japan, from Czechoslovakia, and other European countries.

Senator DIRKSEN. Now you actually—

Governor PAIEWONSKY. You can verify this by asking some of the other watch manufacturers.

Senator DIRKSEN. You actually make watch movements in the Virgin Islands?

Governor PAIEWONSKY. We only assemble them, sir.

Senator DIRKSEN. No manufacturing of parts or subassemblies?

Governor PAIEWONSKY. Not at the moment. We do not manufacture. We just assemble them by putting the parts together to make a watch movement.

Senator DIRKSEN. So you get parts from France?

Governor PAIEWONSKY. We get parts from France.

Senator DIRKSEN. From Japan?

Governor PAIEWONSKY. From Japan.

Senator DIRKSEN. How many do you get from Japan?

Governor PAIEWONSKY. I do not have the statistics on that, but I am pretty sure that this is available and we can secure it and make it available to your staff.

(See p. 5, table 3.)

Senator DIRKSEN. And how many do you get from the watch plants in this country?

Governor PAIEWONSKY. I think some of your watches, the major manufacturers are now in the Virgin Islands, like Hamilton, Bulova, and Benrus, and I think they will be sending down parts of their manufacture, the items that they manufacture for assembly, assembling with other parts.

Senator DIRKSEN. I see you get some from the Soviet Union. Here is a sheet relating to the value and source of Virgin Island imports of watch products. It shows for 1965, 686,000 from the Soviet Union. Are you aware of that?

**Governor PAIEWONSKY.** Yes, sir. It was brought to my attention, and we were told that as long as the U.S. Customs does nothing against the importation, and there is no ban by U.S. Customs, and we have U.S. Customs in the Virgin Islands, that this is permitted. It is permitted in the United States, it is permitted in the Virgin Islands. If there was a ban against it, we certainly would prohibit it.

**Senator DIRKSEN.** Now, I have been going through an awful lot of literature on this watch business. They talk about pin lever and some other type. What is the difference?

**Governor PAIEWONSKY.** All I know about watch movements is what I have learned in the Virgin Islands since the watch companies have come there. The pin lever movements I understand is a very cheap type of movement. There are no jewels.

**Senator DIRKSON.** No jewels?

**Governor PAIEWONSKY.** No jewels. It is not a jewel movement, and there are some with some jewels, but the main Swiss watch and what we produce in the Virgin Islands are the 17 jewel watch, and there is a duty, of course, on the 17 jewel.

There is also a 21 jewel watch, and the duty on this is, I think, \$10.50, about three times the duty on a 17 jewel watch. But very few of these enter the United States because the industry would bring in a 17 jewel watch from Switzerland, and up-jewel them here by adding the five additional jewels at a cost of maybe a little over \$1, so that in this way they just pay the duty that is assessed on a 17 jewel watch.

I am not as familiar with this industry and trade except from what I have learned from the watch people in the Virgin Islands, as a result of their being there.

**Senator DIRKSEN.** When we talk about watches, I presume we talk about all kinds of watches, the different kinds of watches that are bought for the children at Christmastime which only last—I presume you mean Mickey Mouse watches and all these other things that you see around, or doesn't it include these?

**Governor PAIEWONSKY.** I don't think it includes those, Senator. I am not sure. I would have to check with the Census Department that has given the figures on watch consumption. But I don't think in a real sense that they are considered watches.

**Senator DIRKSEN.** It seems to me we ought to be a little more precise in the terms we use here, if we are going to understand what this is all about. When you talk about watch consumption, I just think of all watches lumped together. All I know about a watch is to look at it and see whether it tells time, and if I wind it, it runs and if I don't wind it, I go to a jewelry shop. But when you say watch consumption—

**Governor PAIEWONSKY.** I am in the same category as you, Senator.

**Senator DIRKSEN.** I wondered if it meant all these very cheap watches of all kinds that are sold. What is the guiding line? Governor, if you can't tell us, it is perfectly all right. I sympathize with you, because I couldn't tell either. But I hope, however, the next witnesses will give us a little fill-in. I would like to see the background of this thing. Now I run into information about American watch

companies where the Japanese have an interest. I don't know if it is true or not, but that would throw it into quite a different category, it would seem to me, or if there are American watch companies where the Swiss have an interest.

It looks to me like you would be meeting yourself coming back if you tried to do some good for the domestic watch producers and sought to conserve the watchmakers' skill that I have been concerned about for the last 10 or 12 years, and I have fussed with every Secretary of Defense and every head of the Office of Production Management, and even with the President, because I didn't like to see those watchmaker skills disappear.

You can employ them, of course, on proximity fuses and missile timing devices, but it seems to me we ought to preserve those skills, and in order to do it I think we have got to see the whole picture.

Now, more than everything else, and I am saying this for the benefit of those who are going to testify, I hope they will be able to tell us whether or not we have watch companies here that own a part or all of a watch company in Switzerland or Japan. That is a very pertinent question, because I have a friend who is in the children's hosiery business, and when he couldn't make it go against cheap foreign labor, he went over to Japan to buy a couple of plants. He didn't succeed, so then he went to Germany and France. He thought, "If I can't make it here with a profit, I will go and buy a plant over there," but for all practical purposes you import those products, and I don't know that you do the American market any particular good so far as the stability of our economy is concerned. But I will just skip it now. But I hope somebody is going to tell us about this. I can't get this complicated business in my mind. This is almost as fascinating as a \$3 alarm clock. You take it apart and there are parts left over when you put it back and it still works.

Governor PAIEWONSKY. I will say this, Senator. There has been consideration by the Tariff Commission in cutting the tariff in half. I believe if the tariff is cut in half, I think a good number of the watch companies in the territories would not be able to make a profit and would eventually either have to go into some other type of manufacturing or close shop.

Now, what you have just mentioned here about training watchmakers here in the islands; we are training them. Virgin Islanders are American citizens, and if the territories are denied participating and working, producing watches, the only thing that this will do will increase the number of foreign watches that will come in here; and the labor component parts, which now is left in the territories to enhance the territories and to assist in developing the skills, will then flow back to the foreign area, which is a point that you have just raised.

Senator DIRKSEN. Governor, I am not unsympathetic, because if you can't make it down there and keep the people working, we will have to give you some foreign aid or some other kind of aid, so it is going to cost us any way.

Governor PAIEWONSKY. It is preferable to give it in this form.

Senator DIRKSEN. I would say so.

Governor PAIEWONSKY. This form of aid, and I think that is what the Congress intended when they passed—except that we in the Virgin

Islands or in the territories should handle this in such a manner that we get the maximum benefit for the people of the island rather than whatever money is made will go into the pockets of individual groups, and this is what we have been concerned with.

Senator DIRKSEN. I hope we find out who is helping who and how and what.

Governor PAIEWONSKY. I am concerned mainly with the 830 people, around 800 persons, usually of the section of the labor force that is very difficult to find jobs for of this nature, in this category of pay, which is very good, \$1.60 an hour.

Senator DIRKSEN. If 800 people put out as many watches as this sheet indicates, they must be terribly efficient, but we will find out about that later.

Governor PAIEWONSKY. I am told that they are as efficient as the people up here, and what we are trying to do is to get them to do more work on the watch so that for the same number of units we will employ maybe a thousand persons.

Another factor is this: We have tried to control the industry in such a manner not to make people believe that this is uncontrolled and you can have 3,000 people employed, because then we would have a very serious situation in our hands, if a cutback should come at a later date due to the market or due to Congress imposing a cut in the ceilings or quotas. This would create unemployment. It would be very difficult to take and replace these persons working now at \$1.60, to find comparable jobs with their skills in other industries. So, we would have a problem on our hands. That is why we have controlled it for the last year and a half or two years.

We have put a ceiling and tried to control it in the manner that we thought was legal, but the courts, the local court has ruled against us, and we have appealed it to the Supreme Court. Maybe by your amending this bill, you can put on a quota, and so forth, which would then make it legal and we can then regulate this.

Senator DIRKSEN. The House report indicates they have a very real concern, that if watchmaking becomes entrenched in the Virgin Islands, in Guam, Samoa, and elsewhere, it could have quite an impact upon the domestic industry. That is what they say. I have to find out. But that is the end of my questioning except one thing wholly unrelated to watches.

Is the Virgin Islands government still in the rum business?

Governor PAIEWONSKY. No, sir. The Virgin Islands is still manufacturing rum, but the government is not in the rum business.

Senator DIRKSEN. Is the rum business good?

Governor PAIEWONSKY. It is improving. It has not improved as rapidly as other segments of the liquor business, but it is good.

Senator DIRKSEN. Thank you.

Senator ANDERSON. I have just one question on this. You talk about many people being put out of work. The Department of Commerce has a report here which says, "The economy of the Virgin Islands particularly from its 1960 levels is booming. Production has more than doubled and export of watches is five times 1960. There are more jobs for adult Virgin Islanders and about 8,000 temporary alien workers." You have to import about 8,000. If you have to do that, what is the jeopardy to your own people?



**Governor PAIEWONSKY.** The type of jobs that they are imported for is first and mostly in construction or in the service industries. We have created a tourist trade and developed the tourist trade, and we have gone into construction of schools and hospitals and other segments, and this is required, and we also have on hand now two large plants that are under construction, one by Harvey Aluminum and one by Hess, and we do not have the trained skilled builders in the Virgin Islands.

We are training them as fast as we can, and they are taking the jobs as fast as they become available. But we have to, if we want plants built, we have to bring in persons either from the mainland, Puerto Rico, or from the nearby British islands.

**Senator ANDERSON.** Senator Long.

**The CHAIRMAN.** Governor, as you know, I have been a friend of the Virgin Islands. It seems to me, generally speaking, when you have brought a problem to me I have been sympathetic with it.

**Governor PAIEWONSKY.** I know that, sir.

**The CHAIRMAN.** And in some instances I have carried the ball for the Virgin Islands on some of your problems, and I don't care to hurt them. I would like to see the Virgin Islands prosper. At the same time I want to be fair to the American people and fair to the islands. You say you have got a \$2.50 production tax on these watches?

**Governor PAIEWONSKY.** Over and above the quota which we figured on a one-ninth basis.

**The CHAIRMAN.** You mean any watch produced over that quota bears a \$2.50 tax.

**Governor PAIEWONSKY.** Any manufacturer that wants to produce over that and ship to the United States must pay the \$2.50. There is also a 3 cents tax which we use for administering this quota, to pay the clerical help, the staff, and so forth.

**The CHAIRMAN.** How did you arrive at that \$2.50 figure to judge that to be the proper levy?

**Governor PAIEWONSKY.** We figured that it is very close to the duty that is imposed on the units that are shipped, so that any person that wants to be in business in the Virgin Islands, to go beyond the quota, he will be practically paying the import duty.

**The CHAIRMAN.** What is the full duty?

**Governor PAIEWONSKY.** I think the full duty is close to \$3.

**The CHAIRMAN.** It is around \$3.

**Governor PAIEWONSKY.** It varies on watches, depending upon the jewels, I imagine.

**The CHAIRMAN.** Right. Now based on a letter I received from the Governor of Guam, it appeared to me by offhand arithmetic that the labor component being added in bringing watches in worked out to around 21 cents per watch. Does that square with your estimates of what the actual labor component in assembling these watches is in the islands?

**Governor PAIEWONSKY.** No; we have an actual figure which we have gotten from the payrolls, because our quota is based on payrolls of the persons actually working in production of the watches. It does not include the clerical help or the administrative staff, and it is based also on the social security level.

In other words, anyone paid above that it is not taken into account.

The CHAIRMAN. Can you give me your figure? What do you estimate the labor component for the average watch to be? In other words, if you take the number of watches that the average working person assembles in an hour, and then take that number and divide it through by the wage, the hourly wage that worker is making, what is the labor component on these watches?

Governor PAIEWONSKY. The labor component differs for different companies. It ranges from about 45 cents to over \$1. The smaller companies, in some of the smaller companies there, the cost per unit is a little bit more. It depends on what they do to the watch. If they are just putting a few subassemblies together, the labor component is very small. If they rebuilt the watch, putting each component part into the watch, each little wheel or whatever goes into the movement of a watch together, then the persons putting this together would take a longer time and the actual cost of the labor component in this must rise to a figure of close to \$1. The average that we have so far of all, taking totals, averages out to between 65 and 66 cents.

The CHAIRMAN. The reason I ask that is this. The thought that occurs to me is that one fair answer to the problem might be to require that this value-added component be perhaps as much as 50 percent in terms of labor and actual administrative payroll in the islands.

Now, if you did that, you would have more employment, provided that these watch manufacturers could meet that requirement. That would mean for the fellow that has got the 45 cents value added in terms of labor, that he would have to do more fabricating. He would have to do more assembling, that is. He could still buy the parts, but he would have to, as you indicated, put in the flywheel and do something more to the watch than just screw together a subassembly.

Governor PAIEWONSKY. This is the basis of our control in setting the quota. Our requirement is that two-thirds of the weight is given to the payroll that actually goes into making the watch, and one-third is calculated on the basis of the units shipped. This is how each individual watch corporation receives their quota, on this calculation, doing exactly what you are saying.

The CHAIRMAN. My thought about it is that if the value-added component represented about 50 percent of the difference in the tariff, that the kind of quota that you are suggesting might be fair. And, of course, I still think that the case can be made that Guam and even Samoa ought to be treated equally, and that they should share at least to some extent in the quotas available, provided that they can meet the value-added requirement.

Now, I personally find very little sympathy with this thing, of letting somebody evade a \$3 tariff by screwing on the back on these watches. A person with normal intelligence knowing how to find his way in and out of that plant should know how to learn that in about an hour, taking two parts and screwing them together.

Governor PAIEWONSKY. That is right.

The CHAIRMAN. If that is all there is to it, for the life of me, I can't see why we ought to permit that as a loophole to our tariff laws. This provision of 50 percent value added, as I understand it, was put into effect on the theory that the islands were actually going to add 50 percent to the value. It sounded good at the time, and then when it goes into effect and we start administering it we find that the 50 percent is made up principally by the markup.

**Governor PAIEWONSKY.** Yes.

The **CHAIRMAN.** Which is just a matter of charging more for some parts that are brought in, more than the cost to bring them in here. If that is all we are doing, it is just a subterfuge and it seems to me it has no place in the law.

My sympathies in the matter would tend to say insofar as you are providing employment and insofar as you can provide legitimate functions, fine. But I should think that you ought to have to add about 50 percent to the value in terms of actual labor, accounting, book-keeping, supervision, whatever it is that actually goes into doing something to assemble these watches, rather than simply a gesture such as adding a strap to it and calling that an assembly.

**Governor PAIEWONSKY.** I agree with you that more should be done, and this is what we have written into our law to compel them; if they want a larger quota, they would have to compete. Otherwise they lose. The companies that are putting more labor into it will get the larger quotas and there are a number of companies now doing this in the Virgin Islands.

The **CHAIRMAN.** Your law in the islands actually has that standard in it?

**Governor PAIEWONSKY.** Yes.

The **CHAIRMAN.** Does it? The quota would depend upon the amount of labor that they put into it. I understand that two-thirds of your allocation is based on payroll and one-third is based on past experience.

**Governor PAIEWONSKY.** Yes, and the payroll is based only on that segment of the payroll of persons actually engaged in assembling the watches, and does not include, as I stated before, office or the administrative salaries, and even the actual work; I mean the persons working on it are limited to the social security limit.

The **CHAIRMAN.** May I say, Governor, that I personally, and I think I speak just as an average member of this committee, have no interest whatever in just making some entrepreneur, some businessmen rich by finding a loophole in our tariff laws.

Now, I am interested in helping the Virgin Islands, Guam, Samoa to raise their standard of living and honorably and legitimately provide for the needs of their people.

Thank you very much. That covers the point I had in mind.

**Governor PAIEWONSKY.** Thank you.

**Senator ANDERSON.** Senator Hartke.

**Senator HARTKE.** Governor, where would these watches be made, if they weren't made in the Virgin Islands? Where would they come from? Would they come from U.S. production, do you think?

**Governor PAIEWONSKY.** We think and we believe that the Virgin Islands watch production has opened up a new market, so to speak. It has brought a 17-jewel watch into the range of the cost of a person giving a gift of a fountain pen at a graduation or some birthday or something like that. A youngster now can buy a 17-jewel watch, and from the statistics that I have given in my statement here, it will show that most of the increases in watch sales which are in the comparable area of the same price range came from European countries, foreign watches.

I do believe that if the watch quotas are cut substantially from the Virgin Islands, that this will not benefit the domestic manufacturers;

but that the amount of watches that has been cut will come from foreign countries, because they are the big competitors of your domestic manufacturers.

Senator HARTKE. Are most of the watches made in the Virgin Islands inexpensive watches?

Governor PAIEWONSKY. They are all inexpensive watches.

Senator HARTKE. What is the maximum wholesale price?

Governor PAIEWONSKY. Well, you have members of the watch industry here, but it is my understanding that these movements sell to the trade in the United States that will then case them and sell them for around \$6 or \$6.50 for the movement.

Senator HARTKE. And what is the ordinary retail price?

Governor PAIEWONSKY. Retail, my understanding is around \$12 to \$14. They might sell for more, depending on what type of case they are put in, but normally, if they are put into a standard inexpensive case, they would sell in the range of, I believe, \$12 to \$14. But you do have members of the industry here that can give you specific answers to that.

Senator HARTKE. Your contention is, as I understand it, that in the event that there is a substantial cut in imports from the Virgin Islands, or if the Virgin Islands in effect is eliminated from this production, that instead of the watches being manufactured inside the United States, they would be manufactured in the foreign markets and shipped in, is that right? Is that your contention?

Governor PAIEWONSKY. This is my contention and my belief.

Senator HARTKE. The net result, then, would be that these people who are working in the watch industry in the Virgin Islands would have to find other employment on the island, and there is limited manufacturing there, is that true?

Governor PAIEWONSKY. This is correct, especially for this type of skilled person now.

The CHAIRMAN. If I might just butt in there for a moment, assuming that those watches would be brought in and tariffs paid otherwise, just looking at what your payroll is on those islands, it looks to me as though we are foregoing \$12 million in tariffs in order for your people to make \$2 million. I should think it would be better just to put them on welfare.

Governor PAIEWONSKY. I don't think that this is the only contribution they are making, because I think there are other considerations to this. There are plants. There is shipping. There are a lot of other things that go into it, plus their taxes. And most of the companies, 12 of the companies are paying taxes.

The CHAIRMAN. Are your people doing the shipping?

Governor PAIEWONSKY. The shipping companies.

The CHAIRMAN. But those are not necessarily American shipping companies. Foreign lines carry most of these watches.

Governor PAIEWONSKY. No, Pan American. They are mostly shipped by air, I think. Pan American is a direct flight that comes in.

The CHAIRMAN. We don't have to subsidize them. They can make it on their own, and they are doing very well. The insurance, it is not your insurance companies that we are trying to help here.

Governor PAIEWONSKY. But, I would say this, Senator. That a number of the watches on which you have calculated duty normally would not be manufactured and come in and pay this type of duty. I

am talking about the 21-jewel watches, of which there are a substantial number. These are imported from Switzerland, say, directly here, and up-jeweled, and the up-jeweling of the watches here costs maybe \$1.20, and the duty is about \$3, so it is \$4 to up-jewel and pay the duty, rather than \$10.50 duty.

The CHAIRMAN. That is a small percentage of the watches, as I understand it. The tariff there would be \$10.75.

Governor PAIEWONSKY. Yes.

The CHAIRMAN. So, it is even more striking what the difference is. But as I say, I want the Virgin Islands to prosper, and insofar as they need some help I am willing to vote for something to help them. But, wouldn't you admit if the shoe was on the other foot and you were trying to help us that that is a rather expensive way to do it—to lose \$6 for every dollar you make?

Governor PAIEWONSKY. I think the benefits, and this is one of the things that we have been looking into and considering, that is the reason why we felt that none of these watch companies should be given tax exemption, and I think the Secretary of Interior has written this, and I have denied all applications, and if I have the power to do it without being reversed by the courts, I would annul all tax exemptions. There are four firms that get it now. They were established early, but on this basis the commensurate benefits to the Virgin Islands would be at least 50 percent or more of the duty that is foregone.

But, there is another thing too. Maybe these watches that are coming in now, on which we are not collecting duty might not come in, because then someone else might bring in a fountain pen or some other gift in this range. We have created a new market, a completely new market, as you can see from the statistics. I think these watches are sold in drugstores, in discount houses, in all of the other areas other than jewelry stores. Maybe some jewelry stores too.

The CHAIRMAN. My reaction would be that it would be much better for both of us if we just called this whole deal off and make the \$12 million and split it with you, give you \$6 million instead of the two that you are making now.

Governor PAIEWONSKY. But the point is that you might not make the \$12 million. I don't think that you get the \$12 million because I don't think that the watches would be imported, the type of watch that we are shipping would be imported into the United States. I think your imports of this quality, especially the 21 jewel watches, they certainly would not be imported.

The CHAIRMAN. What percentage of your watches are 21-jewel watches?

Governor PAIEWONSKY. It is my understanding that it ran about 20 percent. I don't know.

The CHAIRMAN. But on those 21-jewel watches, we are not losing the \$3 in the tariff you are talking about. We are losing \$10.75.

Governor PAIEWONSKY. But that is the point. You wouldn't lose that because they wouldn't come in. They would not come in, Senator. These watches would not come in.

Senator ANDERSON. I just want to finish up where we started awhile ago about these 16 manufacturers, 4 of whom get protection. The court which in your case decided against you said:

It would seem to the court that if four other watch manufacturers who receive tax exemption and subsidy certificates have been deemed to promote the economic

welfare of the Virgin Islands, the plaintiff as long as it has fulfilled all its statutory requirements should also be deemed to promote the economic welfare of the Virgin Islands and should thus be granted tax exemption and subsidy certificate.

Now, it is your testimony that you disagreed with the courts and appealed this case?

Governor PAIEWONSKY. Yes, sir.

Senator ANDERSON. You don't believe that if 4 get it, the 12 should?

Governor PAIEWONSKY. No, sir; I don't think they are entitled to it and I don't think it will be violating the very principle that we just discussed. The Virgin Islands government will not be receiving the commensurate benefits.

What we are trying to do is to upgrade the quality of work by paying higher salaries to the workers, making them go deeper into the type of production, and not just put two or three units together but make them do the entire assembly in the Islands.

Senator ANDERSON. But that has no connection with this.

Governor PAIEWONSKY. And pay their taxes.

Senator ANDERSON. That has no connection with this. Sixteen manufacturers are down there.

Governor PAIEWONSKY. Yes.

Senator ANDERSON. Four of them get a special break, 12 of them do not. My question is, Why don't you give to the other 12?

Governor PAIEWONSKY. Why?

Senator ANDERSON. Yes.

Governor PAIEWONSKY. Because I don't think they are entitled to it, sir.

Senator ANDERSON. The first four aren't either then.

Governor PAIEWONSKY. In my judgment, they too are not entitled to it.

Senator ANDERSON. The court—

Governor PAIEWONSKY. The district court has been reversed about 90 percent of the time by the Third Circuit Court, so why should I go by what a judge of the district court says when he is reversed 90 percent of the time, and we have the right to appeal which we are doing.

Senator ANDERSON. Now, we get down to general contempt of the courts. Are there additional questions? Thank you very much, Governor.

Governor PAIEWONSKY. Thank you very much, Senator.

Senator ANDERSON. Mr. Sinkler.

**STATEMENT OF ARTHUR B. SINKLER, CHAIRMAN OF THE BOARD AND PRESIDENT OF HAMILTON WATCH CO., REPRESENTING THE HAMILTON WATCH CO., ELGIN NATIONAL WATCH CO., STANDARD TIME CORP., AND MASTER TIME, INC.; ACCOMPANIED BY PAUL F. MICKEY, COUNSEL FOR HAMILTON WATCH CO. AND ELGIN NATIONAL WATCH CO.**

Senator ANDERSON. I would like to ask one question before we get started. Regarding the 21 jewel watches, the Governor thought about 20 percent are imported into this country. Would that be your figure?

Mr. SINKLER. I would like to find out exactly what quantity comes from the Virgin Islands. We can calculate it very quickly. The

answer is very few watches are imported into the United States with over 17 jewels.

Senator ANDERSON. I thought it was very rare that a 21 jewel watch came in from the Virgin Islands. He said 20 percent.

Mr. SINKLER. Our experience has been that only a small percentage of our production in the Virgin Islands is 21 jewel watches. The majority of it is 17.

Senator ANDERSON. I didn't mean to break into your statement.

Mr. SINKLER. That is all right, thank you very much.

Senator ANDERSON. You have a prepared statement, do you not?

Mr. SINKLER. I do, Mr. Chairman.

Senator ANDERSON. Proceed, if you will.

Mr. SINKLER. Mr. Chairman, before I start, may I say I am accompanied by Mr. Mickey, who is counsel for Hamilton Watch Co., and also for Elgin National Watch Co., whom I am speaking for.

I would also like to say in my statement I cover a number of the points that have been raised here and I will be glad to answer any other questions afterward.

Mr. Chairman, I am Arthur Sinkler, president and chairman of the board of Hamilton Watch Co. of Lancaster, Pa.

I am appearing not only on behalf of Hamilton, but also for Elgin National Watch Co. of Elgin, Ill., and for Standard Time Corp. and Master Time, Inc., which are Virgin Island subsidiaries of Hamilton and Elgin.

Senator RIBICOFF. Would you be good enough to let us know the number of employees in each one of these companies?

Mr. SINKLER. I will ask one of my assistants to prepare that figure and I will have it at the end of my statement. (See p. 62.)

We fully support H.R. 8436 as amended by this committee. The committee has dealt wisely and fairly with a confused situation involving several conflicting interests and principles.

#### THE PREVAILING PURPOSE OF THE DUTIES ON WATCHES IS THE PRESERVATION OF THE U.S. WATCH INDUSTRY

The dominant purpose of H.R. 8436 has to be the preservation of the remaining U.S. watch industry. That was the dominant purpose of the 1930 act which established duties on watch movements. Those duties were reduced by a trade agreement with Switzerland in 1936, but in 1954 they were restored almost to the 1930 level, after the Tariff Commission found that the industry had suffered serious injury from vastly increased imports. The purpose of the restoration was stated to be the preservation of the U.S. plants and their special skills.

The exception from duty for products of U.S. insular possessions which is now under consideration originated in section 301 of the Tariff Act of 1930, which permitted duty-free entry to products of U.S. possessions if such products did not contain more than 20 percent by value of foreign parts. The amendment found very little application because the permissible proportion of foreign parts to total value was so low. In 1954, Congress amended section 301 to increase that proportion from 20 percent to 50 percent. By so doing, Congress expected to give the section some practical application. It seems quite clear, however, that Congress did not intend to abandon the basic

purpose of the tariff act. It did not intend for the exception to become a means of destroying a basic U.S. industry.

**DUTY-FREE IMPORTS FROM INSULAR POSSESSIONS ARE DESTROYING THE U.S. INDUSTRY**

But that is precisely what is happening to the watch industry at the moment. The first duty-free shipments of watches were made by Standard Time Corp. from the Virgin Islands in 1959—a total of 5,000. As the table below shows, watches or movements are presently entering the United States duty free, principally from the Virgin Islands, at the rate of at least 4,289,000 per year. Mr. Chairman, I hope the committee will permit the table to appear in the record at this point in my remarks.

Senator ANDERSON. Without objection that will be done.  
(The table follows:)

	Virgin Islands	Guam
1959.....	5,000	
1960.....	44,000	
1961.....	173,000	
1962.....	420,000	
1963.....	1,057,000	
1964.....	2,369,000	
1965.....	3,578,000	47,000 (last 4 months).
1966.....	(1)	93,000 (first 4 months).

<sup>1</sup> At rate of 4,000,000 per year.

**DUTY-FREE SHIPMENTS BECOME EXCESSIVE BECAUSE OF REPEATED DELAYS IN IMPOSING CONTROLS**

Hamilton has been closely concerned with the watch problem in the Virgin Islands from the very beginning. In 1960, because of personal differences, the organizers of the first company in the islands, Standard Time Corp., decided to sell their company and offered it to Hamilton. After some deliberation, we decided to buy Standard Time for two reasons: first, it was apparent that there was going to be some watch-assembly business in the Virgin Islands and if we did not buy Standard Time one of our competitors would; second, we believed that the small available labor force in the islands would restrict the total production by all comers to about 1 million movements, which would not do too much damage to U.S. operations.

By 1962, other companies had been organized, Virgin Islands production was running at nearly half a million and was increasing in geometric proportions. We recognized that our original estimate of built-in labor restrictions was wrong. It had also become apparent from experiences of the textile industry that section 301 was not operating as intended in some cases. The Treasury Department was working on a general bill to prevent abuses, which was originally H.R. 13136.

We began working with the Treasury and Interior Departments to tighten up this legislation, so that it would adequately restrict the privilege of duty-free imports of watches. We considered asking for



legislation which would completely remove watches from section 301 but thought such legislation had no chance of success because the special bill passed by the Senate with respect to duty-free shipments of textiles had not been enacted—apparently because Treasury expected to be able to produce workable general legislation. In addition, the Virgin Islands economy was not then in the state of rapid expansion which it enjoys today and we felt a complete ban on watch shipments would meet strong opposition. Treasury was considering many ideas of general application, all directed toward requiring that labor in the insular possessions must equal a certain percentage of the cost of materials or value. A new bill of this sort, H.R. 9320, was introduced at Treasury's request in December 1963; but was never reported out by Ways and Means.

Treasury is still working on a general bill. In our opinion, it is impossible to produce a sound bill along the lines of H.R. 9320, because no single general labor content formula will fit all types of industry.

Two years passed with no action. By early 1964, the situation was completely out of hand. Production in 1963 had been over 1 million and appeared still to be increasing geometrically. We therefore sought legislation to stop completely the duty-free importation of watches. The other U.S. producers of wrist watches—Elgin, U.S. Time Corp., and Bulova—all were of the same view, notwithstanding that Elgin and U.S. Time, like ourselves, each had a subsidiary in the Virgin Islands. A bill to suspend the privilege of duty-free imports of watches was introduced in the House in May 1964, by Mr. Mills (H.R. 11233).

Several forces combined to delay the consideration of that bill. First, the Virgin Islands government and the Department of Interior opposed it because they wanted the watch industry payroll as a stimulus to the islands' economy.

Second, the Swiss watch industry and the organization of Swiss watch importers opposed the bill. Both were interested in eliminating duty-free shipments from the islands, but they wanted to accomplish that objective another way, which would have a double-barrelled effect. They pressed for a reduction of U.S. watch duties to the pre-escape-clause level, which would make assembly in the Virgin Islands unprofitable as compared to direct importation, and at the same time would make the U.S. plants in Illinois, Pennsylvania, South Carolina, Connecticut, Texas, Arkansas, and New York, noncompetitive with direct imports from Switzerland. At least until the Tariff Commission report of March 1965, the importers pressed for delay on the ground that the bill was unnecessary because watch duties certainly would be reduced.

Third, the several companies in the Virgin Islands who had no real interest in either the U.S. or Swiss watch industries opposed the bill because their operations there were profitable and they wanted to continue them as long as possible.

Finally, the Treasury Department opposed the bill on the theory which it apparently still holds that the watch problems must wait until a solution is devised that will apply to all industries.

After the introduction of H.R. 11233, which prohibited duty-free watch shipments from the insular possessions, the Virgin Islands

Legislature and the Governor undertook to establish a quota for watch production. H.R. 8436, which is the bill we are now considering, which applied only to Guam and Samoa, apparently was introduced on this understanding and passed the House.

But it took the Virgin Islands 15 months after introduction of H.R. 11233 to establish a quota—from May 1964 to August 30, 1965. During this period, production in the Virgin Islands had jumped from about 1.5 million per year, which is the amount proposed in the present bill, to about 3.5 million per year.

We urged the Virgin Islands government to establish a quota which would cut this rate back to a reasonable figure. But the islands—and Interior—wanted to retain the level of production reached during the long period of delay. Consequently, when the Virgin Islands quota finally was imposed, it was initially much too high. Moreover, new companies were licensed by the Virgin Islands even after the quota was established.

Individuals and companies which could not get a share of the Virgin Islands quota hastily went to Guam and set up operations there, although they knew the House had passed H.R. 8436. The situation literally degenerated into a race to get a toehold in one of the islands and then stave off congressional action by a plea that H.R. 8436 would deprive the new companies and the possessions of an established business.

This committee has met the problem squarely. Every operator in the Virgin Islands and Guam has been on notice for several years that some such action was necessary and there is no just cause for complaint.

#### H.R. 8436 IS NECESSARY TO PRESERVE THE U.S. INDUSTRY

The U.S. producers need this bill. We need the bill because U.S. watch production is in very delicate economic balance. In the last 10 years, Waltham Watch Co. and New Haven Watch & Clock Co. have ceased all watch production; General Time Corp. and E. Ingraham Co. have stopped making any wristwatches. United States Time Corp. has been forced to make half of its parts in Europe. Hamilton, Elgin, and Bulova have all been forced to cut back U.S. production and increase imports. Anything which tilts the scale against U.S. production will certainly force Hamilton, Elgin, United States Time, and Bulova to give up their U.S. watch factories entirely. The Tariff Commission reported in March of 1965 that a duty reduction would result in increased imports, a decrease in employment in the industry and further idling of U.S. watchmaking facilities. That is an economist's language for going out of the manufacturing business.

Direct duty-paid imports are pressing the U.S. plants severely. In January and February of this year, Swiss watch exports to the United States increased 43 percent by unit and 34 percent by value over the corresponding 2 months of 1965.

Duty-free imports from the insular possessions will destroy our U.S. plants just as surely as would a reduction in U.S. duties.

There are many who say why not raise the quota fixed by the committee's amendment to 2 million or 3 million—if we can live with 1.5 million, why not more? This is asking us, and this committee, to judge

precisely the number of duty-free movements which will kill U.S. production. It is akin to asking a physician to say which one of a handful of aspirin tablets will constitute a fatal dose. We know that no duty-free imports would be safest and had hoped the committee would report such a bill. As I have indicated, 1.5 million is more than enough. The U.S. producers cannot stand any further pressure.

#### THE UNITED STATES NEEDS ITS WATCH INDUSTRY

A special Preparedness Investigating Subcommittee of the Senate Armed Services Committee reported in December 1964 that the U.S. watch industry is important to national security. The report showed:

(a) that the watch industry was involved in over 90 percent of our missile programs;

(b) that it was the only industry capable of making timing devices for certain nuclear weapons;

(c) that there is a definite need for the industry in the field of miniature timing devices of many kinds, both for current and emergency production; and

(d) that Russia, Red China, Japan, France, and Germany have been fostering their watch industries while the United States allows its industry to wither. They have developed jeweled watch industries many times the size of the U.S. industry.

An investigation today would show:

(a) that 2 years later the industry is still the sole source for some important devices and is carrying the main burden in many others;

(b) that the U.S. capacity to meet even limited mobilization needs for fuses and timing devices is sadly deficient and that the U.S. fuse program is dependent upon the Swiss industry, from which U.S. contractors are importing over 5 million fuse parts every week; and

(c) that this situation could not be fully corrected in less than 2 to 3 years under any circumstances, because of shortages of special watch-type machinery and trained operators.

Despite these very disturbing facts, some people urge that the United States has adequate capacity to meet emergency military needs for special timing devices even without the watch industry. Incredibly enough, this position has been advanced at a time when the Department of Defense was contracting for construction of brandnew facilities at Government expense. The United States does not, in fact, have the needed capacity even with the watch industry. Probably 80 percent of some of the critical machinery and trained operators needed for fuses and safety and arming devices are in the U.S. watch and clock industry. Those who suggest that importations of fuse parts from abroad are due to the fact that the watch industry is using its facilities primarily on commercial business, do not know the facts. About 70 percent of Hamilton's parts-making capacity is devoted to military production today, on a three-shift basis. Moreover, the deficiency in U.S. capacity can in large measure be traced directly to the decline of the watch industry—and the clock industry—since World War II.

I say to this committee that the Senate Armed Services Committee was at least 100-percent right in its views and that this committee's action on H.R. 8486 is a necessary action to support those views.

On the other hand, watch assembly operations in the Virgin Islands add nothing to national security. Wholly aside from geographical problems, they are confined to the simplest sort of assembly of a limited character; they do not involve any parts manufacture and do not require machinery, engineers, tool and die makers, metallurgists, modern mass assembly lines or the kind of quality control, all of which are the essence of any true watch manufacturing plant.

#### THE VIRGIN ISLANDS ECONOMY DOES NOT NEED A LARGE WATCH ASSEMBLY INDUSTRY

The watch companies in the Virgin Islands are no longer particularly important to the economy of the islands. The Virgin Islands economy has experienced a fantastic boom in the last 3 years and all employables are able to find work. Watch companies report labor very difficult to obtain. Other substantial business enterprises have been and are being established in the Virgin Islands, which will aggravate the labor shortage. For example, although there are only about 20,000 people on the island of St. Croix, and labor is already short, Hess Oil Co. is building a big oil refinery there which it is reported will employ 1,000 people. Harvey Aluminum Co. is reportedly planning to enlarge its activities on St. Croix. And there are numerous new construction jobs in progress, including new hotels and motels.

THE CHAIRMAN. Could I interrupt you there to ask you to explain why Hess Oil Co. is building its refinery there and why Harvey Aluminum is building a plant there? Would you have any guess as to why they are doing that?

Mr. SINKLER. Senator, I wish I could, but I cannot with any authority say why they would be doing it. I do not know from personal experience what the tariff situation might be, what the quota on oil might be, the aluminum situation might be, so I cannot answer your question. I do not know why.

Senator ANDERSON. Isn't it true there is the same duty situation, at least for Harvey?

Mr. MICKEY. There is no duty involved with respect to aluminum because fluorspar comes in duty-free under the bills that are passed about every 2 years by the Congress suspending the duty on fluorspar. We suppose that the purpose of Harvey may have been that they are getting the fluorspar in South America and bringing it into the United States; that if they take it and reduce it to alumina in the Virgin Islands, they save the transportation because the bulk of it is reduced at least 50 percent by the plant in the Virgin Islands. Now that is just a supposition, Senator.

Senator ANDERSON. You don't think it has anything to do with the 10-year plan of having no income taxes?

Mr. MICKEY. I don't know whether they have a tax-exemption certificate.

Senator ANDERSON. They do. I think so. I think that is the whole point of it.

Mr. MICKEY. That is quite possible.

Mr. SINKLER. I would think so.

I should mention, also, that the number of persons reportedly employed by the watch companies, 850, is believed to be exaggerated. The latest figures I have are about 650 at the end of 1965. It might have gone up some, but I think it is more than is generally used.

The portions of the 1.5 million quota allocated to Guam and Samoa under the proposed bill will exceed present production in both cases and, therefore, may be of some value to their economies.

#### TWO ADMINISTRATIVE PROBLEMS

I would like to give the committee several observations respecting administration of H.R. 8436. The bill, as amended, makes the Commerce and Interior Departments jointly responsible for administration of the quota within each of the respective possessions, but prescribes no standards for allocation among the producers.

I would like to underscore the importance of including the Department of Commerce as one of the administrators. The Department of Commerce is skilled in the administration of quotas. They have full knowledge of the domestic watch industry problems, and they have demonstrated in the past good and impartial judgment in the administration of quotas. That is not to say that the Interior Department is deliberately partial, but the Department of Interior's principal interest is in the islands themselves, and not in problems of the domestic watch industry, so that the joint administration with Commerce in there is in our opinion good.

We hope that substantial weight will be given to historical production. As I have said, allocations were made under the quota prescribed by the Virgin Islands to some firms which either did not exist or were not in operation at all prior to imposition of the quota. Some of them were quite small. There is no equity in fragmenting the 1 million quota among these firms. The absence of equity in the original allocation to these firms was the major cause of the dispute and litigation which arose in the Virgin Islands. Perpetuating that inequity will cause substantial discord and probably will result in trafficking in producers' quotas.

We would hope that the committee's report would express disapproval of any proposal to undercut the tax subsidy certificates which were awarded to some of the earlier producers, including Standard Time Corp. Those certificates, which provides for a subsidy equaling 75 percent of the Virgin Islands income tax over a 10-year period, were issued under the Industrial Incentive Act of the Virgin Islands as an incentive to establish a watch assembly business. After other companies followed the pioneers, the Industrial Incentive Board of the Virgin Islands stopped issuing tax exemption certificates.

Several companies are now litigating this question with the Industrial Incentive Board.

The Industrial Incentive Act provides as follows (title 33 V.I. Code, sec. 4001) : This is the point the Governor brought out :

In order to establish the incentive offered hereunder on a firm, realistic and sure basis, the Government of the Virgin Islands further declares that it considers each order granting tax exemption or subsidy that might be issued under the provisions of this subtitle as being in the nature of a contract be-

tween the said Government and the beneficiary, and that the Government shall not adopt any legislation impairing or limiting the obligation of such contract or which may defeat the provisions of this subtitle.

Because of this provision, the Virgin Islands cannot directly revoke the subsidy certificates. However, it has reportedly suggested withdrawing the benefit indirectly by reducing the allocations the certificate holders might otherwise be entitled to and awarding some larger amount to those to whom it has refused to issue certificates.

This proposal is wrong. It violates the spirit, if not the letter, of the law. It not only violates the integrity of past undertakings by the Virgin Islands, but undercuts reliance upon similar promises made to other industries in the future. Moreover, there is no feasible way of translating the tax-subsidy benefit into a quota adjustment. For example, the so-called 75-percent tax subsidy is in fact a 36-percent subsidy, because it is 75 percent of the 48-percent tax rate. But the 36-percent saving is subject to a 30-percent tax by the Virgin Islands if and when remitted to the U.S. parent, and is then subject to U.S. taxes. The ultimate tax benefit can be as little as 4.3 percent. If it is brought to the United States as capital gains upon liquidation of the subsidiary, the saving is somewhat larger. If it is reinvested in the Virgin Islands or a foreign country, the benefits are only temporarily intact. Adjusting a quota for tax reasons, therefore, presupposes knowledge of the ultimate tax benefit of the subsidy.

On this point I think my opinion is best expressed by saying that the taxing subsidies were a good tool to entice industry into the islands. They should have been awarded on an industry basis and not on an individual application basis. I think they made a mistake on not awarding the same tax subsidy to all of the others that were given to us.

Actual experience positively refutes any claim that it is impossible to operate profitably in the Virgin Islands at the reduced levels fixed by the quota. I can tell the committee that when we bought Standard Time Corp. it was operating at the rate of 44,000 movements per year and was making a substantial profit. It would be profitable to operate at a level of 20,000 units per year. There would not be as much profit because the production is lower, but there need be no loss. The operation can be geared profitably to any level. It is simply a question of less profit, not an absence of profit.

Similarly, the absence of a tax exemption certificate does not make the difference between profit and loss. Obviously the tax exemption certificate is of no value unless the enterprise is already profitable.

The CHAIRMAN. You say the ultimate tax benefit can be as little as 4.3 percent. I am not familiar with all of this. You mean that the ultimate tax saving would be as little as 4.3 percent of the tax bill?

Mr. SINKLER. That is correct, Senator Long. The income tax we pay on the island on our profits is 48 percent of the profits. We are then entitled to a 75 percent rebate of the 48 percent. So at that point we have gotten 36 percent of our tax bill back and only 12 percent of it remains in the hands of the island. Now we report that as profits of the subsidiary. When we pay a dividend to ourselves or when we

repatriate those earnings to the parent it is taxed an additional 30 percent by the Virgin Islands as the dividend leaves the islands and heads north to the parent in the States. So at that point now we have lost all but 6 percent of the subsidy, and then what comes in is subject to the 48 percent income tax in the United States. So by the time it is finished, it can be as little as 4.3 percent.

The CHAIRMAN. Suppose you keep the money down there and don't bring it back up in this direction?

Mr. SINKLER. That is fine. If we reinvest it in our business down there, that is the benefit, and that is why I think these industries should have received the tax subsidy, because at that point all of the others would have received a 36-percent rebate of the taxes they paid, and that can be reinvested in the islands.

The CHAIRMAN. So if you make the money there and you keep it there, you reduce your tax liability from 48 percent down to 12 percent?

Mr. SINKLER. In the islands, correct.

The CHAIRMAN. Once it starts moving back in this direction then the tax has begun to apply to it so by the time you get it back it might be as little as 4.3 percent.

Mr. SINKLER. When it is all finished, that is right, it can be that low.

The CHAIRMAN. In other words, it is arranged so that it encourages the money to go that way and puts a trap on it headed back this way?

Mr. SINKLER. That is correct. The real point, Senator, is that the Virgin Islands should have handled all of the watch companies the same. Once four of these subsidies were given they should have awarded the rest, because while we are operating there it is an advantage, because we have money available for use in the islands that would not have been there had we not had the tax subsidy.

The CHAIRMAN. I should think that to some extent that would be self-defeating though. It seems to me that if you have no profit in bringing your money back home you have got one of two choices. You can either move down and live in the Virgin Islands and be a citizen down there and enjoy the benefits, or try to go into the tourist business and spend some of your time enjoying some of your money, or otherwise it is simply there to stay on a one-way trip.

Mr. SINKLER. That is correct. I think the value of the tax subsidy has been exaggerated through this whole situation. It all washes out, and eventually the U.S. owners of these subsidiaries are going to want to repatriate the earnings. The benefit washes out to almost nothing.

The CHAIRMAN. Of course, if your ultimate aim is to own a hotel in the Virgin Islands, then this could be—

Mr. SINKLER. It is a great way of doing it, going into the hotel business there.

The CHAIRMAN. Just use the tax exemption to save money with which you can then build a hotel.

Mr. SINKLER. Yes. The independent companies operating down there of course probably look around for other places to invest their money, and I am not sure that some of our competitors wouldn't think

of building hotels. I understand they make money too. But so far as we are concerned, I don't think that we will.

Senator DOUGLAS. Mr. Sinkler, may I ask a question about the arithmetic on lines 4 to 9, I think, on page 18 of your statement?

Mr. SINKLER. Yes, sir.

Senator DOUGLAS. The basic Federal income tax on corporate profits is 48 percent.

Mr. SINKLER. Yes, sir.

Senator DOUGLAS. The 75-percent tax subsidy in the Virgin Islands is a saving of 36 percent of corporate profits.

Mr. SINKLER. Of the total profits.

Senator DOUGLAS. Of total corporate profits.

Mr. SINKLER. Or 75 percent of the tax bill.

Senator DOUGLAS. That is right. Now you say the 36-percent saving is subject to a 30-percent tax—by the Virgin Islands—if and when admitted to United States—

Mr. SINKLER. That is correct.

Senator DOUGLAS. Is that of total corporate profits, 30 percent of 36 percent?

Mr. SINKLER. It is 30 percent of 36 percent. That is the total amount of money paid.

Senator DOUGLAS. That would be 10.8 percent, and that would leave 25 percent remitted to the United States not subject to taxation.

Mr. SINKLER. I think that is right, but then the United States—

Senator DOUGLAS. Then how can you say the ultimate tax benefit can be as little as 4.3 percent?

Mr. SINKLER. Because the U.S. tax collector then taxes the income coming to the parent. All that is left then, the net income coming out of the Virgin Islands, has been subjected to a further tax up to the maximum of 48.

Senator DOUGLAS. Is that remainder taxed at the same rate as the original profits?

Mr. SINKLER. Senator, I have had this worked out. We can give you the tax schedules on this, but I asked this question over and over.

Senator ANDERSON. Mr. Sinkler, would you prepare a study of this and send a copy to the clerk and to Senator Douglas?

Mr. SINKLER. Indeed I will.

(The information referred to follows:)

JULY 26, 1966.

Hon. PAUL H. DOUGLAS,  
U.S. Senate,

Old Senate Office Building, Washington, D.C.

DEAR SENATOR DOUGLAS: At the hearing on H.R. 8436 on June 30th, Mr. Arthur Sinkler testified for Hamilton Watch Company that allocation among producers of watches permitted to be brought in duty-free under the bill from the Virgin Islands should not be adjusted among producers according to whether they do or do not have tax subsidy certificates from the Virgin Islands government. Among other reasons, he pointed out that, while the tax subsidy is initially a saving of 75% of the tax, the ultimate tax saving varies according to whether the earnings are or are not brought back to the United States, and whether or not they are brought back as dividends or as liquidating distributions. He said that the effective tax rate on earnings returned to a U.S. parent by a Virgin Islands subsidiary which has a subsidy certificate would be only 4.3% less than the effective U.S. rate of 48%.



During questioning by you, we offered to furnish a supporting calculation. The computation of effective tax rate on earnings returned to the U.S. as a dividend is as follows:

Pretax earnings-----	\$100.00
Virgin Islands tax (12 percent)-----	12.00
<hr/>	
Dividend to U.S. parent-----	88.00
Less Virgin Island tax (30 percent)-----	26.40
<hr/>	
Total-----	61.60
Less U.S. tax <sup>1</sup> -----	5.28
<hr/>	
Net dividend-----	56.32
<hr/>	
Effective tax rate (percent)-----	43.68
<hr/>	
<sup>1</sup> Computation of U.S. tax:	
Tax before credit (48 percent)-----	\$42.24
Credit:	
Indirect, $12 \times \frac{88}{100}$ equals-----	\$10.56
Direct (30 percent)-----	26.40
<hr/>	
Total-----	5.28

The effective tax rate on \$100 of earnings by the parent company in the United States would be, of course, 48%. The difference between this and 43.68% is 4.32%.

The computation for remission as a liquidating dividend is as follows:

Pretax earnings-----	\$100
Virgin Islands tax (12 percent)-----	12
<hr/>	
Liquidating distribution to the United States-----	88
Less U.S. capital gains tax (25 percent)-----	22
<hr/>	
Net distribution-----	66
<hr/>	
Effective tax rate (percent)-----	34

As the Chairman indicated, the tax pressure is against returning earnings to the United States in any case because the U.S. tax, on top of the Virgin Islands tax, reduces after-tax earnings substantially. One hundred dollars of profit by a company which does not have a tax exemption certificate would be reduced to \$36.00, if remitted to the United States as a dividend.

With all of these variances depending upon ultimate use of the profits, we repeat that the tax subsidy is not a proper subject for the quota legislation, and it is not a proper factor to be used in allocation. All of the companies in the Virgin Islands should be treated alike insofar as taxes are concerned. Tax exemption certificates should have been issued on an industry basis—not on an individual company basis.

Sincerely,

PAUL F. MIOKEY.

Senator ANDERSON. It is kind of hard to follow all of these figures.

Senator DOUGLAS. I had never thought that there was taxation of this amount in transferring the profits from a subsidiary to a parent.

Mr. MIOKEY. When you take into account the reduced income taxes paid in the Virgin Islands, paid the Virgin Islands on a dividend, and the taxes paid in the United States on the dividend, the effective tax rate is 43.7 percent instead of the 48 percent. We can give you that calculation and will do so.

Senator DOUGLAS. I am from Missouri on this arithmetic, you understand.

Mr. MIOKEY. We would be glad to show you the calculation, Senator.

**Mr. SINKLER.** Mr. Chairman, my statement is so close to the bottom I will say thank you very much for giving me your attention. I would like just before I finish to answer Senator Ribicoff's question about how many employees each of these subsidiaries have.

**Senator HARTKE.** Mr. Chairman.

**Mr. SINKLER.** Senator Ribicoff, you asked how many people are on the islands.

**Senator RIBICOFF.** Both domestically and on the islands, how many employees you have.

**Mr. SINKLER.** Domestically and the islands, Hamilton has 2,400 total in the United States and on the islands.

**Senator RIBICOFF.** How many in the United States and how many on the islands?

**Mr. SINKLER.** 2,400 in the United States, 120 in the Standard Time Corp. on the islands. Elgin has 1,300 in the United States, and 30 on the islands.

**Senator RIBICOFF.** I hope, Mr. Chairman, the other manufacturers who testify will also give the figures, the number of their employees in the United States and in the Virgin Islands.

**The CHAIRMAN.** If I might just ask a question at this point, if that is at all typical, for every job you people are picking up in the Virgin Islands, how many are you losing in the United States? In other words, suppose we just put you out of business by this Virgin Islands loophole? If we lose 2,400 here at that rate how many would we pick up in the Virgin Islands?

**Mr. SINKLER.** If we close the Lancaster operation, Senator, and the Virgin Islands today, our production there is about double what our watch production is in Lancaster. Not all of those 2,400 employees are working on watches, Senator.

**Senator DOUGLAS.** Is that on a dollar basis or on a day basis? Is output greater in the Virgin Islands?

**Mr. SINKLER.** The number of watches, the output in units is about twice as great annually, we are buying twice as many watches from ourselves in the Virgin Islands as we are producing in Lancaster.

**Senator DOUGLAS.** The employment in Lancaster must be almost exclusively on things other than watches.

**Mr. SINKLER.** We have about 600 on watches in Lancaster, Senator. The rest are working primarily on military contracts.

**Senator DOUGLAS.** You say 150 employees in the Virgin Islands can produce more than 600 in the United States?

**Mr. SINKLER.** Certainly not. That should be corrected. The work that is done in the Virgin Islands is only the very simplest kind of assembly. All of the parts manufacturing and original assembly and the most difficult parts of the assembly around the escapement, balance, and hairspring is done in Japan. Then they are shipped partially assembled and in the Virgin Islands we just complete the assembly which is a very small part of the total. I think you can get some idea of the amount of work done in the Virgin Islands from the fact that we can actually buy a complete movement from Japan at the same price that we have to pay for the parts for that movement in the Virgin Islands.

**Senator DOUGLAS.** Do you have a subsidiary in Japan?

Mr. SINKLER. We do not have a subsidiary producing parts in Japan that we use in the Virgin Islands. We have a small assembly plant in Japan where we are assembling electric watches which are shipped direct to Lancaster.

The CHAIRMAN. If I might just pursue that for a moment, based on those figures you gave me, it would appear to me that if we pick up, if we increase that figure on the Virgin Islands from 120 employees producing watches for you, that is working on watches for you up to 180, an increase of 60 jobs, we can then displace the other 600 workers that you have in the United States?

Mr. SINKLER. That is right, sir.

The CHAIRMAN. So we lost 600 jobs at good pay to pick up 60 jobs at low pay. What are you paying your 600, on the average?

Mr. SINKLER. Our average now, Senator, is running just over \$2.50 without fringes.

The CHAIRMAN. By the time you have fringes what is it running?

Mr. SINKLER. Almost \$3 an hour average.

The CHAIRMAN. So what we are looking at here is a situation where this committee, if it wants to, can go along with a scheme whereby we will pick up 60 jobs at \$1.60, and, in doing so, displace 600 jobs at \$3?

Mr. SINKLER. That could happen, sir. You are exactly right.

Senator RIBICOFF. Mr. Chairman, I am trying to get a perspective on this. It just so happens that substantial interests in the State of Connecticut are on both sides of this question. I am in a very good spot. But I am trying to get an overall perspective so we can understand it. The answer to that particular question seems incredible to me, that 60 people could produce enough for 600.

Mr. SINKLER. No, Senator Ribicoff. Let's say 600 people will be displaced in Lancaster. That could happen.

Senator RIBICOFF. By 60 more in the Virgin Islands?

Mr. SINKLER. No. That 60 jobs would be created in the Virgin Islands to complete the assembly if we continue running them into the Virgin Islands, and 540 jobs would be created in Japan making the parts and doing the earlier assembly before it goes to the Virgin Islands for completion.

Senator RIBICOFF. In other words, you are now tying up Japan with the Virgin Islands, so it is a question of Japan and the Virgin Islands against the United States?

Mr. SINKLER. Somebody has to make the parts, sir; yes. They are not equipped to do it in the Virgin Islands and I don't think ever would be.

Senator RIBICOFF. What is your answer to the statement of the government of the Virgin Islands that basically what we are talking about is substituting Swiss production for Virgin Islands production, so that it wouldn't make any difference in the United States?

Mr. SINKLER. In the United States I think actually in view of the quality of the watch and the type of watch and price level of the watch coming out of the Virgin Islands, it would be transferred to Japan. If the U.S. factories are closed and the watch production is required to fill the market needs, we would bring them direct from Japan and United States. So, in my opinion, the jobs would go to Japan from

pay the duty on them if there is a duty at that point, right into the the United States.

The CHAIRMAN. But as I understand it they would get the 540 but the Virgin Islands would pick up 60 jobs in the process as I understand it, 60 low-paying jobs.

Mr. SINKLER. We probably won't even bother with the Virgin Islands at that point, Senator. We would bring them right direct from Japan.

The CHAIRMAN. You think you would? Why?

Mr. SINKLER. The only way that we are going to move from Lancaster is if we are put out of business, so if the 600 jobs disappear in the United States, then the chances are the duties will go by the board. It will be a completely open market, and Japan would be the source for the parts and the complete watches. It would be most economical.

The CHAIRMAN. At that point then what is left of the American watch industry would probably support the Japanese and the Swiss in wanting all the duties to come off?

Mr. SINKLER. That is correct; absolutely. If we are out of business we don't need the duties.

The CHAIRMAN. With all due deference your industry is represented by some Senators and Congressmen in these two Houses and you are probably represented by some votes.

Mr. SINKLER. We have no intention of giving up, Senator Long. We are fighting every inch of the way. We think that the U.S. watch industry has to be preserved and must be preserved.

The CHAIRMAN. But if I understand it, what you are saying in the last analysis if this loophole is permitted to destroy the American watch industry, it is not going to benefit the Virgin Islands and Guam?

Mr. SINKLER. Finally it will not; no, sir. Then the tariffs will disappear and the Virgin Islands will have no markets. The only reason to go to the Virgin Islands for watch assembly is to get through a loophole in the tariff law and bring them in duty free.

Senator BENNETT. Mr. Chairman, may I ask a question on this same point. You have 600 employees at Lancaster engaged in the watch side of your business. Can you give us an idea of how many of those are engaged in manufacturing parts which compete directly with the parts that come from Japan into the Virgin Islands?

Mr. SINKLER. Senator Bennett, first let me say that some of the parts that are needed to complete the assembly in the Virgin Islands we are producing in Lancaster and sending down there, so we do get a little bit of favor for ourselves in Lancaster.

The ratio of people I would judge are today about 60 to 70 percent parts manufacturing, 30 percent assembly.

Senator BENNETT. In Lancaster?

Mr. SINKLER. In Lancaster.

Senator BENNETT. So 60 to 70 percent is 400 people?

Mr. SINKLER. Yes. Let's say 400 people.

Senator BENNETT. 350 to 450?

Mr. SINKLER. Are in the parts production department and 200 would be in the assembling, casing, and timing.

Senator DIRKSEN. Who makes the cases?

Mr. SINKLER. We make some of our own cases, Senator Dirksen, in the case plant we have in Wallingford, Conn. The others we purchase

almost entirely in the United States. We do not make any cases in Lancaster.

Senator DIRKSEN. If Standard Time, which you own in the Virgin Islands, should be liquidated or closed, would you then do that assembling at Lancaster?

Mr. SINKLER. No; we couldn't. It wouldn't work that way because the only reason for bringing the watches through in a partially assembled condition from Japan is to qualify for the duty-free import into the United States. So that if we had to close that up, we would buy complete movements direct from Japan for that part of the market.

Senator DIRKSEN. Do you buy from the Swiss?

Mr. SINKLER. We do. We have a complete manufacturing operation in Switzerland.

Senator DIRKSEN. You have?

Mr. SINKLER. Yes, sir.

Senator DIRKSEN. You mean it?

Mr. SINKLER. Yes, sir.

Senator DIRKSEN. Entirely?

Mr. SINKLER. Completely, 100 percent. Most of its production is sold in countries other than the United States. This is the only way we can get into foreign markets.

Senator BENNETT. In the assembly in the Virgin Islands, is there any assembly of movements into cases?

Mr. SINKLER. There is some. Generally speaking we found it more satisfactory to export the movement only. The duties that we are talking about apply only to the movement.

Senator BENNETT. Just the movement.

Mr. SINKLER. So that it works perfectly well. Then we complete the casing in Lancaster so we can ship case styles and dial styles in accordance with orders coming from the retailers. Some watches are shipped completed from the islands I know.

Senator BENNETT. Thank you.

Senator RIBICOFF. Just a query of the chairman. As a result of the questions by the Senator from Illinois and the response of the witness as to their interests in Switzerland, it is very obvious that we have really got a barrel of eels here. I think for the purpose of understanding this problem, it would be wise for the chairman to ask all of these manufacturers to indicate what interests they have in the United States, what interests they own in Switzerland, what interests they have in any country, to try to determine what the interlocking relationships are. I don't see how we can possibly make a decision unless we understand the relationship they all have in all the countries of the world.

Senator ANDERSON. Senator Ribicoff, Senator Long has just mentioned this to me a minute ago. We will ask the staff to furnish that information. I will ask the witnesses as they take the stand to please state the same sort of thing that Mr. Sinkler has done here. Give us as much information on it as you can prior to your statement. You have done a very fine job and we appreciate it.

Mr. SINKLER. We will be glad to do it, Senator. We have our principal manufacturing operation in Lancaster, Pa. That is Hamilton Watch Co. In Switzerland we have two wholly owned subsidiaries,

Hamilton Watch Co., S.A., which is an assembly plant in Bienne, Switzerland, and the Buren Watch Co., which is a manufacturing company established at Buren, which is a few miles from Bienne. Buren produces chiefly for markets other than the United States.

We have had Standard Time Corp. in the Virgin Islands, the first and largest producer of assembled watches in the Virgin Islands. We have a 60-percent owned subsidiary in Tokyo, where we are assembling electric watches that are made from parts produced in Japan and electrical components produced in Lancaster and assembled in Japan. Those are then shipped in duty paid. We pay the duty when they come back to ourselves in Lancaster. Those are not Hamilton watches, incidentally, that come from Japan, Senator. No Hamilton watch has ever had a Japanese movement in it and we don't plan to for a while.

Senator ANDERSON. Are there other questions? Senator Hartke?

Senator HARTKE. As I understand it, you are opposed to the production of these watches in the Virgin Islands. Is that a fair assumption at this stage?

Mr. SINKLER. That is absolutely correct, Senator Hartke.

Senator HARTKE. But as I understand what you said to Senator Dirksen and Senator Bennett, that if you closed the Virgin Islands operation, that in effect what you would do is ship these items in from your operations in Switzerland and Japan?

Mr. SINKLER. That is correct.

Senator HARTKE. And yet, as I understand your answer to Senator Long, you said that these jobs in effect would come back and could be picked up in the United States?

Mr. SINKLER. Senator Hartke, let me try and bring that into focus. Let's assume that the duties remain where they are now.

Senator HARTKE. What?

Mr. SINKLER. That the duties on watches remain where they are now. So if the Virgin Islands is restricted by quota or eliminated, then everybody, all in exactly the same position will, if they want the watches, have to import them from the country of origin and pay the duty, and they are all competitive each one of us with the other.

Senator HARTKE. But you are not competitive against your U.S. production?

Mr. SINKLER. No, sir.

Senator HARTKE. You are competitive then only in relation to foreign production?

Mr. SINKLER. That is correct.

Senator HARTKE. What you are saying then, you are not worried about jobs. You are talking about profits?

Mr. SINKLER. No. The profits come from the operations in the Virgin Islands, Senator Hartke, and I am very interested in that.

Senator HARTKE. I know about that but I am talking about the competitiveness. You are not talking about jobs. You are not talking about adding one job to the United States as I see it. Maybe you have lost me someplace, but from what I understand, you are just talking about the fact you are going to shift these jobs from the Virgin Islands over to Japan and Switzerland to your subsidiaries?

Mr. SINKLER. Senator, we lost those jobs to foreign suppliers long ago.

Senator HARTKE. I am not talking about when you lost them.

Mr. SINKLER. Yes.

Senator HARTKE. I mean you indicated, at least the thrust of the impression you left with me in answer to Senator Long and the chairman was that the Virgin Islands production was in effect costing us jobs in the United States now; not what happened years ago, but now.

Mr. SINKLER. No, this is in the world market. The Virgin Islands production is not costing us jobs now. As I stated, jobs that were lost long ago.

Senator HARTKE. What you are talking about then is the fact that it is better for the United States, as Senator Long indicated a few moments ago, to take whatever duty there is from the imports and put that into the Treasury; is that true?

Mr. SINKLER. Well, whether that is the right way or not, the point is that the Virgin Islands if permitted to run unchecked—

Senator HARTKE. We know what the status is. They are making them and we understand they are bringing in duty-free components, is that correct, and thereby they don't have to pay the same import duty?

Mr. SINKLER. Yes.

Senator HARTKE. That is required of that which is manufactured in Switzerland.

Mr. SINKLER. Yes, sir, and those are beginning to nick away at our domestic production.

Senator HARTKE. On your domestic production?

Mr. SINKLER. That is right. That is at first we thought 1 million units or 1.5 million wouldn't affect us. But when it gets to 4 and 5 million watches, about which you can say everything that you can say about our domestic watches, it begins to hurt.

Senator HARTKE. Then let's come on back to what I asked you a while ago and see if you want to change anything from what you said. You told me if they closed the Virgin Islands that those same watches would come in from the foreign places, from your subsidiaries in Switzerland and Japan?

Mr. SINKLER. They would come in duty paid; yes, sir. It won't change job status here in the United States.

Senator HARTKE. Is that correct?

Mr. SINKLER. As of now it can't.

Senator HARTKE. In other words, no matter what we do now, it won't change the job status in the United States. Is that true or not true?

Mr. SINKLER. Senator Hartke, let me say something about this. I am sure that U.S. Time, who makes a watch in the price range that I am talking about, will not agree with my statement. I am talking about watches that are selling in the Hamilton price level versus watches that are selling in the Virgin Islands price level. Now, what U.S. Time has to say about this I am sure would be quite different, because there they are more directly competitive.

Senator HARTKE. I didn't ask you anything about U.S. Time. I asked a very simple question which you gave one answer to and I am trying to see whether you want to stay with the answer. That is all.

I didn't ask you anything about U.S. Time. I don't even know who they are at the moment. My understanding is that as far as your testimony is concerned—

Mr. SINKLER. That is correct.

Senator HARTKE. That if you close down your operation, as Senator Dirksen asked, in the Virgin Islands—just stopped tomorrow—the only thing that would really happen is that as far as you are concerned, that you will just transfer whatever shipment comes in from the Virgin Islands to your subsidiaries in Switzerland and Japan and bring in the equivalent watches, and you will pay the duty on it?

Mr. SINKLER. That is right. It has to be the correct answer and I am going to stand on it. We will bring them in duty paid. There will be fewer because they will cost more probably but it will not change employment in the United States for Hamilton.

Mr. MICKEY. But on the other hand, Senator, if you don't limit production in the Virgin Islands—

Senator HARTKE. If you don't what?

Mr. MICKEY. If you do not limit production in the Virgin Islands, then you are going to cost 600 jobs of the watchmakers in Lancaster. That is the point.

Senator HARTKE. How are you going to affect them?

Mr. MICKEY. Because the influence of watches from the Virgin Islands at a high rate in putting a pressure of imported watches on the domestic industry without the payment of the duty. We can barely stand and maintain the production in Lancaster and the jobs for those 600 people in competition with the watches that do pay the duty, and if they are coming in from the Virgin Islands without the duty, the additional pressure on those 600 jobs in Lancaster is considerably intensified, and it is obvious that there is a great deal of advantage in it, because that is why everybody wants to produce in the Virgin Islands.

Senator HARTKE. I don't think there is any question why the Virgin Islands wants to produce them. I think they want to produce them because there is a special advantage in being produced in the Virgin Islands.

Mr. MICKEY. That is correct.

Senator HARTKE. The only difference to me is that the Virgin Islands happens to be a part of the United States and I feel a little bit closer to them than I do Japan and Switzerland if you want to know the truth.

Mr. MICKEY. Certainly.

Senator HARTKE. That is about all there is to it as far as I am concerned.

Mr. MICKEY. Certainly.

Senator HARTKE. And I don't mind being very clear with you that we extend foreign aid all over the world to produce items which come into competition with the United States, and maybe the Virgin Islands would be better off if they seceded from the United States and became a foreign country. Then we would extend foreign aid to them.

Mr. MICKEY. Senator, in line with what you say, if no restrictions are put on production in the Virgin Islands, the jobs of the people in the Virgin Islands and also the jobs of the people in Lancaster are



going to go to Switzerland and Japan, because they are going to destroy the U.S. industry.

Senator HARTKE. You mean the production from the Virgin Islands is going to destroy the watch industry in the United States.

Mr. SINKLER. If not controlled it will.

Mr. MICKEY. Yes, sir.

Senator HARTKE. If not controlled?

Mr. MICKEY. Yes, sir.

Senator HARTKE. What if they are controlled under this quota system that has been added here?

Mr. SINKLER. We think that the million units for the Virgin Islands and the half million for Guam and Samoa is not too much to be dangerous. We are sure that when it reaches the present proportions of over 4 million units, it is. So while our initial recommendation opposes this entirely, we think the domestic industry can live with 1 million units from the Virgin Islands and a half million from the other two territories.

Senator HARTKE. Let me ask you on that, Samoa doesn't produce any now?

Mr. MICKEY. No, sir.

Mr. SINKLER. Not that I know of.

Senator HARTKE. In other words, there would be a new industry created for them?

Mr. SINKLER. Yes, sir.

Senator HARTKE. Are you in favor of that?

Mr. SINKLER. Personally I would not have included any territory in this bill that was not now producing watches. I would have used the same quantity for the others. But I don't think as far as I am concerned it makes any difference which island gets it. It is the total production that we are worried about.

Senator HARTKE. There are 16 producers as I understand it in the Virgin Islands; is that correct?

Mr. SINKLER. That is right.

Senator HARTKE. Do you know of your own knowledge how many of these are domestic producers also?

Mr. SINKLER. Sir, I could give you a rundown on that quite quickly. Hamilton has a subsidiary, Bulova, Elgin, those are the three jewel watch manufacturers. United States Time has a subsidiary there, that is Timex. They are producing watches in the United States still, with some imported parts. General Time Corp. makes clocks and pocket watches only. No wristwatches have a subsidiary there. That just about covers it, and that is all of the watch companies in the country. Anybody who is producing watches in the United States has a subsidiary in the Virgin Islands.

Senator HARTKE. Are you trying to eliminate a source of competition to your people? Is that what your interest is?

Mr. SINKLER. I am trying to eliminate, to control the source of competition to the U.S. industry.

Senator HARTKE. United States and combined ownership of foreign subsidiaries?

Mr. SINKLER. I want to put ourselves out of business in the Virgin Islands because it is getting too rough for the people at home.

Senator HARTKE. Why don't you advocate the same thing for putting yourself out of business in Switzerland?

Mr. SINKLER. I'd love to.

Senator HARTKE. You would love to do that too?

Mr. SINKLER. Yes, sir. You give us a quota around the United States, Senator, and we will stop importing from Switzerland; too.

Senator HARTKE. Let me ask you this. Suppose the U.S. possessions are successful in eliminating all of the quotas. You say the United States then would be out of the watch business, is that true?

Mr. SINKLER. If they are successful—

Senator HARTKE. Just completely free trade operations.

Mr. SINKLER. We would have to close.

Senator HARTKE. You would have to quit?

Mr. SINKLER. Absolutely.

Senator HARTKE. As I understand one statement you made you said U.S. contractors are buying 5 million parts per week from Switzerland because the U.S. industry cannot produce them, is that correct?

Mr. SINKLER. That is correct.

Senator HARTKE. Can you tell us what these parts are and why they cannot be obtained in the United States?

Mr. SINKLER. The parts, Senator, that are being imported by the fuse contractors are small pinions which are tiny gears which are used in fuses and in safety and alarming devices. All of the watch companies are producing as much as they can currently, and so far as I know, we are the only source that amounts to much in the United States for these pinions. We ourselves have had to buy some of these pinions from Hugo Keller, who is an importer of fuse pinions, and all of the other companies are doing the same thing. The reason is that they must be made on a Swiss-type turning machine and Swiss-type gear cutters which are not available in the other industries in the United States.

Senator HARTKE. Why not?

Mr. SINKLER. Nobody uses them except the watch industry. The type of gears that are used in alarm clocks and in large gears are not made by the same process as watch timing gears, and we have not been able to find any place to get them except Switzerland. There are small producers but not enough to carry the load. By the way, those 5 million pieces, 3 million pinions and 2 million other turned parts in that 5 million are what is imported by only one importer. I believe that some others are importing gears, but I don't know what their total is. But that 5 million figure I know because I have talked to the man. It is 59 small companies that he buys from in Switzerland to supply these 5 million parts per week. We are really very short of equipment to produce these parts in this country, terribly short.

Senator HARTKE. That is all the questions I have.

Senator BENNETT. Mr. Chairman, I would just like to make one comment. I think we may get ourselves mixed up when we assume that they produce watches in the Virgin Islands. They only assemble parts, and the basic production is done abroad.

Mr. SINKLER. Exactly right.

Senator BENNETT. Except for some parts I understood you to say that you produce in Lancaster and send down there. But to say that

the Virgin Islands produce watches is completely false. They just put the last few finishing steps on the process of assembly, in order to qualify for the tax-free status.

Mr. SINKLER. Exactly right.

Senator BENNETT. As I understand your position, it is that within the quota limits set you figure the American watch industry can survive?

Mr. SINKLER. That is correct.

Senator BENNETT. If this bill did not have those quota limits, or if this bill set the quota limits at 5 million instead of 1.5 million, you figure that you would be in a desperate situation?

Mr. SINKLER. We would get into real trouble at that point.

Senator BENNETT. Thank you.

Senator ANDERSON. Thank you very much.

Mr. SINKLER. Thank you, Mr. Chairman.

Senator ANDERSON. Because of a promise previously made we are going to take Mr. Aronson out of order.

VOICE FROM THE FLOOR. Mr. Chairman, the request earlier made for Mr. Aronson is no longer necessary. He has already had to leave, so we can take our regular turn on the agenda.

Senator ANDERSON. Very well, Mr. Carmody.

**STATEMENT OF EDWARD T. CARMODY, VICE CHAIRMAN-GENERAL COUNSEL, UNITED STATES TIME CORP. (TIMEX); ACCOMPANIED BY WILLIAM SIMON**

Mr. CARMODY. This will be very brief. My name is Edward Carmody. I am vice chairman and general counsel of the United States Time Corp., with headquarters in Waterbury, Conn., the makers of Timex watches. We also have subsidiaries or affiliates in Arkansas, Texas, Scotland, England, France, Germany, Puerto Rico, Canada, and Hong Kong.

I had intended to make a lengthy statement but since Mr. Sinkler has so well covered the points I had in mind, I will confine my statement to the employment aspect of the problem. We have at all times taken the position that the benefits and incentives which have accounted for the beginning and growth of the horological industry in the islands should be totally withdrawn. We still believe this, but we think that the solution appearing in H.R. 8436 as this committee has reported it, is a wise and practical compromise and we are for it.

I would like to answer first one of the questions that Senator Anderson asked Governor Paiewonsky. We are the plaintiff in that suit in the Virgin Islands, and the quota has been held invalid. There is no quota. The industry is now completely uncontrolled, and there is no pending appeal by the Virgin Islands government from that decision of the Federal district court in the Virgin Islands.

Senator ANDERSON. I am glad to have your testimony on that. That is what I understood. Now, Governor Paiewonsky is sitting back there shaking his head. You know a man convinced against his will is of the same opinion still.

Mr. CARMODY. We are the plaintiff in the case.

Senator ANDERSON. I read it and the court made a pretty clear ruling. He doesn't think that ruling will stand up on appeal apparently. You follow, do you?

Mr. CARMODY. We think it will definitely stand up on appeal.

Senator ANDERSON. I do, too.

Mr. CARMODY. It is our affiliate. We have been in the horological business for 109 years, and we are the world's largest watch manufacturer and an affiliate, as I said, has been assembling watches in the Virgin Islands since 1963. U.S. Time is the sole purchaser of these watch movements sold by Virgo. Virgo's recent employment in the Virgin Islands has been 32 people. Now to answer Senator Ribicoff's question as against that we employ 5,000 people in the United States domestically.

Senator ANDERSON. How many worldwide?

Mr. CARMODY. 10,000 worldwide.

Senator ANDERSON. Thank you very much.

Mr. CARMODY. One of the reasons being put forth by the proponents of a large watch quota for the islands is that the islands need the employment represented by the watch industry. Watches are presently coming in from the Virgin Islands to the customs area of the United States duty free at a rate that has risen in only a few years to the almost astronomical figures of approximately 4 million watches a year. Now the population of the Virgin Islands is 40,000 people, and the total registered employment in the Virgin Islands is 17,000 persons, of which 8,000 to 10,000 are off-island personnel. There is therefore no true unemployment situation at all in the Virgin Islands. In our industry, an average of 647 persons, that is, in the horological industry in the islands, an average of 647 persons per month are employed.

Senator ANDERSON. That is all firms?

Mr. CARMODY. That is all firms. That is an average through July, from July through December of 1965, and this was furnished by the U.S. Employment Service Office in the Virgin Islands. Now, therefore, total employment in the horological industry in the Virgin Islands comes to 3.81 percent of the total number of employees, the people employed on the islands, and these statistics I got within the past 2 weeks from the Employment Office in the Virgin Islands.

These figures make it quite proper to say that even if the total employment in the horological field in the Virgin Islands were abolished, the employment in the islands would not be injured. I hope the Senate Finance Committee will not be dissuaded from going forward with this sensible piece of legislation in the form from which you have reported it. Thank you.

Senator BENNETT. I just have one question, probably a personal curiosity. You have subsidiaries in non-watch-making parts of Europe, Scotland, I think you said?

Mr. CARMODY. Scotland was in watchmaking before we got there.

Senator BENNETT. They had made watches?

Mr. CARMODY. Yes, sir.

Senator BENNETT. Is your company originally an American company which has gone abroad first to sell and then to manufacture?

Mr. CARMODY. Yes, Senator. We were founded in the State of Connecticut as the Waterbury Clock Co., maker of the old Waterbury

clocks and the old Ingersoll watches 109 years ago, and in order to survive, we have had to move abroad, in order to get parts to keep our factories in America going and to keep our employment alive.

Senator BENNETT. I am glad for this testimony because it puts your company into focus, or at least it identifies to us, who were youngsters in the day of the old Ingersoll watch for \$1. That is the only question I have.

Senator ANDERSON. Senator Hartke?

Senator HARTKE. Let me ask the same question. What will happen if you close down the Virgin Islands? Will this result in increased imports or increased production in the United States?

Mr. CARMODY. If we close down the Virgin Islands, 32 people on our payroll would be out of work, and the parts that had come from our plant in Germany for assembly, for the final touches, as Senator Anderson says, in the Virgin Islands would flow straight to our U.S. plants. Our employment in U.S. plants would increase.

Senator HARTKE. It would increase?

Mr. CARMODY. It would theoretically increase by 32 people.

Senator HARTKE. That is all, Mr. Chairman.

Senator ANDERSON. Thank you very much.

If there is any additional information you want to submit, send it to the committee.

Mr. CARMODY. Thank you, Senator.

Senator ANDERSON. Mr. Sadow.

#### STATEMENT OF LEONARD B. SADOW, VICE PRESIDENT, LONGINES-WITTNAUER WATCH CO., INC.

Mr. SADOW. Gentlemen, my name is Leonard B. Sadow. I am vice president and counsel of the Longines-Wittnauer Watch Co., Inc., of New York City.

Our company employs approximately 500 people in the United States, and imports movements from Switzerland which are cased, braceleted, completed and sold throughout the United States.

I would point out at the beginning that there is an error in the committee's witness list. Although Longines-Wittnauer is a leading member of the American Watch Association, I am not here to speak for the AWA, but for my own company. In addition, 11 other U.S. watch importers and assemblers have asked to be associated with my testimony, and their names will be found at the end of this statement. Many others, large and small, would have, I believe, associated themselves with the testimony had time permitted.

While some of the company names may be unfamiliar to you, the watches which these companies market include many of the best known and most highly esteemed brands available in the United States. In addition to Longines, Wittnauer, LeCoultre, and Vacheron & Constantin, all marketed by Longines-Wittnauer, my own company, brands sold by our own group include: Gruen, Omega, Tissot, Movado, Rolex, Girard-Perregaux, Audemars-Piquet, Patek-Philippe, International, Zodiac, Louvic, Jules Jergensen, and Wyler.

As the committee knows, the unchecked growth of watch shipments to the U.S. mainland from U.S. insular possessions, principally from

the Virgin Islands, constitutes a very serious discrimination against watch importers who have to pay the duty. We warmly appreciate the effort this committee is making to bring the problem under control.

Senator ANDERSON. Mr. Sadow, can I ask a question at that point?

Mr. SADOW. Surely.

Senator ANDERSON. You list some very well-known names here associated with you. If we added to that Hamilton, Elgin, and Timex, what proportion, percentage of the American watch industry, would be represented here? It would be pretty heavy, would it not?

Mr. SADOW. It would be a guess, but I would say the vast majority.

Senator ANDERSON. Gruen, Omega, and all these others, it is a pretty fair share of the watch industry?

Mr. SADOW. Yes, Senator, the vast majority.

Frankly, we wish the committee would go beyond its announced plan to set a quota of 1.5 million units annually on watch shipments from U.S. insular possessions and, instead, withdraw the unwarranted duty-free privilege entirely with respect to watches and watch movements.

In its application to the watch industry, headnote 3(a) is simply a mechanism for the avoidance of duties. In effect, it permits watch movements to be imported indirectly and without the payment of duties from Japan, France, Russia, and other countries—not including Switzerland, which has not participated in the exploitation of this tariff loophole.

We feel that headnote 3(a) discriminates sharply and without justification against importers who pay the duty. Benefits to the insular possessions have been amazingly small in proportion to the duty collections which have been sacrificed by this provision.

We believe that this represents poor public policy. While we certainly think that U.S. watch tariffs are unreasonably high and should be reduced, our basic position is that all classes of watch imports should be subject to the same tariff schedules, whatever they are.

In adopting this special tariff provision, Congress intended to promote manufacture and employment in the U.S. insular possessions. In practice, however, as far as the watch industry is concerned, this provision has proved to be an extremely inefficient way to achieve these ends.

What has been achieved, instead, is a free-flowing conduit through which millions of movements pass from the Virgin Islands to the mainland duty free, with only minor work in the Virgin Islands. This is a situation which the draftsmen of headnote 3(a) could not have visualized.

In 1965, imports from the Virgin Islands constituted about 25 percent of U.S. consumption of jeweled watch movements and about 11 percent of consumption of all types of watches. This represents a tremendous increase from the very modest beginnings in 1959, but the development of manufacturing facilities in the Virgin Islands and the utilization of islands personnel has been nowhere near as great.

Under headnote 3(a) a watch movement shipped to the mainland from the Virgin Islands or Guam is eligible for duty-free treatment if its sales price on the mainland is at least double the value of the foreign materials embodied in the movement, plus the cost of trans-

porting these materials to the possession. If, for example, a watch movement contains parts and subassemblies plus transportation costs to a value of \$3, it is only necessary for this movement to be capable of selling in the United States for \$6.01 in order to enjoy duty-free treatment under headnote 3(a).

This requirement poses no real economic obstacle. Comparable jeweled-lever watch imports, subject to the tariff, are burdened with a duty of \$2.70 to \$3.85 and cannot possibly compete in the same price range.

While this is a bad thing for importers who pay the duty, it is not such a good thing for the insular possessions. That is because the minimum mainland price bears no relation to total production cost—only to the portion of total cost expended on foreign materials. Since it is obviously inefficient to produce parts of a watch in some country—say Japan—and other parts in the territories, where labor is relatively costly and unskilled, the practical effect of headnote 3(a) is to encourage operators in the Virgin Islands and Guam to do as little as possible in the islands.

The vagueness of headnote 3(a), the lack of definition of the word "manufacture," the lack of printed customs regulations relating to imports from insular possessions, the brevity and vagueness of the Treasury decision interpreting the headnote, have all contributed to the present situation which has resulted in an unfair discrimination against duty-paying importers and has further resulted in a large loss of revenue to the United States without helping materially to develop manufacturing facilities or labor usage in the insular possessions.

There is, of course, no requirement in the law for a minimum contribution to the final product of local labor, local materials, or local investment. The only real standard is the pricing test. Because of the high tariff, this test gives the Virgin Islands operator running room of around \$3 or \$3.50 per unit. Even if he spends \$1 in the islands, profits on these operations may run more than \$2 a unit. One domestic manufacturer's subsidiary in the Virgin Islands, shipping approximately 600,000 units annually, probably has a profit on these operations of around a million dollars—which is substantially more than firms in our end of the business have been earning each year on all our operations.

While profits on Virgin Islands operations are very high, the actual gain for the islands is small in relation to what it costs the the U.S. Treasury.

The 3.6 million units which entered the United States from the Virgin Islands and Guam in 1965 represent a sacrifice in customs revenue of about \$12 million. Evaluated against this subsidy from the U.S. Government, the contribution of the Virgin Islands watch industry to employment and investment there is small indeed. Only 600 to 700 production workers are involved, according to our information. The Government is providing, in effect, a subsidy of \$17,000 to \$20,000 per production worker. It is hard to conceive of a more expensive way to attempt to stimulate the islands' economy.

Obviously, the real source of the problem for the watch industry is the fact that U.S. watch tariffs are at exorbitant levels as a result of a 1954 escape clause action. Headnote 3(a) has developed because it

provides a loophole for avoiding duties averaging on the order of 70 percent of value. A reduction in watch tariffs to pre-1954 levels—which is merited also for other reasons—would help materially in bringing the problem under control.

Fortunately, the administration is currently reviewing the 1954 escape clause decision, and we are hopeful that the President will decide this summer that the national interest calls for restoration of the rates of duty applicable under the United States-Swiss Trade Agreement of 1936.

However, I hope we will not have to wait for tariff reduction to put a natural lid on operations in the insular possessions. It would take time for the tariff reduction to thin out the least viable operations, and shipments would still continue from the islands on certain specialties and movement sizes. Thus the discrimination we are complaining about would still continue.

I trust the committee will understand why we find it difficult to watch our competitors earning a very substantial profit by pocketing the duties we, on the other hand, must pay to the U.S. Government, particularly when our own profits have been well below the average of other industries.

I want to emphasize that these problems have been visible to us for a long time. It was in 1960 that the immense possibilities inherent in headnote 3(a) for avoiding the exorbitant tariffs on dutiable imports were first recognized. As soon as the first firm began shipments from the Virgin Islands, importers as a group understood that the provision for duty-free treatment of merchandise from the Virgin Islands would tempt an increasing number of companies to go into business there. We also knew that the exploitation of this loophole would come at the expense of domestic production and of dutiable imports.

The American Watch Association, which represents most of the leading U.S. importer-assembler firms, immediately took the lead in an effort to persuade Congress and the executive branch to do something promptly to prevent this situation from developing. The AWA pointed out that if the loophole was left open it would encourage the development of an uneconomic activity in the U.S. possessions which had no logical basis except for the height of the tariff on dutiable merchandise. The AWA also pointed out that the situation would become extremely serious if not handled promptly, and that postponing a solution would just make it harder in the end.

I have with me a memorandum the AWA prepared on August 25, 1960—nearly 6 years ago—which made most of the same points I am making here today.

In our effort to persuade the Government, we sought, and in the early stages received, the support of the domestic watch industry. However, one of the domestic companies, despite its earlier representation that the entire Virgin Islands setup was a sham and a duty-avoidance gambit, apparently decided that the Virgin Islands was too good a profit opportunity to pass up and commenced substantial activity there.

In short, although the AWA succeeded in interesting some members of Congress and some executive branch officials in the problem, it was unable to secure action, and the situation began to get steadily worse.



We feel that the problems created for the watch industry by the flood of duty-free merchandise cannot await a long-term solution. Action is required now.

That is clearly the purpose of H.R. 8436 as it was amended by the Senate Finance Committee. We applaud the committee's intent, but we would urge the committee to close the loophole on watch shipments entirely. This could be accomplished by accepting the House-passed bill, which bans use of headnote 3(a) with regard to imports of watch movements from the territories, and amending it to eliminate the exemption for the Virgin Islands.

While we do not like legislation singling out the watch industry for special treatment, we feel that a legislative ban on watch shipments from the territories is the best way to deal with the immediate problem.

In the event the committee is not prepared to ban all shipments from the territories immediately, we urge you to keep any quota on such shipments as small as possible. We believe that the quota of 1,005,000 movements for the Virgin Islands is ample and hope that efforts by the Virgin Islands government and companies operating there to increase the quota will be firmly resisted.

We would also urge the committee to eliminate the quota for American Samoa, which has no watch industry at present, and to eliminate or sharply reduce the quota for Guam. There is certainly no question of equity involved here since Guam entered into watch production only after the House Ways and Means Committee had unmistakably served notice of its intention to clamp down on duty-free shipments from the territories.

No doubt the territories and certain companies will appeal to the committee, claiming that they were given a right and that this right should not be withdrawn. But we think that our position is far more strongly grounded in equity. Headnote 3(a) constitutes flagrant discrimination against duty-paying importers. Whatever the level of duties on imported watch movements, we believe they should apply equally to all classes of imports.

Might I, Mr. Chairman, depart from my prepared statement long enough to say that I disagree completely with Mr. Sinkler regarding the watch tariff issue, the alleged threat of foreign imports to the economic health of the domestic industry, and also his claim that imports are threatening to impair the national security.

We do not believe, however, that these questions are really germane to these hearings, and we do not propose to burden the committee with our rebuttal. I simply wish to point out that the claims advanced by Mr. Sinkler have been and are being systematically evaluated as specifically provided under the Trade Expansion Act of 1962, and that proceedings under this act have been going on from as far back as December of 1963.

I believe we are all aware that the U.S. Tariff Commission has made a report on the economic condition of the domestic industry. That report is being reviewed by the Commerce Department, the Labor Department, and other interested agencies, operating under the chairmanship of the Herter office, the Office of the Special Representative for Trade Negotiations.

Similarly the OEP, the Office of Emergency Planning, with the cooperation of the Defense Department and other agencies, is conducting a thorough reexamination of this entire defense essentiality question. Our company has presented our views in great detail to the proper authorities. We are confident and hopeful that our facts and interpretations will be accepted, and that Mr. Sinkler's arguments will be rejected. We will refrain from further comment at this time, because these other arguments clearly do not have any direct bearing on the issue which is currently before the committee.

Thank you very much for the time and the attention.

Senator ANDERSON. Thank you for your statement. It may not have any bearing on the bill but it is useful to the members of the committee and we appreciate your coming as well.

(An attachment to Mr. Sadow's statement follows:)

Following is a list of U.S. watch importing companies which have asked to be associated with the statement of Mr. Leonard B. Sadow for the Longines-Wittnauer Watch Co., Inc.:

Gruen Watch Co.	The Henri Stern Watch Agency, Inc.
Norman M. Morris Corp.	Edward Trauner, Inc.
Movado Watch Agency, Inc.	Louvic Watch, Inc.
The American Rolex Watch Corp.	Jules Jergensen Corp.
Jean R. Graef, Inc.	Wyler Watch Corp.
Audemars Piquet & Co., Inc.	

Senator ANDERSON. Mr. James W. Riddell is our next witness.

**STATEMENT OF JAMES W. RIDDELL, ATTORNEY, REPRESENTING ADMIRAL TIME CORP., BELAIR TIME CORP., MULTI-JEWEL WATCH CORP., AND UNITIME WATCH CORP.; ACCOMPANIED BY ILSE GRUNWALD, BELAIR TIME CORP.**

Mr. RIDDELL. Mr. Chairman, I am accompanied by Mrs. Grunwald of Belair Time.

Sir, I would like your permission to have my statement printed for the record and proceed to what I think is the heart of the matter that this committee is interested in.

Senator ANDERSON. The statement will be included as if read in its entirety. I appreciate your saving us time.

Mr. RIDDELL. My name is James W. Riddell of the firm of Dawson, Griffin, Pickens & Riddell, Washington Building, Washington, D.C., attorneys at law. We represent four manufacturers of watch movements produced and exported from the U.S. Virgin Islands. These companies are Admiral Time, Inc., Belair Time Corp., Multi-Jewel Corp., and Unitime Corp.

Their production is approximately one-third of the total production of watch movements in the Virgin Islands, or about 1,200,000 pieces. They were among the pioneers of the industry in the Virgin Islands. They employ 222 people in the Islands and represent a large capital investment.

None of our members are subject to any rules and regulations of the governments of foreign suppliers. The nature of their activities contributes to free and open competition in the U.S. market, resulting in the greatest benefits to the ultimate consumers.

We appear here today in opposition to a proposed committee amendment to H.R. 8436 which imposes a quota on the duty-free importation of watches from the U.S. Virgin Islands, Guam and American Samoa.

The U.S. consumption of watch movements in 1965 approximated 34 million units. Of this total, foreign importers supplied almost exactly 50 percent, domestic producers 39 percent and the U.S. Virgin Islands 11 percent, or 3,600,000 units.

1965 consumption of watch movements in the United States was the highest in history and reflected an increase from 27 million units in 1964 to 34 million units in 1965. Of this increase of 7 million units, foreign importers supplied 4,100,000 units, domestic production supplied 1,700,000 units and the Virgin Islands supplied 1,200,000 units.

Notwithstanding this phenomenal increase in watch movement consumption, no new U.S. factories have been created to take care of the increased demand and all United States and Swiss factories are operating at capacity. Thus the demand for watches is in excess of the industry's ability to supply them.

In the light of these facts, the companies we represent cannot understand why, when manufacturers and importers alike find it difficult to satisfy consumer demand, a quota should be placed on the U.S. Virgin Island watch industry that would cut its output nearly 75 percent and wipe out three-fourths of their business overnight.

The effect of this action will be to put U.S. Virgin Islands manufacturers out of business, thus increasing the definite shortage of the supply of watches.

Not only is the current demand for watches at a recordbreaking height, but it is bound to increase because of population growth, higher educational, and living standards. By placing a fixed unit ceiling on production, the Virgin Islands companies and the other possessions are foreclosed in supplying any part of increased consumption, while foreign manufacturers, when they are able to supply, will be permitted to reap the benefit because no restriction is placed on them.

If a ceiling or quota is determined to be in the best interests of the United States, it should be geared to a proportionate part of U.S. consumption so that U.S. manufacturers in the Virgin Islands can look forward to a share in that increased consumption and not be restricted to a flat unit amount that would remain the same regardless of increased consumption.

The Congress enacted the legislation which made it possible to establish the watch industry in the Virgin Islands because of the need and desire to stimulate the economy of the possessions. As a result of this thoroughly considered action, a sound and profitable industry has been established which is contributing dollars to the island economy and the U.S. economy as well.

The companies we represent accepted the opportunity provided by this legislation and went into the business of manufacturing watch movements in the Virgin Islands at a time when they were desperately needed and wanted. They continued to develop their businesses, utilizing island facilities and island employees, so that all—the government, the local economy, the local citizens, the manufacturers, the U.S. watchmaking industry, and the ultimate consumers—were benefited. The only ones not benefiting were foreign manufacturers who were faced with the increased competition.

The industry directly employs about 850 persons in the Virgin Islands, of whom 80 to 90 percent are Virgin Islanders. The wage rate of these employees was 60 cents hourly in 1959. Today the minimum wage rate is \$1.25 hourly and the average scale for these workers is \$1.40 per hour. More highly skilled labor earns \$1.50 to \$1.75 hourly and advanced technical employees earn from \$3.50 to \$4 an hour. Fringe benefits include 2 weeks' paid vacations, 12 paid legal holidays, and ideal working conditions in modern, air-conditioned premises. By far the greatest number of these employees are women, previously unskilled, unemployable, and unemployed. The industry has trained them, given them skills and substantial salaries, and the opportunity to build useful and gainful lives. These average rates which I have cited are among the highest paid in the Virgin Islands.

Not only is the industry directly beneficial to the Virgin Islands economy, but all related aspects of the economy such as real estate, shipping, electricity, automobiles, gasoline, trucking, telephone and cables, insurance and guard service, groceries and housing all benefit as well.

In the light of this, we hope that this committee will find it possible to restore to the Virgin Islands manufacturers the opportunity of continuing to contribute to the economy of the islands as they have in the past.

The Virgin Islands watch industry uses substantial quantities of material produced in the United States. For example, it is the mainstay of an enlarged U.S. watch dial industry, which employs more than 250 employees solely to meet the Virgin Islands requirements. U.S. dials used on movements produced in the Virgin Islands approximate \$1,200,000 at wholesale.

Every Virgin Islands watch movement is cased in the United States. This utilizes about 2 to 3 million U.S. watch cases and 3 million U.S. crowns, costing approximately \$5 million at wholesale. Many persons are gainfully employed in plants in the United States assembling the Virgin Islands movements with watch cases, at a cost of about \$900,000 to \$1 million. Approximately \$5 million is spent in the United States for overhead and selling expenses in the distribution of these watches, and profits are earned in all segments of related U.S. industries.

The Virgin Island watch industry reduces the U.S. gold flow and improves the balance of payments by \$5 million, to the extent that the assembly operation is performed in the Virgin Islands, and the dials and other parts are produced in the United States instead of in foreign countries.

If the Virgin Islands watch industry is not permitted to grow and to have the assurance of a stable industry, then these benefits to the U.S. domestic watch industry will also be lost.

In using the term "domestic watch industry," we are referring to those companies in the United States which manufacture or produce watch movements in this country, and use such movements in the production of complete watches for ultimate sale to the consumers.

The domestic watch industry consists of manufacturers who make two classes of movements, namely, so-called jeweled-lever movements and pin-lever movements. For all practical purposes, the skills re-

quired to produce either class of movements are the same. Consequently, the potential contributions of these manufacturers to the defense requirements of the United States are equal and here, Mr. Chairman, I might add that to the extent that watchmaking skills are developed in the Virgin Islands, they are available for the defense requirements of the United States to the same extent that are mainland skills.

Virgin Islands watch movements do not displace or supplant any movements manufactured in the United States. If Virgin Islands watch movements were substantially, or even completely, removed from the U.S. market, the only result would be to increase the flow of watch movements imported from foreign countries.

Watches made with the use of Virgin Islands watch movements have not affected or caused any reduction in the price category of watches made with the use of movements manufactured in the United States. The Virgin Islands movements are in competition in the U.S. market chiefly with the medium priced foreign watch movements. Presently the demand for medium- and low-priced watches is at least double the capacity to supply them and from all indications this situation is becoming more acute.

The Virgin Islands production of movements has been the sole continuing factor in combating the virtual foreign monopoly in watch movements in the United States. Previously, practically all watch movements in that price category had been imported from foreign countries. For example, the Virgin Islands industry can not obtain Swiss watch parts because of the Swiss Government regulations against export of parts, and, therefore, the Virgin Islands industry had to develop other foreign sources, such as France, West Germany, and Japan. The development of such sources for watch parts by the Virgin Islands manufacturers and the knowledge that these sources can provide excellent quality watch parts ultimately will, we hope, result in an eventual change in the Swiss attitude, if the Virgin Islands watch movement industry is permitted to continue the production of watch movements without unreasonable curtailment.

It has been said that there are only four watch manufacturers in the mainland United States. All of these companies are presently producing watches in the Virgin Islands and all have foreign producing facilities. One company produces pin lever watches. The production of these pin lever watches is not affected because no pin lever watches are produced in the Virgin Islands. Moreover, it is well known that this company cannot begin to fulfill the demand for its products. The U.S. manufacturers of jeweled lever watches are not affected because the watches produced in the Virgin Islands are not in price competition with the jeweled lever watches which are manufactured within the mainland United States.

What will happen to the U.S. watch industry if production of watches in the Virgin Islands is curtailed as proposed by the committee's tentative decision?

First, watch producers who do not have U.S. manufacturing will have an opportunity to increase their exports to the United States to the extent that they are willing to increase their productive capacity.

At the present time they do not have the capacity to meet the demand of the United States for watches, but if the competition supplied by the

Virgin Islands watch manufacturers is removed, it can be expected that the supply formerly supplied by the Virgin Islands manufacturers would serve as an incentive for them to increase their production and raise their prices to the U.S. purchasers.

Secondly, those U.S. manufacturers who have foreign manufacturing facilities will attempt to increase their imports from their foreign facilities and to expand their foreign facilities in order to be able to do so. In any event, the watches that have been produced in the Virgin Islands will be produced in foreign countries, not in the United States.

Who gets helped if this is done? It cannot be expected that the competition from foreign suppliers will cease or even that U.S. firms with foreign facilities will cease to import from their foreign facilities. In other words, the watches that have been produced in the Virgin Islands will be produced in foreign countries. Whether they are produced by foreign companies or U.S. companies which own foreign facilities, the competitive impact on those manufacturers who do not produce abroad is the same.

Now, Mr. Chairman, who gets hurt? The answer can only be those U.S. producers which have facilities only in the Virgin Islands. Now those who produce in the Virgin Islands and only in the Virgin Islands are not foreigners. They are U.S. citizens. They own U.S. businesses and are entitled to be respected and their interests are entitled to be protected as such. The people of the Virgin Islands are certainly hurt because the dollars that they have been earning from watch manufacturing will no longer exist.

These companies began business in 1961 and 1962 and built their production and their sales. Last year they were faced with what they thought was the desire of the Congress to limit their production through action by the Virgin Islands Legislature establishing a quota which was set at one-ninth of U.S. consumption for the preceding year. This action was taken by the legislature after due hearings before a committee appointed by the Governor, both in Washington and St. Thomas. However, no such action was taken by either Guam or American Samoa, which had no watch industry at that time. As a result, and as we predicted, production began in Guam where there was no ceiling or quota imposed. Now it is proposed to cut back our industry further, from 3,600,000 units to 1 million units and give an additional 495,000 units to Guam and American Samoa, which in effect takes away this production from the Virgin Islands.

In plain words, we do not think this is fair. We do not believe you would appreciate similar treatment of your business. We believe those established companies that have come into the Virgin Islands and have made a significant contribution to the economy of the islands, in accordance with the intent of Congress, should not be penalized but should be protected in their present position and encouraged for what they have already done. If it is deemed necessary to impose this restriction on U.S. manufacturers and not on foreign manufacturers, then the Virgin Islands quota should remain on its present basis and whatever is considered proper should be given to the other possessions in addition.

We believe that the watch industry in the Virgin Islands should be considered an integral part of the U.S. industry in the same way that

the Virgin Islands is a part of the United States, in all of its activities, and that Virgin Island production should be geared to U.S. consumption by a percentage quota.

We believe that United States-Virgin Island production should have preference over foreign production. This is an advantage that will serve all U.S. interests, both mainland and island. Let us face the facts. We are here to protect U.S. interests in the Virgin Islands—not foreign interests.

We believe the Virgin Islands are entitled to a realistic share of U.S. consumption, especially in comparison with foreign importations.

The proposed amendment has an effective date of July 1, which would appear to be unrealistic in view of the date of this hearing. However, it is most important that the effective date of any legislation be sufficiently in advance, insofar as the Virgin Islands are concerned, to permit fulfillment of the contracts for both the purchase of raw parts and completion of sales contracts for movements which have already been entered into.

It must be remembered that the Virgin Islands industry has been operating under a quota for the past year and that a new quota was just allocated in April. On this basis and with this assurance of continued production, purchases of parts were contracted and sales of completed movements were made for future delivery. Such being the case, the Virgin Islands quota, if enacted, should recognize this fact and establish an effective date of April 1, 1967, in order that existing commitments may be honored.

We are talking about approximately 3,800,000 watch movements. Approximately one-ninth of the U.S. consumption. We are talking not about pin level watches. We are interested in what would happen to that 3,800,000 watches if this committee were to totally prohibit the Virgin Islands from importing them into the United States or restricting them to 1.5 million as the committee amendment would do. I think it is obvious from what has been said up to now by the gentlemen who preceded us, and I appreciate their candor, is that if the committee action is allowed to stand, the watches now assembled in the Virgin Islands would not be produced in the United States, but would be supplied from foreign subsidiaries, in the case of those American firms who own such subsidiaries, or by foreign companies altogether.

We own no foreign subsidiaries. We have no interest in foreign companies. We are wholly American companies. We don't manufacture abroad. We manufacture only in the Virgin Islands, which is a part of the United States.

Senator ANDERSON. Do you manufacture there?

Mr. RIDDELL. We assemble. We do precisely what the great bulk of the so-called domestic industry does. There are very very few if any watches made in the United States that are wholly manufactured within the United States in the lever category; in the price range we are here discussing.

Senator ANDERSON. I only interrupted you because you used the term "manufacture," and we have had so much discussion earlier.

Mr. RIDDELL. Right. I intend to be precise, and I say we assemble.

Senator ANDERSON. Thank you.

Mr. RIDDELL. Now, Senator what happens to those watches? The companies who have appeared before have testified that they would

continue to bring them into the United States from their foreign subsidiaries. Certainly the Swiss companies would be delighted to pick up the difference. So what is the fight about? The fight simply is this: It is one of competition. We are the only people who would be put completely out of the watch business if you call assembling watch movements the watch business, by the committee's action.

We took the risk. We moved into the Virgin Islands. We attempted to comply with the policy as established by the Congress in forwarding the economy of the insular possessions. We are at a loss to understand why we should now be penalized by our very success. It was the intention of the Congress to promote the economy of the Virgin Islands. We moved in first or were among the first to move in. We have been successful. We are contributing to the economy of the Virgin Islands, and we are making a profit.

Senator ANDERSON. Are you one of the four companies that gets this income tax benefit?

Mr. RIDDELL. I represent four companies. Two of which companies get the income tax benefit. They were two of the three first companies in the Virgin Islands. Two of them do not. And we would certainly like to see the tax subsidy extended to everybody. We can join wholly with the gentleman from Hamilton who would like to see everybody get it. We don't want to see anybody lose it. But we are not here directing our force and effect to the wisdom of the tax subsidy. If it is to be allowed we would like everybody to have it.

We think there is justice for everybody having it. Now what more can we say, Senator? We have reduced the problem to the following. If the watches are not assembled in the Virgin Islands, they will be assembled abroad. They will not be assembled in the United States.

At this point the committee is faced with this dilemma. Shall it deprive the Virgin Islands of an opportunity to do business and give it to some foreign supplier? That is all there is to it.

The gentleman representing Hamilton stated that at his Lancaster plant he employed a certain number of employees. I followed him precisely when he was at the point of stating that were he to discontinue his Virgin Islands production, that the production would move into the United States not from U.S. sources, but from his subsidiaries abroad. But his counsel made the following point. That if the Virgin Islands were not put out of business, he would lose employees at Lancaster. The watches that we are talking about, Senator, retail at a price slightly higher than pin level movements, from about \$15 to \$20. Such watches have never been made in the United States, and are not now being made in the United States, and none of his employees so far as we know are engaged in the manufacture of such watches. They may be making a few parts for such watches which are shipped to the Virgin Island. But since his company has admitted that watches of this category will be imported from abroad, if the Virgin Islands are put out of business, what effect can such action have on the continental United States employment?

Now, where am I left to go? Who is benefited if we are cut out of the market? Not the United States or any U.S. company having an intentment to manufacture in the United States. The only people who can be benefited are those U.S. companies who now have foreign



subsidiaries or foreigners or those of us, and I don't think any of us have the resources, who have the resources to go abroad and do what our competitors are now doing, that is purchasing European plants or organizing European or Asian plants for the purpose of taking up the business that we would have had if we had been left alone to do what you wanted us to do in the Virgin Islands.

What happens to the 3.8 million? That is the bouncing ball, and I want you to keep your eye on it. What is going to happen to those units? Where are they going to come from? Are they going to be manufactured in Arkansas or Pennsylvania or Connecticut? The answer is "No," and they never have been. They will, if you take this away from us, be manufactured outside of the United States and its possessions. The loser could be the people of the United States plain and simple, because our companies will not have any place to go. That is the end of my statement, Mr. Chairman. Thank you very much.

Senator BENNETT. Mr. Chairman, I would like to ask one question of Mr. Riddell.

Mr. RIDDELL. Yes, sir.

Senator BENNETT. Would you be happy if in order to solve the tariff, the great discrepancy between the tariff loss and the material benefit to the islands, if we solved the problem by applying the tariff to watches brought in through the Virgin Islands? In other words, if we just eliminated this tariff-free gimmick that makes it possible for the operation in the Virgin Islands?

Mr. RIDDELL. The answer to that, Senator, is "No," for the simple and apparent reason that we could not possibly survive. The Virgin Islands do not have the facilities to manufacture the parts. It would take us years to generate an industry, comparable to that required to make all running parts.

Our good friend from Hamilton states that the concentration of skills is so great in Switzerland that even he has to buy key components there.

Senator BENNETT. You are missing my point. Let me try it another way. Does it cost more to do the assembly processing you do in the Virgin Islands than it does to do that same assembly processing in Taiwan or Japan or Switzerland?

Mr. RIDDELL. Yes, because we pay higher wages. One of the great things that has come out of this program for the Virgin Islands is that it has promoted not just employment, but skilled employment. Skilled employment that looks toward more than a subsistence wage. We are paying more, certainly, than they pay in Japan.

Senator BENNETT. Then this leads to my next question. You can compete only with Japan because you have an umbrella.

Mr. RIDDELL. Concededly.

Senator BENNETT. How much of that umbrella can you lose and still compete; any of it?

Mr. RIDDELL. I would think very little, Senator. You gave us the umbrella for the reason that you wanted to see us prosper. You took into account that fact.

Senator BENNETT. Isn't it rather this way? That an umbrella, a general umbrella existed in the tariff law in terms of a certain tariff concept, and somebody discovered that it could be applied to watches?

Mr. RIDDELL. Similar to woolens and many other things, agreed.

But once you put up an umbrella for a particular purpose, that is to provide an incentive, don't be disappointed if it is used. You gave us the umbrella. We have seized upon it. We have established a heretofore nonexistent industry, meager though it be. It is nothing but an assembling operation, and I concede it for what it is.

I can't state that we manufacture watches.

Senator BENNETT. You don't?

Mr. RIDDELL. None of these gentlemen here can state that they do, either. What company in the lever field manufactures watches in our price category in the United States? None. We might just as well lay the facts on the table for what they are, because facts are important to committee members when they are reaching decisions.

Senator BENNETT. I think your last statement leaves a little bit of a misunderstanding. The mainland companies manufacture part of their parts and buy part of their parts.

Mr. RIDDELL. Right. But only in the highest price ranges.

Senator BENNETT. You manufacture no parts?

Mr. RIDDELL. Right, and couldn't possibly.

Senator BENNETT. OK. Suppose we solve this problem by giving you a 3 million unit quota and half of the tariff?

Mr. RIDDELL. I beg your pardon, sir? I am sorry.

Senator BENNETT. Suppose we solve the problem by giving you a 3 million unit quota but said that on watches so assembled we would have half the tariff, because half of the value of your watch is produced in a foreign country?

Mr. RIDDELL. I think you would put us out of business, Senator. I would like to put a pencil on it. I am riding horseback and I really don't know the precise answer to your question. I would like to supply it to you. But my reaction is it would put us out of business. But let me turn the question around, Senator, for a moment. Why would you want to put a tariff on us? Where is the inequity in letting us go free of the tariff?

Senator BENNETT. The problem is not that you go free.

Mr. RIDDELL. Who are we hurting?

Senator BENNETT. The problem is that the Japanese parts manufacturer goes free of the tariff. That is the problem.

Mr. RIDDELL. No, he does not.

Senator BENNETT. Why doesn't it?

Mr. RIDDELL. The exception for the duty, and correct me if I am wrong, is only for that product that we send into the United States.

Senator BENNETT. I know, but you can't send anything into the United States unless you get tariff free parts from the manufacturer in Japan or Germany or Switzerland or somewhere else, so in effect you are holding the umbrella over the Japanese parts manufacturer.

Mr. RIDDELL. I see your problem now, Senator. It is one of an understanding of terms. When I say we pay a tariff, we pay a 6-per-cent duty on the parts that we import, to the Virgin Islands. That is what I meant. I am sorry, you are correct and I am in error. But we pay an equivalent in the sense that we pay it not under the tariff schedules but to the Virgin Islands.

Senator BENNETT. Maybe you should persuade the Virgin Islands to give you the same kind of tax exemptions in that area that they give you in the income tax area.

But in any event, the net effect as far as I am concerned is that this umbrella is not only held over you, it is held over the foreign parts manufacturer, because the unit, after it leaves your hands, comes in duty free.

I would like to ask Mr. Sinkler a question while we are on this same subject. Do you pay a tariff on the watch parts you import from Japan or Switzerland?

Mr. SINKLER. Into the Virgin Islands?

Senator BENNETT. No, into the United States.

Mr. SINKLER. Yes, sir. The parts duty runs around 55 percent, I think.

Senator BENNETT. Fifty-five percent compared with 6 percent that they paid to the Virgin Islands to bring parts into the Virgin Islands?

Mr. SINKLER. I would like to make a correction in what the gentleman said, Senator, also. Those of us who have the tax subsidy enjoy a further advantage of getting a full rebate of the 6-percent duty on parts, so that two of your companies get their 6 percent back; the other two do not.

Mr. RIDDELL. Just as you do.

Mr. SINKLER. Exactly, we do, too.

Mr. RIDDELL. We are riding in the same boat with respect to the four companies who get it and on a different boat for those who don't and I join you in the hope that we all get it.

Senator BENNETT. This is a fact that I hadn't known earlier. I have no further questions.

Senator ANDERSON. Thank you very much for being here.

Mr. RIDDELL. Senator, just one more thing. Ask yourself what is going to happen to those 3,800,000 watches. Who is going to be manufacturing them? Who is going to be getting the worth of the labor, and the profit of them? Thank you, sir.

Senator ANDERSON. Mr. Lazrus.

**STATEMENT OF JULIAN LAZRUS, PRESIDENT OF BENRUS WATCH CO., INC., REPRESENTING QUALITY PRODUCTS, INC., OF THE VIRGIN ISLANDS; ACCOMPANIED BY STANLEY L. TEMKO, OF COVINGTON & BURLING, COUNSEL TO BENRUS WATCH CO., INC.**

Mr. LAZRUS. Mr. Chairman, my name is Julian Lazrus. I am president of Benrus Watch Co., Inc. Our company manufactures watch movements in Switzerland and imports them into the United States. In this country we have manufacturing facilities in Connecticut where we manufacture watch cases, and facilities in New York and Connecticut where we assemble our imported movements into complete watches for sale throughout the United States. We also have a subsidiary, Quality Products Co., Inc., which has been producing watch movements in the Virgin Islands since 1962.

Our employment at the present time is approximately 400 people in Switzerland, approximately 1,200 people in the United States and, I believe, 83 employees at the present time in the Virgin Islands.

We believe that the committee should not take any action on H.R. 8436 at this time. As you have already heard from other witnesses, the President is expected to reach a decision shortly concerning the basic

watch tariff structure. If he decides to reinstate the duties that were in effect prior to 1954, as we would hope, this will have the effect of subjecting watch operations in the Virgin Islands and Guam to natural economic controls, without the kind of sudden and arbitrary impact on the islands' industry which would occur under this legislation.

If the committee feels that it cannot postpone action, we suggest that the quota for the Virgin Islands should be set, at least on an interim basis, at approximately the current level of Virgin Islands production, which is about 3.8 million movements a year. This would provide a backstop in case the President were to decide against immediate tariff reduction.

A Virgin Islands quota at this level would be based upon the plain fact that there are 16 firms actually operating in the Virgin Islands, producing at this level, providing employment to a substantial number of U.S. citizens, and supplying the payroll and other benefits upon which a significant portion of the Virgin Islands economy depends. It would be most unfair to suddenly force a cutback in this existing industry, and there is no real need to do so.

To explain briefly the reasons for our recommendations it is necessary to look first at the basic statute that this bill would amend. As the committee knows, until 1954, section 301 of the Tariff Act of 1930 permitted duty-free importation of the products of the U.S. insular possessions only if the foreign materials contained in those products constituted 20 percent or less of their value. In 1954, Congress amended this section to permit duty-free importation of such articles if they do not contain foreign materials to the extent of more than 50 percent of their value.

This change in the law was made to encourage the development in the insular possessions of manufacturing industries that would utilize foreignmade components and materials in the manufacture of goods for the U.S. market. In other words, Congress plainly intended, by increasing the availability of duty-free benefits to industries utilizing imported components, to encourage the establishment of such industries in the possessions. It was hoped that this would result in increased employment for U.S. citizens residing in the possessions, more skilled work and higher wages, and in general would aid in providing much-needed economic development for the possessions.

Within about 5 years after the 1954 amendment in section 301, the first watch movement plant was established in the Virgin Islands. Various U.S. firms in the watch industry quickly recognized that if watch manufacture in the islands were permitted to grow to an unlimited extent, it could create a serious discrimination between duty-paying importers and those who brought their watch movements in duty free from the Virgin Islands.

This danger arose fundamentally from the fact that in 1954 President Eisenhower had increased U.S. import duties on watch movements to an extraordinarily high level under the "escape clause" procedure, and this made any arrangement that permitted duty-free importation exceptionally attractive.

Well before there were substantial watch operations in existence in the islands, our own company, other U.S. importers, and some of the domestic watch manufacturers joined in pointing out this potential problem, and seeking executive or legislative action at the Federal

level to prevent the development of a substantial watch industry in the Virgin Islands.

These efforts were seriously undermined when one of the principal domestic watch manufacturers, Hamilton Watch Co., ceased to support our request for Federal action. It turned out that Hamilton had quietly purchased the first and largest Virgin Islands watch company, Hamilton's action, as the first major brand watch manufacturer to go into the Virgin Islands, forced many other companies, including our own, to establish production facilities there, although Hamilton still is the largest Virgin Islands watch producer.

The Virgin Islands watch operations in their current form depend for their viability upon the exorbitant rate of duty on direct watch movement imports. The high duty is the cause of the situation, just as it is the cause of unlawful duty-avoidance methods, such as smuggling. For example, the former Commissioner of Customs has stated that watch smuggling is the greatest single problem faced by the U.S. Customs Service, except for narcotics, and it has been estimated that as many as 2 or 3 million watch movements a year may be smuggled into the United States.

Until watch duties are reduced to more reasonable levels—as we hope they soon will be by President Johnson, when the administration's current review of the 1954 escape clause action is completed—it is clear that there will be a substantial incentive to avoid payment of the duties.

The Virgin Islands watch industry, however, developed in response to specific congressional authorization, enacted to encourage the manufacture in the insular possessions of articles produced from foreign components. It developed, moreover, following the failure of the executive branch and the Congress to heed our requests for action to deal with the situation. At that point, commercial necessity dictated the establishment of watch production facilities in the Virgin Islands.

Our company, and each of the other firms producing watches in the Virgin Islands, had to obtain specific advance approval from the Treasury Department for the establishment of these watch manufacturing facilities. These firms have had to make substantial investments in the islands. Our Virgin Islands subsidiary started its operations in 1962 and devoted 3 solid months to training workers in the skills of watch assembly before it shipped a single movement. We have continued to operate a training program under approval granted by the U.S. Department of Labor. We currently provide employment for over 80 workers. Our employees perform skilled work in modern facilities, and their wages have continually increased. We take pride in the fact that we were the first watch company in the Virgin Islands to enter into a collective bargaining agreement with the Virgin Islands labor union. Basically, we feel that we have provided precisely the type of benefits to the Virgin Islands that Congress had in mind when it enacted the 1954 amendment to section 301.

The watch industry as a whole provides jobs for between 800 and 900 employees in the Virgin Islands, and we believe it is the largest single employer of skilled manufacturing workers there. Its contribution to the Virgin Islands economy in terms of manufacturing payroll alone is in the range of \$2 million a year, and the direct and indirect benefits of this industry to the development of the Virgin Islands is of course even more substantial.

In short, the industry has done what Congress intended it should do when the 1954 amendment was passed, and the industry has grown to the point where a substantial number of workers and a substantial segment of the overall Virgin Islands economy depend upon it.

At the same time, we believe it is perfectly clear that the mainland United States watch manufacturers are not being injured by the existence of this industry in the Virgin Islands. Domestic watch manufacturers have been reporting record sales and profits in recent years despite the rapid growth of Virgin Islands watch operations. Since substantially all of the watch movements produced in the Virgin Islands are marketed in the lowest priced segment of the U.S. watch market, the principal domestic manufacturer concerned is "Timex" (United States Time Corp.) and that company is by far the most extraordinarily successful and profitable firm in the industry. It alone currently sells about one-third of all watches sold in the United States, and it reportedly has been earning profits in the range of 15 percent per year on net worth, after taxes. Such a firm clearly does not stand in need of special protection from competition.

I do not want to take the committee's time to review in detail all the circumstances connected with the introduction and passage of H.R. 8436 in the House and the enactment of local legislation in the Virgin Islands to limit the further growth of the Virgin Islands watch industry. I do think that all of these developments together plainly show that the Ways and Means Committee and the House itself recognized the vital importance of this industry to the Virgin Islands economy, and also recognized that there was no need to reduce the current size of the industry, even if its future growth might have to be limited.

We believe that this committee should recognize these same facts in any action it may take on this proposed legislation and, accordingly, if a quota is imposed it should permit continuation of Virgin Islands watch production at current levels.

However, as I have pointed out, the exorbitant rate of duty on watch imports is the root cause of the situation, and watch duties currently are being thoroughly reviewed by the administration. There is every reason to expect a final decision by the President within a few months. The U.S. Tariff Commission has reported that a reduction in watch duties would substantially reduce the incentive for Virgin Islands watch production. Such a reduction in effect would require that any watch production in the insular possessions operate on a sound economic basis and make an increased contribution to the local economy.

Under these circumstances, we submit that the committee should regard H.R. 8436 as a form of "insurance," intended to provide an avenue for dealing with the situation if watch duties are not reduced or if, contrary to the Tariff Commission's finding, such a duty reduction somehow does not adequately resolve the matter. Particularly in this context, there is no justification for imposing a quota substantially below the current level of production in this industry, and thereby causing unnecessary loss of employment and substantial economic dislocation.

It is essential that the committee recognize the effects that such a cutback would have. The Virgin Islands industry currently is producing close to 4 million watch movements per year. If this were to be suddenly reduced to 1 million movements, about 700 skilled workers

would immediately be thrown out of work—in an area where urgent need and public policy call for an upgrading of skills. The Virgin Islands economy would be deprived of nearly \$2 million in payroll—an amount that would have adverse repercussions through the islands entire economy. Most of the small, independent watch manufacturing firms in the islands would be driven out of business, and their investment—made in good faith in accordance with Federal and local governmental policy—would be lost. Outside the islands, the firms that have undertaken to supply components for watch production, and the U.S. purchasers who are depending upon Virgin Islands producers for their supply of watches, both would be seriously hurt.

Any significant enforced cutback in this industry also would have most serious consequences for the future development of other industries in the insular possessions. We gather that the committee has no thought of reversing the basic policy, embodied in section 301 in 1954, of encouraging economic development in the insular possessions. However, if this present bill should force a cutback in the the Virgin Islands watch industry, its obvious effect would be to discourage all potential investors from establishing other manufacturing industries in the insular possessions. The clear lesson would be that as soon as industry has any degree of success, the Congress will insist upon its substantial elimination from the insular possessions.

We therefore believe, as I have indicated, that the committee would be best advised to defer any action on H.R. 8436 for the short period remaining before President Johnson is likely to make his decision on the basic watch tariff question. If action on this legislation cannot be postponed, we believe that the Virgin Islands quota should permit continuation of watch production in the islands at present levels. Finally, if the bill is amended to require any reduction in current Virgin Islands watch production, we believe that, at a minimum, basic considerations of fairness require that the quota become effective no earlier than about 6 months from now, to permit orderly adjustment within the industry.

Thank you.

Senator ANDERSON. You used the word "manufactured" a great many times. Do you agree with the other witnesses that there are no watches being manufactured in the Virgin Islands?

Mr. LAZRUS. No, sir; I do not. I believe that, in the watch industry, assembly is in fact a form of manufacture.

Senator ANDERSON. Thank you very much.

We have got three witnesses to finish. Would you rather stay and finish now, or would you rather come back this afternoon at 2:30? We will put in the record a statement by Hon. Hiram L. Fong, a Senator from Hawaii, and statements submitted by Allen V. Tornek, a New York watch importer.

(The statements referred to follow :)

STATEMENT OF U.S. SENATOR HIRAM L. FONG (R-HAWAII) BEFORE SENATE FINANCE COMMITTEE

Mr. Chairman, Members of the Finance Committee:

I appear before you today to voice my opposition to H.R. 8436.

As passed by the House of Representatives, H.R. 8436 would impose a duty upon watches, clocks and other timing devices produced with the use of foreign materials in two American Territories—Guam and American Samoa.

The bill, however, would exempt another American Territory, the Virgin Islands, from this duty.

The Virgin Islands are granted a privilege; Guam and American Samoa are denied the very same privilege.

It is obvious that the bill favors one American Territory and treats two other American Territories unfavorably. Guam and American Samoa are discriminated against and are subject to duty on their watch exports. The Virgin Islands are favored and are not subjected to such duty.

For all practical purposes, H.R. 8436 would stifle attempts by the governments of the U.S. Territorial possessions in the Pacific to establish a profitable industry, but would in effect subsidize the watch industry in the Virgin Islands by exempting this Territory from the importation duty.

The justification for this flagrant discrimination is the contention that the Virgin Islands alone among the Territories had a viable watch industry at the time H.R. 8436 was introduced.

However, this rationale overlooks—or ignores—the fact that the Territorial governments of both American Samoa and Guam had been negotiating with American watch firms to establish a watch industry in their respective Territories at the time this bill was introduced.

In fact, Guam already has five plants in operation with an estimated annual production of close to two million watches and with a total employment of 149 persons.

American Samoa does not have an established watch industry because upon introduction of H.R. 8436, the Governor of that Territory felt constrained to discontinue negotiations with representatives of the watch firms until the Congress had had an opportunity to act on the bill. As a Federal official, the Governor of American Samoa decided that he could not actively support the watch industry by acquiring land for it, nor by limiting his taxing and quota-imposing power over it, while the issue of watch importation duties was pending before the Congress.

This voluntary act by the Governor of American Samoa now stands to be penalized under the proposal by the other House of Congress.

On the other hand, the Governor of Guam does not possess any quota-imposition power, and he does not have to intercede to acquire land for any mainland firms desiring to establish an industry on the island. Consequently, the Governor of Guam was not faced with the dilemma that confronted his colleague in American Samoa, and was able to proceed with plans to establish a watch industry on the island in order to solve some of its pressing economic problems.

This fledgling industry has helped to alleviate the underemployment problem among young Guamanian women, and to infuse needed capital into the Guamanian economy.

The imposition of an importation duty on all watches containing foreign parts assembled in Guam would therefore be a serious economic setback for Guam.

I was pleased to note that this Committee has to some degree blunted the discriminatory edge of H.R. 8436. Under your proposal, Guam and American Samoa would each be permitted to export, free of duty, a certain number of timing devices under a quota which they would share with the Virgin Islands.

I hasten to add, however, that I was dismayed over the low ceiling imposed upon the importation of duty-free watches from our Territorial possessions. The annual quota of 1.5 million watches proposed by this Committee is only 4.4 per cent of the total consumption of watches in the United States in 1965. Moreover, since the quota is a fixed number, the proportion of the U.S. watch market allotted to the Territories would decrease steadily as the total consumption of timing devices in the country increases.

Thus, if the total consumption of watches increases at an average rate of 1.95 per cent a year—as it has in the past six years—the 1.5 million quota would be a mere 3.94 per cent of the market in 1970. This would mean a loss of 0.46 per cent of the watch market every five years, assuming that the average rate of increase remains constant.

This method of writing into law an inflexible, absolute number is, I believe, unfair and impractical, and the small number fixed as a quota is unrealistic.

Therefore, I respectfully submit the following two suggestions to this distinguished Committee.

First, I would recommend a flexible method of establishing a quota. Instead of an absolute number fixed at 1.5 million, I would suggest a quota based on a percentage of the total yearly consumption of watches in the United States.



Under the percentage method, the *proportion* of watches to be imported duty-free from the insular possessions would not be variable, but the *total* number of watches would correspond to the variation in the domestic consumption of watches.

Thus, the percentage method would permit the watch industries in the Territories to grow and expand as the total consumption of watches increases. It would prevent the watch industries of these U.S. possessions from being a static one and relieve Congress from the responsibility of periodically adjusting the level of a fixed, absolute quota.

The economies of our Territories would benefit from the existence of a strong, viable industry. As islands, their natural resources are limited, and they must rely principally upon tourism and Federal and military expenditures for their income. Additional means of providing employment opportunities and sources of income are essential, and the watch industry appears to be a promising solution in this regard.

Without a doubt, the more economically self-sufficient our Territories are, the less dependent they will be on the Federal Government for economic assistance.

Secondly, I would suggest that the quota level be raised to  $\frac{1}{6}$ , or 16 $\frac{2}{3}$  per cent, of the total U.S. consumption of watches. This means that, based on the 1935 U.S. consumption of approximately 34.4 million watches, the Territories would be able to export duty-free into the U.S. 5.73 million watches in 1936.

I believe that this quota— $\frac{1}{6}$  of the total consumption—is fair and equitable. I also believe that the proportionate percentages of 67, 22, and 11 designated by this Committee for the Virgin Islands, Guam and American Samoa, respectively, are reasonable. I do not recommend a change to this formula.

However, I do believe that the inflexible quota of 1.5 million is not fair.

Under this quota, the Virgin Islands would be subjected to severe hardship. It would require the Virgin Islands to cut back from a production capacity of 3.6 million which it achieved in 1935, to 1,005 million. This would involve a loss of approximately \$13.57 million in income for the Virgin Islands.

The Committee formula would also limit the production capacity of Guam to 330,000 watches, a mere 18 per cent of its present estimated capacity of 1.8 million.

On the other hand, the  $\frac{1}{6}$  formula would not drastically affect the Virgin Islands or the Guamanian production capacity. Based on the 1935 domestic consumption, the Virgin Islands and Guam would be able to export duty-free to the U.S. 3.84 million and 1.26 million watches, respectively. Thus, for this year, the U.S. possession in the Caribbean would be able to expand its production capacity, while Guam need only limit its production by 540,000 watches, instead of 930,000.

Moreover, the 16 $\frac{2}{3}$  per cent formula would permit American Samoa to establish a watch industry which could contribute substantially to its economy. Instead of a fixed production capacity of only 165,000 as proposed by the Committee formula, American Samoa would be able to begin at the level of 630,000 watches and expand from there.

Mr. Chairman, by permitting 16 $\frac{2}{3}$  per cent of the total domestic consumption of watches to enter the U.S. duty-free annually, the American economy would hardly be damaged. Admittedly, it would have some effect upon those domestic companies which produce low- or medium-priced watches, since the Territorial watch industries would largely export inexpensive watches. However, this effect would be more than balanced by the economic progress of our insular possessions.

A dynamic economy in our Territories would not only relieve the necessity for Federal assistance to these areas but would provide political and social benefits.

Prosperity in the Virgin Islands would be particularly noted by the surrounding Caribbean countries and by the entire Latin American continent. Similarly, a prosperous Guam and a thriving American Samoa would be America's showcases for the underdeveloped areas in the Pacific and the Far East. These Territories would drive home to their neighbors the fact that American capitalism is not evil, but a good, sound economic system.

Prosperity in these Territories would promote the cultural and national ties between them and the U.S. mainland. Having more income, the Territorial citizen would have a greater opportunity to visit the mainland, of which he is a part, or to attend school there.

Intercourse between the Territories and the U.S. mainland would be a two-way flow of exchange, instead of the one-way flow of economic assistance and American tourists to these vacation spots. Thus, the chances for a greater degree of understanding between the mainlander and the Territorial citizen would be enhanced.

In conclusion, I believe reason, fair play, and justice require the revision of H.R. 8436. The Territories of Guam, American Samoa and the Virgin Islands need the watch industry in order to progress toward economic stability and prosperity. Impose a quota on the watch industries in these Territories, but impose one that would permit expansion of these industries and one that will provide an equitable economic return which will truly benefit the people of Guam, American Samoa, and the Virgin Islands. As Members of the United States Senate, we have a moral obligation to provide for the welfare of these Territories, as well as for the well-being of the States of this Union.

I respectfully urge this distinguished Committee to incorporate my suggestions in H.R. 8436.

Thank you.

#### STATEMENT OF ALLEN V. TORNEK

I am an importer of foreign watches and watch movements which pay full duties to the United States Treasury, equivalent to 100% ad valorem more or less.

I object to the discrimination exercised by United States Customs in permitting largely Japanese watches and watch movements to come into the United States via our insular possessions, free of duty and free of marking as to origin.

For every watch movement which costs roughly \$3.25 in Switzerland, France or Western Germany, the United States duty is roughly \$3.37. Foreign watches coming into the United States mainland from our insular possessions escape this huge duty.

In 1930, the United States Congress legislated Section 301, then known as the insular possessions inducement to manufacture. The purpose was to give benefits to the products of the insular possessions, by way of tariff escapement. The purpose was not to benefit a foreign nation to use the insular possessions as a shield to bring the foreign nation's product into the United States mainland free of duty and free of marking as to origin.

For nineteen years, the old Section 301 lay more or less dormant in usage. Everyone took Congress at its word, and felt that a product of the Virgin Islands meant a product of the Virgin Islands.

On March 18, 1959, Customs issued Treasury Decision 54,821(2), which appeared in Treasury Decisions Vol. 94, April 2, 1959 No. 14, Page 9. This decision, which is apparently the only printed regulation or decision on the subject, permitted watch movements, to be brought into the Virgin Islands "not in the entirety" and to be subject to the free tariff and free marking treatment. In other words, this decision, and not Congress, made "sham" manufacture possible. Under this decision a watch movement could be completed in Japan, timed, regulated, and completed, and then remove the barrel assembly, and shipped to the Virgin Islands in two separate shipments, so that same would not arrive in the Virgin Islands in an entirety.

The sole test should be whether the product is a product of the Virgin Islands. Obviously, the Virgin Islands watch is not a product of the Virgin Islands.

a) In 1962, an article in the New York Daily News, General Omar Bradley complained of Russian watch movements coming into the United States mainland from the Virgin Islands free of duty and free of marking.

b) In 1965, Mr. Sinkler, President of Hamilton Watch Company, referred to the Virgin Islands watch, as reported in the magazine "Business Week" as obviously a foreign watch, entering the United States, free of duty, through a tariff loophole. (I contend that it is not a loophole, but Customs has legislated for Congress, by reason of ambiguities in the original Section 301.)

c) On March 7, 1966, the Official Transcript of Proceedings Before the Federal Trade Commission, Ward & Paul, Inc. official reporters, reveals the following:

The witness was Mr. Ben Paul Noble, of Noble and Barnes, Esqs., attorneys for Waltham Watch Company. (Mr. Noble is an authority on the watch

industry.) The interrogator was Hon. Mary Gardiner Jones, a Federal Trade Commissioner, and who as Government Counsel procured the decree against watch cartels.

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"Mr. NOBLE. I understand, it is my understanding that the training required in order to assemble the components sent from the foreign countries is nominal—involves finger dexterity. The employees are normally women and somewhere in the neighborhood of 12 to 15 employees can produce on an assembly line somewhere in the neighborhood of 5,000 watches a month."

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"Mr. NOBLE. What is involved in a pre-assembly might be of interest here. You see the watches are really manufactured—and let's face the fact there is—there has been a loophole in the Tariff Act. The question is whether or not it should be closed. They are really assembled in Japan, they are really assembled in France, they are really assembled wherever the parts come from."

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"Commissioner Jones \* \* \* I agree with you, I think those watches are manufactured in France or Japan are broken down. \* \* \*"

(You will please note that the Federal Trade Commission has made an inquiry into the problems set forth in this letter and that they possess a complete report, which was garnered for them by their staff, particularly, James Trodden, Esq.)

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Commissioner JONES. " \* \* \* I suggest to you that the kind of assembly operation you are describing, in the Virgin Islands, doesn't permit us to think of manufacture in the Virgin Islands."

In additional summary of the above, at Page 208, Mr. Noble contradicted one of the Virgin Island proponents and said that it is impossible under the system for sub-assemblies to come from different countries. He described the sub-assemblies as "A" and "B" and coming from the foreign countries in different forms of breaking down. (Obviously, a sub-assembly cannot be considered a "part".) He describes the nine procedures of Customs, and then erroneously attributes the requisite of these alleged nine assembly procedures for Virgin Island manufacturers to qualify for free duty treatment, to Congress. He states that of the two components, the only one on which procedures would be performed would be the one in the secondary class, containing the minor parts. He states that the "guts" of the watch movement is imported.

To pass Customs, the so called Virgin Island manufacturers must show that 50% of the product's value is enhanced in the Virgin Islands with labor and materials indigenous to those islands.

At the bottom of Page 209, at the above Federal Trade Commission hearing, Mr. Noble states:

"I submit that frequently this is accomplished by merely lowering the price to the consumer, and in most cases, but not in Waltham's, the American consumer, and in most cases, but not in Waltham's, the American consumer would be the parent corporation of the Virgin Islands corporation."

(The fact that all these shipments are generally made from the Virgin Island producer (if he can be called such) to the American mainland parent, should be of interest to the Anti Trust Division of Justice, and should be brought to the attention of Mr. Nicholas deB. Katzenbach.)

d) The Japanese Watch and Clock Association issued a statement to the Federal Trade Commission at the March-7, 1966 hearings, and on page 8 they stated,

"Components shipped for assembly abroad are reported in the statistics (for export) in terms of complete watches." A percentage of the watch movements sold to the Virgin Islands are admitted by the Japanese to have been completed for testing purposes.

It is respectfully submitted that U.S. Customs has no method of checking as to whether all movements are not completed in Japanese factories, and then disassembled in a minor fashion so as to comply with the Virgin Islands conception, created by U.S. Customs.

(Recently, a similar process as to what is going on in watch movements, by the Japanese, was brought to public attention on June 21, 1966 by an article in the

Daily News Record, a textile trade newspaper, indicating that the American button industry is being annihilated by insular production of Japanese button blanks.) (Cresthill Industries vs, Fowler et. al.)

Duty avoidance or duty evasion is now a means of unethical competition in world trade, and in some cases can annihilate American industry, or regular world wide channels of trade overnight. This Virgin Island situation must be an example.

e) Henry Margolis at the time of testifying was Chairman of the Board of Elgin National Watch Corp. of Elgin, Illinois, which latter company owned Master Time Corp., a Virgin Island subsidiary. Governor Palewonsky of the Virgin Islands appointed a "Committee to advise the Government of the Virgin Islands." Since no skills were involved in Virgin Islands production, and the importation was of the nature here described, a hue and cry was rising among American importers and manufacturers. Virgin Island production of watch movements could be increased at will, depending on the availability of the Japanese product, and the Japanese, as good businessmen were available. From 500,000 pieces per annum, the Virgin Island production jumped to about 3,500,000 pcs. The Virgin Island production of watch movements consists of lever movements, and the annual United States consumption of lever movements is about 11,000,000 movements. (The bulk of U.S. consumption, of an additional 25,000,000 pcs. is in the low cost pin lever category.)

Hence, the threat of inundation, and eventual termination of the alleged Virgin Island loophole (I call it an illegality) was imminent. The profits in the Virgin Islands business at the expense of the United States Treasury, together with tax exemptions was inordinately huge, and those concerned in the Virgin Islands wanted to control their growth and their huge profits, before same would be taken away. Hence, the hearings. Myer Feldman, Esq. was appointed Chairman. The first hearings were held in Room 4616, Department of the Interior Building, Washington, D.C. on Thursday, May 27th, 1965.

At page 24, Mr. Henry Margolis testified.

Mr. MARGOLIS. \* \* \* Master Time is controlled by the Elgin Company as such we wear two hats.

I would like to state to this Board that using that famous "emperor wears no clothes" set up, there is no real watch industry as recognized throughout the world in the Virgin Islands. All efforts there, all competitive features work within tax duty. That is known to everybody in this room.

No parts are manufactured there. No complete assembly is made except in minimal amounts.

We find the domestic watch industry under great threat of extinction.

We find that our production of necessity has been lowered.

\* \* \* We have said put us out of business in the Virgin Islands. It certainly doesn't indicate any particular self interest; and frankly we make more on the watch movement there, than we would in domestic production. But if it is the purpose to completely wipe out the domestic industry, you couldn't do it better than this runaway production in the Virgin Islands.

"The rate is running practically at 4 million units. \* \* \*"

"In a sense, it is unfair to Switzerland, Germany, France, or this whole principle that we have in President Kennedy's attempt to lower tariff all over the world." (Page 26 of the aforesaid minutes.)

Chairman FELDMAN. I say there isn't any unfair competition of any kind between the Virgin Islands and Switzerland?

Mr. MARGOLIS. I believe there is.

Chairman FELDMAN. What?

Mr. MARGOLIS. The Swiss are confined to sending their products through a tariff structure.

Mr. GASS. They can send them to the Virgin Islands.

Mr. MARGOLIS. They can send—

Mr. GASS. Components.

Mr. MARGOLIS. Not a product of the Virgin Islands. You buy subassemblies there; you don't buy individual parts. And there is no place other than the Virgin Islands, where they don't make parts, or at the very least assembled a complete movement from scratch.

Were you to do that in the Virgin Islands, you would have an industry, at least an assembly industry. This way you just have a method to beat \$3.37 (U.S. duties) or \$2.70 of a tariff structure.

Mr. GASS. Is that what Master Time does in the Virgin Islands?

Mr. MARGOLIS. We do what everybody else does. We bring subassemblies from other countries and send them into the United States, like every body else."

Mr. MARGOLIS. " \* \* \* People there (Virgin Islands) don't poise balances; they don't have to. These are the so called skills of the industry. There are very little skills involved in the Virgin Islands in the so-called watch industry."

Page 30—Mr. Margolis speaks of the three American manufacturers of lever movements and mentions Bulova, Elgin and Hamilton, and proceeds:

"But what you have is a situation that there is nobody in the United States that is doing what is being done in the Virgin Islands—but nobody.

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Mr. MARGOLIS. Well let me give it to you in this form: Antilles we are told employs 70 people.

Mr. GASS. All right.

Mr. MARGOLIS. And they are working at the rate of 600,000 units a year. No single American firm is producing that at this particular point, and we employ twenty times that number of people. \* \* \*

Mr. MARGOLIS. Producing? They are assembling from subassemblies in what we term not adding watch skills. This can be done. They train inexperienced labor to do some screwing and timing.

Mr. GASS. I see.

Mr. MARGOLIS. This (Virgin Islands) is not a watch industry in that part, either from a manufacture of the parts or even the subassemblies, the important subassemblies."

So the Virgin Islands Assembly or Legislature under the guidance of Governor Palewonsky set up a quota system. Twice, the United States District Court ruled this system to be unlawful. The actions were brought in the United States District Court for the Virgin Islands. Judge Walter A. Gordon rendered the decisions.

The plaintiff in each of these cases was Virgo Corporation, a subsidiary of U.S. Time Corp., manufacturers of the popular brand "Timex", and probably the largest watch company in the world. The defendant was Governor Palewonsky. The case bears Index No. Civil No. 165—1965.

At page 6, Judge Gordon states:

"Preliminarily, the Court will not decide the motion of the plaintiff for summary judgment on the constitutional issues raised, The issue with regard to improper influence upon the governor, or the issue of arbitrary action on the part of the governor."

"The motion of the plaintiff is granted \* \* \*."

Hence, there are no quota restrictions on Virgin Islands or other insular possessions alleged production of watch movements.

f) The United States Department of Labor conducted a wage and hour investigation into the Virgin Islands and rendered their report entitled "Industries In The Virgin Islands" September, 1965, United States Department of Labor, Data Pertinent to a review of minimum wage rates established under the Fair Labor Standards Act in selected classifications. Pages 32 through 37 deals with the watch industry and Exhibits F16 through F19 shows the profits in the enterprises. The labor force involved is small about 500 persons only. Hence, the hardship, if any, is on those avoiding the United States Tariff duties. The report shows the relationship for anti trust purposes of each firm with its mainland parent, and further reflects upon the methods of determining values, i.e. the 50% per centum of foreign materials.

Under these circumstances, and in view of the similarities with the button situation (Cresthill Industries vs. Fowler) it is believed that an attempt is being made by foreign countries to use our insular possessions to gain a material competitive advantage, i.e. the avoidance of American tariff duties.

This admitted subterfuge was never intended in 1930 when the United States Congress passed Section 301 to grant tariff relief to our insular possessions.

No one can truly object to the treatment of products truly manufactured in the Virgin Islands or other insular possessions, receiving restricted preferential tariff treatment. One must consider that Section 1202, General Headnote 3 A, Title 19 (formerly Section 301) places our insular possessions as outside our Customs territory. By means of their special status, our insular possessions, enjoy, the privileges of their own governmental control, and do not have the same burdens as the 50 states, nor are they part of our interstate commerce. Even in high.

places, it is sometimes forgotten that our insular possessions are not subject to the same laws as the states. Parts, which could enter our insular possessions duty free, cannot enter the 50 states without paying regular United States Customs duties. By reason of the duty set up, the same process which is being consummated in the Virgin Islands could not happen in the 50 states, as the American duties on parts would prohibit such practice. Hence, for its subterfuge, the Virgin Islands and other insular possessions have a unique advantage.

It is obvious from the testimony quoted that the watch movements imported from the Virgin Islands and other insular possessions is not a product of the Virgin Islands nor of the insular possessions. Present procedures, established by Customs, creates discrimination in favor of certain foreign products against that of domestic manufacture and regular channels of world trade.

Congress must close the "loophole" or the illegality or get Customs to do so. This can be done by truly defining what is a product of an insular possession. It can also be done by quotas related to population and labor force. For example, the population of the Virgin Islands is estimated to be about 33,000 persons. The watch industry labor force in the Virgin Islands is estimated to be about 500 persons. (See U.S. Department of Labor statistics aforementioned.)

Evasions, avoidances, illegalities, subterfuges, and or shams should not be permitted, nor should the smart few, by pressures or otherwise, advantage themselves over the normal course of trade channels, by cunningly having discrimination exercised in their favor.

We need economic alertness to protect our economy from these so called loopholes.

#### SUPPLEMENTARY STATEMENT OF ALLEN V. TORNEK

1. My name is Allen V. Tornek. I am president of Allen V. Tornek Co. Inc., of 75 West 45th Street, New York City.

2. We are importers of watches from Switzerland.

3. We object to the imports from the Virgin Islands of largely Japanese watches, free of duty and free of marking, so that they give the appearance of having been made in the United States.

4. The Virgin Islands is an insular possession of the United States. It is unincorporated, and enjoys the same status as the Philippines, prior to the independence of the Philippines. The Virgin Islands is not subject to interstate commerce. It is outside the United States territorial customs.

5. Duties on subassemblies coming into the Virgin Islands are about 6% ad valorem. Duties on parts coming into the United States are about 55% ad valorem. In addition Virgin Islanders may be entitled to some rebates on their 6% duty. In short, what is going on in the Virgin Islands could not happen under the laws of the United States mainland. There is no loophole, no escape from paying duties on foreign watches coming to the United States mainland, except through this insular possession hocus pocus. To this end, I am a victim of economic discrimination.

6. The Virgin Island watch is a foreign watch. The price of the subassemblies at Tokyo, Japan imported into the Virgin Islands and the price of the completed identical movement in the same place, are almost the same. The difference is very small. Hence, the Virgin Island alleged production, is more or less an attempt to beat a loophole in the tariff laws. A tax loophole and a tariff loophole are two different things.

7. The amount of labor utilized in the Virgin Islands varies. In May, 1965 or thereabout the U.S. Department of Labor claimed there were 474 employees in this industry in the Virgin Islands. There are now reported, as of last week, 647 employees. Currently, about 5,000,000 pcs per annum are coming in from our insular possessions through the loophole (really an illegality) free of duty and free of marking as to country of origin. The loss in duties is roughly \$15,000,000.00, and the loss in income taxes by reason of exemptions is another \$3,000,000.00. The total loss to the U.S. Treasury is about \$18,000,000.00 per annum or an antipoverty award to each of the Virgin Island employees of about \$20,000.00 per annum.

8. Please note that the tax exemptions are real. These funds are not repatriated to the United States. They go to either foreign countries for expansion or to the purchase of other assets outside of the mainland U.S.A. These are not repatriated funds. The real tax exemption of 75% of 48% or 36%, and it is real and actual and not 4.3% as someone indicated.

9. The practices are monopolistic in that most Virgin Island firms sell their products to mainland parents. The middleman, such as the writer, is deprived of an opportunity to do business by this monopoly.

10. In view of the above, the net effect on the United States Treasury, if the privileges under General Headnote 3a, Section 1202, Title 19 would be abolished would be as follows:

- a) The United States Treasury would get \$18,000,000 per annum.
- b) There is no labor shortage in the Virgin Islands and the 647 laborers would be otherwise employed.
- c) Any real watch industry, if any, would remain in the Virgin Islands.
- d) The American economy gains nothing from the Virgin Islands watch industry as the profits are never repatriated.
- e) There will be an end of discrimination, and a new air of mortality in abolishing a loophole and or an illegality.
- f) There will be a benefit to American manufacturers. All American manufacturers, Hamilton, Elgin, Bulova and United States Time who manufacture lever movements (which is the only type coming from the Virgin Islands) are in agreement as to the abolition of the Virgin Islands escape from duty and marking as to origin. Hamilton testified that it could fire 600 employees at Lancaster, Pa. and substitute 60 employees in the Virgin Islands at lower hourly rates and under the present law produce the same.
- g) Trade will be increased with Japan and Switzerland both of which countries give the United States a favorable trade balance. As an importer my business will be improved.

11. In conclusion, the abolition of the privileges under General Headnote 3a, Section 1202, Title 19 would be beneficial to the United States Treasury, the moral reputation, internationally, of the United States as a country without economic discrimination and would create greater respect for law and order.

Senator ANDERSON. We will adjourn until 2:30 this afternoon in this room.

(Whereupon, at 12:30 p.m., the committee was recessed, to reconvene at 2:30 p.m. on the same day.)

#### AFTERNOON SESSION

Senator BENNETT. Ladies and gentlemen, we will resume our hearings. According to the schedule, we were now to have heard from Harry Aronson of Waltham Watch, but did I understand Mr. Aronson is not going to be here?

Mr. NOBLE. No, sir, I will present his testimony.

Senator BENNETT. And your name is?

Mr. NOBLE. Ben Paul Noble.

Senator BENNETT. Mr. Noble, will you take the chair and give your name to the reporter?

#### STATEMENT OF BEN PAUL NOBLE, ATTORNEY, REPRESENTING THE ASSOCIATED WATCH COMPANIES OF GUAM; ACCOMPANIED BY ANDREW M. R. BARNES

Mr. NOBLE. Senator Bennett, my name is Ben Paul Noble, and today I represent the Associated Manufacturers of Guam. The association at the present time consists of four watch producers on Guam. There are five applications, some of whom I believe, at least two, are ready, willing, able and licensed to go into watch production on Guam, and to the extent that their production is curtailed, it has been curtailed in the last 30 days or so by the pendency of the matter at hand here today.

With due deference to Mr. Riddell, who spoke for the sister insular possessions currently engaged in the watch business, there are two of us wearing American hats here today. I am one of them. As a matter of fact, I broke my leg last week putting it on.

The watch industry of Guam came into existence shortly before the first of this year, the first company going into production and actually in production during 1965 being the Stratton Watch Co. Since that time three other companies unconnected with the American watch industry, except in that they sell to the trade, have gone into production on Guam. The names of those companies are Phoenix Industries, Westminster Time, and Maro, Inc. In addition, Hallmark, Inc., a locally owned subsidiary of the Waltham Watch Co. of Chicago, Ill., commenced an operation on Guam earlier this year.

I am thoroughly familiar with the situation of the Waltham Watch Co., and a good bit of what I have to say here today will be based upon my knowledge gained over the years of that company's operation and its fluctuation with trends in the watch industry generally.

Such information as I have collected in the short period of time available to me to prepare for this hearing, because of the shortness of the notice and the length of communications to Guam, have been assembled at random and are not quite what I would like to have, and I submit that if more basic and detailed information as to production may be required by the committee, I will be happy to furnish it in a memorandum or other form at any time.

Senator BENNETT. Mr. Noble, at this point I have been handed the copy of the statement prepared for Mr. Aronson. Are you going to read that or are you going to put it in the record?

Mr. NOBLE. No, sir. I would like at this time to move that the statement prepared by us in behalf of Mr. Aronson be included in the record of the proceedings. I should like to further request that a supplemental statement furnished me just this morning by Phoenix Industries, of which I have just 4 or 5 copies, and will submit at this time, be included in the record, and I request permission to furnish the additional 50 tomorrow.

Senator BENNETT. Both requests are granted, and the statements will appear in the record at the conclusion of your presentation.

Mr. NOBLE. Thank you, Mr. Bennett.

Now the question may be asked by the committee why, with the Virgin Islands operation, did Waltham or anyone else go into business on Guam. Naturally all of them went there in one form or another, they were motivated by profit, or by profit engaged in the competitive forces interplaying in the watch industry.

However, what has not been brought forth today is that when the vested interests, who had arrived first in the Virgin Islands, succeeded in prevailing upon the legislature to enact a quota restricting production in Guam, other companies were unable to get there, and they had to go to the only place they could, that being Guam or Samoa. Waltham went to Guam.

Senator BENNETT. May I interrupt you again?

Mr. NOBLE. Yes, sir.

Senator BENNETT. You said a minute ago they were restricted by quotas on Guam.



Mr. NOBLE. On the Virgin Islands, I am sorry. Now Waltham did not go into Guam originally, although the Guam-type product lends itself, I mean the Virgin Islands-type product lends itself very well to the Waltham area of the consumer market, one area of it.

It did not do so because at the time the Waltham Watch Co. was engaged in matters before the Federal Trade Commission, and those matters took precedence in legal advice given them with respect to the entry of Waltham into an operation on Guam.

When those matters cleared up, and it became apparent that marking a country of origin was not a problem for the industry in the Virgin Islands, Waltham was forced by competition to buy there and ultimately, in order to compete, because it was buying from competitors at a price, and buying in a sellers market, Waltham was consequently forced to go into Guam.

It projected its venture some time during 1965, had expended money in the investigation and research preliminary to embarking in the enterprise on Guam during 1965, and did not actually go into operation, however, until after the first of this year.

Now in our statement and for purposes of my testimony in behalf of the group, it is our recommendation, No. 1, that it is quite apparent that the subject matter being inquired into here today by this committee is complex and requires investigation and study, and to some extent expert advice above and beyond the opinions of biased witnesses, in order to aid the committee in forming judicious conclusions as to what, No. 1, is a quota necessary, and if so, in what amounts should it be fixed and how shall it be allocated?

For this reason we recommend that this committee continue these hearings until some time within the next 2 months, during which, on advice given us just last week by well-informed sources in the Executive Office, two studies being prepared relating to the subject matter of this bill are submitted to President Johnson.

Those two studies are, No. 1, the report of Mr. Herter's office on the report of the Tariff Commission to the President. The Tariff Commission's report is very detailed and exacting factually. It makes no recommendations as to whether or not a general tariff rollback or rollback of schedules governing duty on watch movements should or should not be made.

It collected the facts upon which the President will make that determination. The President, in turn, referred that report to Mr. Herter's office. Mr. Herter's office has been studying the report for well over a year, and has not yet made its recommendation. We understand that it will be made, and this is on reliable Executive Office authority, within the next 2 to 4 weeks.

In addition, the Office of Emergency Planning has under advisement a report and study which it has been asked to make by President Johnson, bearing upon the national defense implications of the domestic watch industry.

My same source of information in the Executive Office advises me that this report will be forthcoming within 2 to 4 weeks. It is for this reason that, No. 1, the industry in Guam requests that the committee defer and continue these hearings until the information and studies available in those reports are available to the committee, be-

cause any action taken upon those reports will have a substantial effect upon the matters before this committee relating to the determination of a quota and the amounts of a quota.

Secondly, if, on the other hand, for reasons of public policy unknown to me and beyond the comprehension of my suppliers of knowledge and information in this area, to wit, the industry on Guam, the watch industry, and the Waltham Watch Co., an interim quota during the next 12 months should be fixed, and I submit it is in the discretion, sir, of you and your other members of the committee to decide whether such public policy must control these issues. I wouldn't presume to usurp your prerogative in that area. I can say simply that the facts and knowledge available to me through the industry would not compel me to believe or recommend that any action be taken before the studies available or to become available are available to you.

But, if I am mistaken and public policy governs stronger than a determination to wait and study, then I submit to you, sir, and to the members of the committee, that the minimum quota that should be allocated to Guam, irrespective of the overall quota allocated to all three of the insular possessions, must be in no less amount than 2½ million units for the next 12-month period.

Now this is based upon the production projects and the investment in capital of the five people who are already producing in Guam. The investment in Guam of the five people for whom I primarily speak here today is in excess of \$2 million. They have projected through 1966 a production in terms of watch movement units of 2,120,000. When I say they have projected that production, I mean to say that they have committed themselves by placing orders for parts to be assembled in Guam, in France, in West Germany, and in Japan to the extent that 2,120,000 units will be produced this year, based on orders, supply orders, and delivery requirements.

Senator BENNETT. Do I understand, Mr. Noble, as I understand you, this figure represents the orders that have been placed with the suppliers of parts. Are you telling the committee that processors on Guam, assemblers have firm sales orders approximately equal to this amount?

Mr. NOBLE. Yes, sir.

Senator BENNETT. In the United States?

Mr. NOBLE. Yes, sir. The Waltham Watch Co. alone has committed itself to \$2 million in watch parts during the 12-month period beginning in February or March.

Senator BENNETT. I am not talking about what you have committed in terms of buying. I am talking about sales that you already made, or firm orders.

Mr. NOBLE. Sales that will be made, if it please the Senator, the people that I represent in the industry have underestimated their sales for the last 4 years. The industry has grown by leaps and bounds. The Tariff Commission report indicates and reflects that total apparent watch consumption in the United States in 1965 increased over that in 1964 by 25 percent.

Senator BENNETT. You are talking potential. I am talking about orders on the book. In other words, I think the committee would

like to know whether there are firm orders which would have to be cancelled if this quota were not——

Mr. NOBLE. Yes, there are. I can answer that without equivocation, yes.

Senator BENNETT. This has no relation to the potential market. This is the question of a figure on somebody's books.

Mr. NOBLE. Now in connection with the 2.5 million which I want to point out that even that figure permits no room for expansion of the industry, and that question involves a collateral determination based on other facts. Even that figure allows no room for expansion of the industry, and as I pointed out, there are five applicants already seeking to produce watches on Guam.

In addition, Waltham's experience based on studies made by its research economists indicate that a company, in order to profitably produce on Guam, some 8,000 miles from the mainland, even with the tariff sales, the production rate must achieve 300,000 units per year. A contemplated allocation of tariff in H.R. 8436 to Guam is 330,000. There are now five producers there. Obviously, none of them could make a profit unless they could consolidate into one company, which I doubt that they would do.

All of them would leave the island and take their losses, because a production figure has definitely been determined by Waltham, and I assume it would be the same for the other companies, which establishes 300,000 as the production rate at which profit becomes attainable through the production.

Now, one of the companies on Guam is producing this year, and will produce in 1966, that 300,000, that is the original company, the Stratton Watch Co. The Stratton Watch Co. will have by the middle of this year, according to our information by next month, approximately 75 employees on its payroll. The Westminster Timer Clock, another member of the association, now has approximately 34 employees on its payroll, and its projects would double that figure by the end of this year.

The Waltham Watch Co., which was the last of the four to get started, the fifth having started just recently, so Waltham was the next to the last; the Waltham Watch Co., already has 15 people on its payroll, and by the end of the year would have between 65 and 75, and I presume, and I do not have the information, because of the communications problem, that the Maro Watch Co.'s figures on production and employment would be approximately the same.

Now the companies have an aggregate investment of well over \$2 million. The payroll for the year is estimated by the four companies for whom I am speaking today in excess of \$600,000. The number of the employees approximates 200 for the year.

Now, unlike the Virgin Islands, there is no other industry on Guam. Guam is a single engined military economy driven by the military. I am informed that the labor force there is adequate and ample. As an illustration, and I would like to submit for the consideration of the committee and introduce into the record these photographs which were brought in by the Phoenix Industries——

Senator BENNETT. We have no facilities for producing photographs in the record.

Mr. NOBLE. I see.

Senator BENNETT. If you want to submit them, they will go in the committee files.

Mr. NOBLE. I will submit them for the scrutiny of the committee, should they be interested, sir.

Senator BENNETT. All right.

Mr. NOBLE. Now, these pictures will show the young girls that have been trained in the Phoenix plant along their assembly lines. I am told by Mr. Bruckle of Phoenix Industries that compared to the Virgin Islands, the labor force in Guam is extremely bright and intelligent, learns fast, and produces well in a comparatively short period of time.

Now, learning to produce a watch in the Virgin Islands and on Guam, is not as simple a matter as some testimony this morning would have indicated that it might be. It takes 8 to 10 weeks to train a girl to work on the assembly line, and she must be quick with her fingers and rather bright.

There is an overabundance of such labor in Guam, because there is absolutely no employment opportunity for the female labor force on Guam. I am told that women now earning from \$1.25 to \$2.50 an hour, or an average wage of \$2 in the plants now in operation, before the plants came into existence were making between 30 and 50 cents an hour.

Senator BENNETT. That is pretty high for wage rates along the coast of Asia, isn't it?

Mr. NOBLE. I suspect it is, but I think it is governed, sir, by our minimum wage requirements. I am not sure of that, but I am relating to you my information in this area. I do think Guam is covered by the minimum wage.

We submit then that if interests of public policy are persuasive and compelling, that any quota allocation to Guam less than 2.5 million units for the next 12-month period would not only be unrealistic but would be capricious.

The estimates of quotas that I have heard this morning, based upon percentage of the national watch produce or consumption product are equally arbitrary and capricious. It is for these reasons that we proceed to No. 3 in our recommendations, which is that even if an interim quota is necessary, an arguendo should be fixed at 2.5 million for Guam, then it is our studied opinion that this committee, and, if necessary, a joint committee of the House and Senate that would result in the determination of the final legislation should delegate to the Secretaries of the Interior and Commerce, for the same reasons earlier stated by another witness, the power to conduct hearings annually, to sift and hear evidence, and to determine aggregate quotas, No. 1, or (a); the allocation among the three islands of those quotas, (b) and the distribution of the allocations among the producers, (c), so as to get the entire matter away from what may be political influence involved in the distribution of quotas in the island themselves, to be handed fairly and impartially after hearings by a committee or board constituted of delegates under the delegation of power to the two Departments that I earlier mentioned, and it should be after hearings and taking evidence and making decisions based on that evidence.

SENATOR BENNETT. Is it your recommendation then that the present five producers on Guam be frozen and that no further people be allowed to come into Guam to produce watches?

MR. NOBLE. That is not my recommendation, sir. I believe the 2.5 million fairly allocated might enable, it certainly would enable the people now producing to meet their requirements. It allows the difference between 2,120,000 and 2,500,000, which is 380,000, for distribution among the others in an interim period of time pending hearings and reallocations according to my prior testimony, by the Secretaries.

SENATOR BENNETT. Obviously, if you give the Secretary the power to allocate, or the Secretaries, they must have the power to either admit or refuse to admit other manufacturers to come in.

MR. NOBLE. And I believe they should have that power, sir, because the watch industry is subject to trends and fluxes of which we have heard very little testimony today.

SENATOR BENNETT. In other words, you want the Federal Government to control the watch industry in the islands.

MR. NOBLE. I don't want that, but it has been suggested in the legislation that we are discussing.

SENATOR BENNETT. You have made three recommendations to this committee. No. 3 would set up the two Secretaries in Commerce and Interior after hearings, with power to allocate the right to make watches in all of the islands.

Now that must carry with it the power to admit or refuse to admit other manufacturers into the situation.

MR. NOBLE. I think it should include that power, yes sir, but these last two recommendations, may it please the Senator, were predicated upon determinations not yet made by this committee, based upon sound public policy in the exercise of the sound judicious discretion of this august body.

SENATOR BENNETT. You say you do this to prevent political influence coming in. Don't you believe the two Secretaries are political appointees of a political party?

MR. NOBLE. It was not involved in my conception of a public hearing by a Federal department that the hearings would in themselves be conducted by the Secretaries. I assumed that they would delegate that power under the legislation, and subject to standards prescribed in the legislation to authorize personnel in the two agencies.

SENATOR BENNETT. No matter how a Secretary delegates, in the end the Secretary is the man ultimately responsible.

MR. NOBLE. Granted.

SENATOR BENNETT. So you keep coming back to the fact that you are setting up a program which inevitably, and I am not talking partisanship, but inevitably has political possibilities, no matter which party is in power.

MR. NOBLE. Well, I suspect to an extent this is true, but I submit that it may be less true in the case of Federal agencies than it might be in the case of local agencies.

SENATOR BENNETT. Can you tell the committee anything about tax exemption privileges that exist for watch companies on Guam?

MR. NOBLE. Tax exemption privileges do exist. Four of the five present producers have such privileges. I can tell you no more because I am not familiar with the barest detail of the exemption.

Senator BENNETT. Is this income tax exemption?

Mr. NOBLE. It is corporate. Yes, it is income tax exemption.

Senator BENNETT. Does it correspond with the exemption granted in the Virgin Islands?

Mr. NOBLE. I would be guessing and I would rather not answer. I don't know, sir.

Senator BENNETT. All right.

Mr. NOBLE. Reflection upon the record debate on the House bill when this same bill was pending before the House sets forth that the reasons advanced there at least for fixing a quota or restricting production generally in the watch industry and in that bill eliminating the possibility of production on the insular possessions other than the Virgin Islands, that reported debate indicates that there were three basic reasons given for imposing the restriction of the one of them was a bare statement directly made that it was a tax loophole, that it was a loophole through which foreign producers were bringing goods into this country without paying a duty.

You have heard some comment on this point today, and I hope that I am adding something. A tax loophole, according to my understanding of it, is a device which is cunningly used to the advantage of a taxpayer and to the detriment of the general welfare or common good.

Senator BENNETT. This is not a tax loophole. This is a tariff loophole.

Mr. NOBLE. Right.

Senator BENNETT. And there is quite a difference between them.

Mr. NOBLE. I submit then, sir, that this tax loophole, and it is such a thing, is not a loophole in the traditional or commonly accepted sense of that phrase, because even though there is a loss of revenue to the country, to the Government, there is nevertheless a public good or general welfare created in the insular possessions as a result of that loss, and further we submit that the loophole was deliberately created by a predecessor to the present Congress, to bring about the very result that has finally be effected on the Virgin Islands, and which has commenced on Guam and may commence in the near future on American Samoa.

So, here we have the rather ludicrous situation where a predecessor Congress, after weighing evidence, intended to do what is now being done, and now we are reflecting upon the merits of what they started in the first place.

Senator BENNETT. We have a saying in Congress that no Congress can bind its successor.

Mr. NOBLE. I recognize this.

Senator BENNETT. And I think we wouldn't be here today if it isn't the impression of this Congress that what you call a loophole opened up the situation that carried the results far beyond those anticipated by the Congress that set up the situation.

Mr. NOBLE. I recognize the validity of the Senator's statement.

Senator BENNETT. So, we have the responsibility of sitting in judgment as to whether or not the loophole, so called, must be partially closed or brought under control.

Mr. NOBLE. Yes, sir.

Senator BENNETT. Lest it create a far greater problem than the problem we sought to solve when we opened this avenue.

Mr. NOBLE. Yes, sir.

Senator BENNETT. And that is the reason we are here.

Mr. NOBLE. Yes, sir, I understand.

Senator BENNETT. So, I don't think you can get very far with this committee arguing that it is ludicrous for us to consider the problem because a predecessor Congress opened the door to make it possible. The objective of the predecessor Congress was a general objective.

Now, when we face the concrete results of that action, we decide that maybe we had better look at it again to see whether we have created a situation far worse than the general objective we started out to create.

Mr. NOBLE. It was an ill chosen word. I beg the Senator's pardon. Ludicrous was not the best possible word. But, nevertheless, the intent of an earlier Congress may be frustrated by subsequent legislation being considered here today.

Senator BENNETT. Let's say it may also be corrected rather than frustrated.

Mr. NOBLE. And I trust that rather than being frustrated it will be corrected and adjustments made, taking into consideration the questions of fairness and equity based upon investments as well as other elements of public policy involved in your determination.

Now, the industry in the islands and on Guam, should it disappear completely for any reason, it has already been said by other witnesses that production would not be deflected to the domestic watch producers. It would result in swelling imports and consequently duties would be derived.

But, on the other hand, for every duty paid becomes a seller's cost, and every item in seller's cost becomes subject, and the duty included among them to the hidden elements of profit and overhead.

My information is that the average duty on watch movements being produced in the insular possessions is approximately \$3.50 per unit. Based upon that figure and upon other figures given me by the Waltham Watch Co., the extinction or termination of the insular industries would result in an increased cost of watches to the consumer ranging between \$4 and \$5 per watch, and certainly this factor should be considered by a Congress and by this committee concerned so as it is these days with the inflationary trends generally in our economy.

Senator BENNETT. Mr. Noble, you have had 30 minutes. We ordinarily don't accord a witness more time than that. Are you nearly through?

Mr. NOBLE. I will conclude here. I submit, No. 1, that Mr. Harry Aronson of the Waltham Watch Co. appreciates the courtesy extended in calling him out of turn and early, but nevertheless it was too late for him to meet an airplane schedule, and he did ask me to mention this fact to the committee and to apologize for not being able to stay. I had asked him to come and he broke up a sales meeting in order to do so.

The bulk of our testimony and other points which we think may be of interest are included in our written statement.

Senator BENNETT. Yes, it is already in the record.

Mr. NOBLE. Thank you.

Senator BENNETT. The Senator from Tennessee, did you want to question the witness?

Senator GORE. I have one question. I noticed a Waltham advertisement in a recent Life magazine. One of the articles lists Swiss and UCVI movement. Maybe you said this before I came in. Do you have an operation in the Virgin Islands?

Mr. NOBLE. We do not, sir. Before you came in I did say that until its operation was opened in Guam, the Waltham Watch Co. was forced by competition to purchase from Virgin Islands sources. That its experience there was not a healthy one for, No. 1, the better companies were probably maintained by domestic producers down there, and they consumed the entire inventory.

As a result Waltham had a quality control problem as well as a cost problem, which made it in a degree noncompetitive, and it could not get into the Virgin Islands when it made the decision to go into that area of the supply market because of the quota limitations that had been imposed by that time. Waltham had other problems and other considerations, which prevented it from going in early, so it could not join the vested interests, suffered competitively in a seller's market, and as a result went into Guam, where it is now, and where it plans to produce 330,000 units in the next 12 months, sir.

Senator GORE. I don't wish to delve into any of your trade secrets. I have been impressed when I heard from time to time the importation of foreign watch movements coming to \$3 or \$4 per unit, and it costs 45 cents or \$1 or something like that to assemble them, and yet I notice in your advertisement here, \$45, \$92.50, \$97.50. This must be a pretty good business.

Mr. NOBLE. I am happy to say that it is a pretty good business; yes. I don't think it is any different for Waltham than for its competition.

Senator GORE. I didn't mean to single you out.

Mr. NOBLE. It is a good business, sir.

Senator GORE. I see Mr. Hamilton back there. The markup is almost as bad as women's dresses, make a little worse.

Mr. NOBLE. Well, I have been before other bodies, not as august as this. I have argued the price question, and I think it involves other considerations.

Senator GORE. With that compliment, may I thank you.

Mr. NOBLE. Thank you, sir.

Senator BENNETT. Thank you, Mr. Noble.

(The prepared statements submitted by Mr. Aronson and Phoenix Industries Inc., follow:)

STATEMENT OF HARRY ARONSON, ON BEHALF OF THE ASSOCIATED MANUFACTURERS OF GUAM

Mr. Chairman, distinguished members of the Finance Committee, my name is Harry Aronson. I am President of the Waltham Watch Company of Chicago and address you today as spokesman for the Associated Manufacturers of Guam. Hallmark, Inc., is a subsidiary of Waltham, on Guam, and along with Westminster Time Corp., Phoenix Industries, Inc., Stratton Watch Corp., and Maro Watch Company form the Association on behalf of which I address you now. The associated members are all watch manufacturers engaged in the assembly of watch movements on Guam.

LEGISLATIVE BACKGROUND

On June 8, 1966, an Executive Session of this Committee reported favorably a bill identified as H.R. 8436, relating to watch assembly in the insular possessions. The House bill would amend the Tariff Schedules of the United States with respect to the dutiable status of watches, clocks and timing apparatus from the



Virgin Islands, Guam and American Samoa. The House passed the bill on October 21, 1965. In that bill, the Virgin Islands is specifically exempted and it would impose the regular watch duties only on movements assembled in Guam and American Samoa when imported into the United States. It was inequity in the House bill in favoring the Virgin Islands over her two sister territories that resulted in the formation of our association which joined in the opposition to the bill of the Territories of Guam and Samoa and the Department of the Interior as reflected in its report to Senator Long dated February 10, 1966.

H.R. 8436 is addressed to paragraph (a) of general headnote 3 of the Tariff Schedules (19 U.S.C.A. 1202) which exempts from duty all articles which are the growth or product of insular possessions of the United States when they are imported into the United States customs territory, if they do not contain foreign materials to the value of more than 50% of their total value. The bill reported favorably by this Committee on June 8 would amend the House bill by fixing a quota of 1.5 million watches which may be imported from the insular possessions duty-free annually allocated as follows:

	<i>Movements</i>
Virgin Islands (67 percent)-----	1,005,000
Guam (22 percent)-----	330,000
Samoa (11 percent)-----	105,000

Although on the surface the proposed amendment appears to achieve equity among the several Territories, in fact in our opinion, it will effectively destroy the entire insular industry for reasons I will submit later in my testimony. We urge that any quota limiting the number of duty-free movements from the Territories must contemplate equal distribution among the three and the quota itself flexible and based upon a fair determination after hearings of industrial needs balanced by other considerations such as revenue, availability of similar labor force, cost of final product to the consumer and others.

In making this statement I am by no means conceding that a quota is necessary or desirable. I am stating simply that it must not be determined by caprice or whim and must take into consideration the economic and other factors which lend themselves to a fair and equitable determination of the number of watches that must be produced in the insular market if the market is to survive.

#### THE "QUOTA" CONCEPT

As reflected in the Congressional Record of October 21, 1965 (pages 26824-26826), during debate of the bill on the floor of the House, Mr. Mills, Chairman of the Ways and Means Committee and sponsor of the bill, said:

"These provisions (19 U.S.C.A. 1202—the exemption) were enacted in the economic interest of these U.S. possessions and have for their purpose the encouragement of the establishment of light industries in these islands."

"Recently the Virgin Islands legislature recognizing the need for restricting the watch assembly operations of the islands within the confines of a legitimate operation in the interest of economic development of the islands and preventing these operations from becoming primarily a means of tariff avoidance took remedial action by enacting Bill No. 2638 on August 30, 1965.

"This legislation will have the effect of establishing quotas for watch movements produced in the Virgin Islands for shipment to the United States and will, in the view of the Committee, largely solve the problem with respect to excessive shipments of watch movements to the United States.

"Mr. BYRNES of Wisconsin. It was growing. The Virgin Islands cooperated voluntarily by statute putting a limitation on its expansion and retaining the status quo. The bill would simply keep it at the status quo wherever it might be. \* \* \*

"Mr. MILLS. I assure the gentleman from Hawaii, and confirm what my friend from Wisconsin has said, that we did not at all view this measure as being discriminatory in any respect.

"Frankly, the bill, as it had been initially developed, applied across the board, but because the Virgin Islands has taken action themselves, we did not think we needed to take action here. We could exclude them from this overall treatment and preserve the status quo there as well as the status quo in Samoa and Guam, under the terms of the bill."

Hence, the debate in the House gave rise to the concept of quota which has been carried forward to the amendment reported out several weeks ago by

this Committee. Clearly the Virgin Islands with a flowering watch industry already installed, had received favorable treatment in the House bill because it had installed a quota on its exports to the States of duty-free movements. Contrary to the record of debate before the House, the Stratton Watch Company was already in production on Guam and Waltham had invested substantial capital in its Hallmark subsidiary which projected a considerable volume of production on Guam during 1966, which, indeed, has developed according to plans then under way.

It should be noted that Mr. Fulton from Pennsylvania voiced his view for the record that at any later date, any watch industry commenced on Samoa or Guam be accorded equal treatment with that of the Virgin Islands.

Shortly after passage of the House bill, the Legislature of Guam enacted legislation which established quotas similar to those imposed by the lawmakers of the Virgin Islands. The Eighth Guam Legislature, 1966 (Second) Regular Session first enacted Bill N 229, early in 1966. The effect of this bill had it become law would have been to fix a Guam quota to be determined annually at the rate of 6% of the total annual consumption of watches in the United States as determined for each twelve month period after June 30, 1967. It fixed at 2,000,000 the quota for the period July 1, 1966, to June 30, 1967, and recited this to be the maximum amount of production (watch, clock, etc.) "consistent with the protection of the economic stability and commercial relations of the Territory of Guam." This bill was never signed by Governor Guerrero. The Guamanian legislature then enacted Bill No. 370 which reduced the quota for the period July 1, 1966, to June 30, 1967, to 1.5 million. The Governor did not sign this bill. It is our information that Governor Guerrero, upon advice, formed his judgment that Territorial legislation such as these two bills might be subject to serious constitutional attack. We deem his advice well taken. It is our understanding that the Governor, during discussion with various members of this Committee in early March recommended that Territorial quotas be fixed by Congress and not by the several Territorial legislatures, and that the quota for Guam for the year beginning July 1, 1966, be fixed at 1.5 million.

We agree that if a quota is to be fixed it should not be fixed by the Territories but submit that it should allocate at least 2.5 million movements to Guam during the next twelve months and that thereafter the determinations as to aggregate amounts, insular allocations and individual distribution among manufacturers must be made, after hearings by a delegation of that power to the Secretary of Interior and/or the Secretary of Commerce.

Our reasons follow:

#### INVESTIGATION NECESSARY

You, gentlemen, have noticed that I have consistently qualified any reference to a quota by the preliminary remark, "if a quota is necessary." This is because I do not feel that I, my association, or anyone else in the watch industry, with which I have been intimately associated for over 35 years, can do any more than provide a mere portion of facts to be weighed by you along with the several factors unrelated to the specific interests of our industry in forming a judgment as to the need for any quota at all to restrict watch assembly or production in Guam and the other insular possessions.

I do wish to stress, however, that this Committee may not have sufficient information based upon all of the facts to form a realistic judgment on this point at the present time and submit that the net result of this hearing may be to persuade you gentlemen to that same conclusion.

In the remarks appearing in the Congressional Record of proceedings in the House of Representatives when it enacted this bill, it is suggested that the domestic watch industry has a stake in the limitations of Territorial watch production, that revenue is being lost because of a "loophole" in the Tariff Schedules, that foreign producers are utilizing this "loophole" both to diminish revenue and at the expense of our labor market.

I shall not presume to encroach upon your prerogative by suggesting that my testimony or that of others in our industry standing alone should persuade you when broad questions of policy and international balance of payments may well enter into your deliberations and decisions.

However, I contend that the reasons above cited reflecting the House deliberations of this bill are not based upon facts which are undisputed in our industry and that other facts and factors with which you may not be familiar, would tend to negate the need for any quota at all.

I will here set them forth briefly, leaving to your sound discretion the determination as to whether other considerations involved in the formation of public policy of which I am unaware or ill-informed outweigh those within my bailiwick.

*a. The domestic watch industry*

The United States Tariff Commission, on its own motion, instituted an investigation with respect to watch movements pursuant to Section 351(d)(2) of the Trade Expansion Act of 1962. Public hearings were held in the course of the investigation from May 12 to May 14, 1964. The Commission's team of experts thereafter continued the investigation and, in March 1965, the Commission submitted its comprehensive Report to the President on Investigation No. TEA-I-A-2. In March 1966, the Commission submitted to the President its supplement to that report. The attention of this Committee is most respectfully invited to those two reports, which facts and statistics of interest in connection with the inquiry at hand. Upon receipt of the Report in 1965, the President requested the Office of Special Representative for Trade Negotiations to submit its report and recommendation with reference to a rollback of duties applicable to the import of watch movements.

On July 27, 1954, by Presidential Proclamation, the duties on watch movements were increased. Annually since that date, the Tariff Commission has reported to the President its findings of fact on developments in the watch industry. The Commission's 1965 report sets forth the effects that would be likely to follow complete restoration of the concessions, i.e., a termination of the increases in the rates of duty on watch movements.

In March 1965, the Commission advised the President of its judgment that the full restoration of the trade agreements rates of duty on imports of watch movements would probably have the following economic effects upon the domestic watch industry:

"1. The landed, duty-paid cost for most watch movements imported from foreign countries would become significantly lower.

"2. A large share of the duty reductions on the bulk of the imported movements, particularly those that meet intense price competition, would be passed on to retail outlets and consumers in the form of lower watch prices.

3. The assembly of watch movements in the Virgin Islands would be less attractive.

4. Imports from Europe and Japan would increase.

"5. The share of the U.S. market supplied by watches incorporating imported movements would rise, and

"6. The concerns currently producing watch movements in the United States would, in the aggregate account for most of the increase in imports.

"Such restoration would have no significant effect upon the domestic industry of pocket watches most of which incorporate pin lever movements; it would intensify competition between the lower priced imported jewel-lever watches and the higher priced domestic pin-lever watches, it would diminish the incentive for domestic watch producers to import watch parts and would correspondingly increase their incentive to substitute imported movements for movements assembled domestically. From an admixture of imported and domestic parts, it would encourage domestic producers of jeweled-lever watch movements to substitute imported jeweled-lever watch movements for those they produce domestically. *In the aggregate there would be idling of productive facilities and a decrease of employment in the manufacture of U.S. watch movements \* \* \* because of the domestic producers' increasing use of movements obtained from abroad and from the Virgin Islands*"

In its report to the President submitted in March of this year the Commission observed that "the apparent U.S. consumption of watch movements during 1965 was one-fourth greater in 1965 than it had been in 1964." "Nearly half of the increase was supplied by imports of pin-lever movements; the remainder was furnished by increase of domestic output of pin lever movements, and larger shipments of jewel lever movements from the insular possessions (primarily the Virgin Islands) and from foreign countries." *Domestic output of jeweled-lever movements in 1965 was approximately equal to that in 1964.*

This report sets forth that in 1965 there was an apparent consumption of \$4,000,000 watch movements in this country. Of these, 13,600,000 were domestically produced movements. The report does not reflect how many of these were pin-lever movements; however, in my opinion less than 5,000,000 of these were

jewel-lever movements. (See transcript of proceedings before Federal Trade Commission on hearings held on January 7 and March 7, 1960.)

Approximately 17,000,000 movements were imported according to this report, of which 9,000,000 units were pin-lever. The balance of 8,000,000 were imported.

The 17,000,000 imported movements (the report does not divulge the relative percentages of pin-lever and jewel-lever imports) were imported from the following sources:

	Movements
Switzerland-----	15,761,000
West Germany-----	1,580,000
Japan-----	818,000
France-----	440,000
United Kingdom-----	104,000

According to this report, 3,578,000 movements were imported free of duty, from the Virgin Islands.

Mr. Herter's office has not yet submitted a report and recommendations to the President on its investigation of the Tariff Commission's report. Reliable authority in the Executive Office has advised us that this report will be forthcoming in two to four weeks. When that report is submitted it may or may not recommend a rollback of watch duties. If it should so recommend, the effect of such a rollback has grave implications insofar as the insular watch industry is concerned. Our association would continue to produce movements for domestic consumption in Guam, but industrial requirements might be affected radically. For this reason this Committee might well consider deferment of any action on H.R. 8436 until the report of Mr. Herter's office is available.

#### NATIONAL DEFENSE

In addition, we are advised by the same reliable source that an investigation and study being conducted by the Office of Emergency Planning into the need, if any, for a domestic watch industry for National Defense or Security purposes, will also be concluded in about two to four weeks and the report and recommendations of that Office submitted to the President. This, too, might persuade you gentlemen of this Committee to defer the matter of this legislation until the Executive Branch has that report available.

In this connection, the Committee's attention is invited to the finding of the Office of Defense Mobilization recorded December 28, 1956, entered after hearings and summarized as follows:

"In summary, the facts which we have assembled, based on the latest available mobilization requirements estimates and the findings of a study of missile contractors, do not indicate major dependence upon the jeweled watch segment of the horological industry to meet defense requirements." [emp. supp.]

An excellent source of information concerning this aspect of the watch industry is contained in the report of hearings before a subcommittee of the Senate Committee on Armed Services held August 17, 1964.

I believe it is a fair statement that the watch industry has very little, if any, national defense significance and that the development of the industry in Guam, by providing a significant factor in the island's economy apart from the military, can only serve to strengthen this military outpost and strategic air and naval base in the Central Pacific.

It is our judgment, based upon knowledge of trends in the industry and the nature of the domestic consumption market, that the encouragement of vital and substantial watch industry on Guam will not substantially affect the so-called domestic watch industry. The insular product in watches is comprised almost entirely of jewel-lever movements. The Guam product is 100% jewel-lever. If the exemption is removed, the insular product may well become limited to the assembly of higher jewel count, automatic and specialty type watches, but the Guam industry will not disappear.

In that event, or in the event a highly restrictive, if not destructive, quota is imposed on duty-free insular imports into the United States Customs territory, the domestic jewel-lever industry will not be the beneficiary. Quite the contrary, the curtailed volume will result in a proportionate increase of imports from foreign countries, now, in a large sense of the word, in direct competition with the insular industries that has grown by leaps and bounds over a very short span of years.

The question might well be asked, "What would be the effect on the Guam industry of a rollback of the tariff schedules by the President?" The answer is that the Guam industry will survive and grow with the consumption market, but, again, its product would tend to become confined to specialty and high jewel count automatic movements. It would do so, however, only if legislatively discouraged by the imposition of a quota inconsistent with industrial needs in order to maintain economically a watch establishment on Guam.

If, however, an interim quota is deemed appropriate, after weighing all factors involved in making legislative decisions as to public policy and apart from the requirements of the watch assembly industry of the United States and the negative impact of the insular industry on the domestic industry as above stated (and assuming it is further decided to somewhat arbitrarily fix a figure in law rather than delegate that determination to an agency that will do so after a public hearing), then, in my opinion, an allocation of 2.5 million units for Guam production during the next twelve months would be consistent with market requirements, our industrial projections and capital commitments, and not inconsistent with retention of the production status quo in terms of international sources of supply for the ever expanding domestic consumption market. In addition, it would provide optimum employment potential and much needed economic diversification for Guam, so long dependent upon the taxpayer for economic sustenance. Such "optimum employment potential" involves an existence of the readily available labor force on the island to meet production projection through June 30, 1967.

It is for these reasons that I state, if a quota for Guam is determined to be necessary, then it must be fixed at no less than 2.5 million units for the next twelve month period.

As above noted, the point has been made during the House debate that the insular watch industry is costing our government substantial revenue which would be averted by removal of the exemption from duty on the products of that industry. This cannot be denied. The average duty on watch movements is about \$3.50 per movement and this multiplied by approximately 3.5 million units produced in the Virgin Islands represents much revenue loss. But this is a matter of degree and context. The figure is comprehensible to the average man and does not even remotely approximate the astronomical proportions reflected in so many other items involved in our thriving national economy. We all know that this legislation is minor among the monumental deliberations currently confronting this Committee, such as the limitation of the National Debt. It is of major significance only to the single engine economy of Guam and to our industry so much in need of the competition provided by Guam and its insular sisters.

But even the concession here made does not, in our opinion, outweigh other considerations.

Certainly the labor force of our industry must be conceded to be essentially unemployable (mainly young women) and hence not taxpayers in a limited sense of that word until and unless that force is employed in our production. Thus, the tariff loss is to a large extent diluted by local and federal revenues derived from other sources such as the personal income tax, corporate and franchise taxes paid by the industry, and countless hidden revenue outlets opened by the flow of money from owners and investors through the arteries opened by the blooming Guam watch industry.

It must not be overlooked that the domestic consumers ultimately pay all cost bills and that a duty paid is a seller's cost. Informed estimates would fix the savings in price to the consumer at an average of about \$3.50 per watch purchased if that watch is not subject to a duty. Hence, the consumer is left with more money with which to purchase food, gasoline or luxury items upon which taxes of one form or another are most frequently imposed. If 2.5 million watches are produced on Guam over the next twelve months, and at an average purchase price of \$3.50 less than would be paid if duty must first be paid, does not the specific enhancement of purchasing power result in a general economic good as well as a concomitant revenue stimulus?

### c. *The loophole*

The duty-free status afforded watches by the provisions of 19 U.S.C.A. 1202 was frequently referred to in the Record of debate before the House as a "loophole" in our tariff laws, being used by foreign producers to ship their products into our market free of duty. Nothing could be more remote from fact.

In the first place, Guam, and I believe Virgin Islands, producers are not owned by nor agencies of foreign watch movement producers. On the contrary, they are almost entirely owned by domestic watch assemblers, such as Waltham's Hallmark, Inc., on Guam. All of Guam's watch industry is American owned except the Maro Watch Company which is West German owned. Our Guam producers sell to domestic watch manufacturers and are competitive with Swiss, West German, French and Japanese manufacturers for that market. True, the parts assembled in Guam are imported from Japan, West Germany or France, but if the island industry were to vanish, the volume of insular production would be diverted to foreign producers selling movements, not parts, to our market and, as above noted, at an average cost to the consumer of \$3.50 per watch purchased.

In addition, you must here recognize the obvious, which can so often be overlooked in the examination of complex details. Guam is America and Guamanians are Americans; the industry then for which I am spokesman today is an American industry. It came into existence because of the so-called loophole and that loophole existed for many years before it provided the industry I represent today. It is the only industry on the island, whose economy had heretofore been 100% dependent upon the military establishment. Yes, it is a loophole, but it was intentionally created by the predecessors of this Congress to accomplish the very purpose our industry is now fulfilling with dynamic force. It seems to me that this Congress, should it do so, would be going out of its way to defeat the studied purpose of an earlier Congress if it establishes arbitrarily unreasonable limitations upon the growth of our Guamanian watch industry.

I have always regarded a tax loophole as a device or gimmick cunningly utilized for personal gain at the cost of general welfare. In other words, only the using taxpayer gains by use of a tax-loophole. Here, the "loophole" was provided by statute to encourage the growth and development of insular economy. The language used is significant. Had not the importation of materials and other elements of production and growth been contemplated, the statute would not have prescribed that products the growth or product of the United States insular possessions are free of duty when imported into the United States if they do not contain foreign materials to the value of more than 50% of their total value. Clearly, in the cases of Guam and Samoa at least, the importation of foreign ingredients and components had to be foreseen by the earlier legislators who must have known as would any freshman student of geo-economics that nothing could be produced on an island 200 square miles in area and situated in the Marianas and much closer to the Philippines and Japan than the mainland unless elements were imported for the production process from readily available sources of supply. It must have been factors such as these that persuaded that Congress to afford such products a duty-free status.

It is our position then that the watch industry on Guam is fulfilling the hopes of the Congress and the dream of the Guamanian American.

#### THE WATCH INDUSTRY OF GUAM

In November 1965, the Stratton Watch Company, now owned by the Weissman Watch Company of New York, began production on Guam. Time has not permitted us to secure current data with reference to Stratton's production and plans. Based upon information available, it is our understanding that this company had 40 employees in January 1966, was then producing about 6,000 movements per week, and expected to expand its production to about 20,000 units by July 1 of this year with approximately 75 employees.

After months of research and because it had not opened a facility on the Virgin Islands as had its competitors, Waltham opened a plant on Guam early this year. Until that time, Waltham had to purchase a portion of its movement inventory from various sources in the Virgin Islands which were either owned or controlled by competitors, or which had inadequate quality movements to meet Waltham's needs. It was a seller's market. Waltham's subsidiary, Hallmark, Inc., has furnished the following data as to its production and investment on Guam.

The company has a capital investment of \$400,000 and a lease obligation of \$50,000. Currently it employs 15 people at an annual payroll of \$75,000 and at this rate produces 250,000 movements on an annual basis. It is expected to employ 40 people at full production with an annual payroll of \$200,000, producing 500,000 movements.

It is my understanding that Westminster Time Corporation currently produces 25,000 movements per month with 84 employees at a monthly payroll of over \$10,000. Its total capital investment is in excess of \$600,000.

Phoenix Industries, Inc., I understand, currently produces 10,000 units a month. In August this production will be doubled. Its capital investment is in excess of \$500,000, and its payroll is substantially comparable to the other Guam assemblers.

The Maro Watch Company is also in production in Guam. However, similar economic data is unavailable at this time since its owner, a West German, is en route to this country.

It is manifest that argument is not here needed to persuade you gentlemen that our industry's investment in Guam is substantial, that, in a very short span of months, several hundred Guamanians are on our payrolls and that 2.5 million units (if an interim quota is to be fixed) will scarcely provide room for growth of the Guam industry. Additional producers will be deterred even if that amount is fixed in the quota. Based upon production data available now, the present industrial commitments call for the production of nearly 2,000,000 movements on Guam in the next twelve months. Has not our industry provided a substantial diversification for the Guamanian economy? We feel that we are entitled, in all fairness, to realization of our investment and the right to honor order commitments.

#### A SECOND CLASS TERRITORY

Guam may be smaller in area than the Virgin Islands but its permanent population is about the same. It is our information that the available labor force in Guam is larger than that of the Virgin Islands. The latter are blessed with a proximity that has ideally lent itself to a lucrative trade in tourism which has offered relatively lush employment opportunities for the very part of the labor force for which our industry needs most, *i.e.*, young, intelligent women who can be trained to acquire the finger dexterity demanded by our production lines. In addition, the Virgin Islands have attracted some other industry, whereas only ours, to date, has developed on Guam. The fact that the watch industry started there first and grew fast should not create in the Virgin Islands a vested interest in the insular development of that industry which must be protected at the expense of her sister territories. It would be unjust and unfair to close the industry in Guam because it grew faster in the Virgin Islands. The enabling legislation which, to date, has fostered the growth, was intended to apply equally to the three territories and the benefits shared equally by all of them.

Waltham's subsidiary on Guam, Hallmark, Inc., has established that the production will become profitable only when the level of production reaches approximately 300,000 units per year. This same saturation point must be approximately the level of our island competitors for whom I also speak today.

The amendment to H.R. 8436 as favorably reported by this Committee on June 8 would fix Guam's share of a wholly inadequate 1.5 million quota at 330,000 movements. This would permit none of our members to operate profitably on Guam, and unless the others defaulted and liquidated first and Hallmark received the entire allocation, we would have to take our losses and close down the operation.

Distributed among the five present Guam producers, 330,000 units would compel all of them to go out of business. I do not believe this Committee, with knowledge of the facts being gained here today, will consider anything less than 2.5 million units sufficient to maintain the present industry on Guam at the present time.

#### CONCLUSIONS

Senator Long, members of the Committee, I thank you for the courtesy extended me and the manufacturers of Guam for whom I spoke today. In conclusion, I urge the following:

(1) That this hearing be extended until the investigations being conducted by the Executive Office of the President become available for your consideration sometime, as reported to us, within the next four weeks, or

(2) That no present quota be fixed but that the power to do so, within standards prescribed, be delegated to the Secretary of Interior and/or the Secretary of Commerce, after hearings held to determine whether the public interest requires that quotas be fixed.

(3) If for reasons of public policy beyond my comprehension an interim quota should be deemed necessary in the public interest, than any allocation of that interim quota be fixed at not less than 2.5 million units for the period June 30, 1966—July 1, 1967, and

(4) The Secretary of the Interior and/or the Secretary of Commerce be delegated the power to conduct hearings in the public interest and to fix and allocate among the insular possessions and among producers in those Territories annual quotas for the duty-free production of watch movement. Thank you.

**SUPPLEMENTAL STATEMENT OF THE ASSOCIATED MANUFACTURERS OF GUAM, SUBMITTED AFTER PUBLIC HEARING ON NATURE OF WATCH COMPETITION IN THE DOMESTIC MARKET**

Beginning in the 1930's, labor costs, among other factors, persuaded many of the so called domestic powers in the watch industry to turn East and import parts and movements from Switzerland. The giants of the industry at the time were Waltham, Elgin, Hamilton and Illinois. Their product and consumption market required a fine time piece, i.e., a jewel lever watch. A jewel lever watch is one manufactured with bearings at pivot points composed of the assembly of minute synthetic jewels.

World War I had made the wrist watch popular in the American market. The companies above-named had devoted their production, in the main, to the pocket or "railroad" watch—a fine, though bulky, time-keeping mechanism. The Swiss had a headstart in the development and production of the more delicate wrist adapted movement.

In the 1930's, the domestic market also consumed, in considerable volume, the cheaper, less efficient, and non durable pin lever type watch. Manufactured for consumption by children, the Ingersoll and Ingraham pin levers, non Mickey-Mouse and Buck Rogers' varieties, were frequently used by adults during the depression era for obvious reasons.

Those companies whose management was dynamic and far-sighted survived by one of two means (and some by a combination of the two): (1) becoming importers and converting their domestic plants into diversified production of precision instruments other than timepieces; or by (2) participating in a Madison Avenue campaign to convince consumers that jewels in quantity (21) have time keeping significance (In fact above 17 jewels have little if any horological value) and receiving high protective tariff on such watches, excluding imports and leaving the newly developed 21 jewel market to domestic producers. It was at this time that Bulova became really prominent in the industry, and its dynamic management assumed leadership of the surviving domestic industry. It must be noted that some parts of even domestically produced 21 jewel watches have always been imported.

The old line domestic companies that did not turn abroad or enter the Madison Avenue campaign deteriorated and disappeared. Waltham, for instance, misguided managerially, turned to Switzerland too late and by the commencement of World War II was out of competition for all practical purposes.

Hamilton survived behind the tariff barrier by producing a really fine watch for the luxury market. Elgin and Bulova built or acquired their own factories in Switzerland, and consequently remained competitive with the Swiss in the 17 or less jewel category and furnished parts required for the swelling 21 jewel (Madison Avenue) market. The Ingersoll and Ingraham disappeared from the competitive scene with the advent of prosperity and did not re-appear in any volume until after World War II.

With the surge of the War effort, the industry made its contribution and derived its gain by turning, en masse, to precision instruments. Even Waltham's emptied coffers were momentarily swelled before cessation of hostilities. The so-called domestic producers today, Elgin, Hamilton and Bulova, are, in fact, domestic in name only, and their plants in this country are devoted to watch production only on a very limited basis. Only about 1.5 million of the 34 million watches consumed during 1965 were produced by those companies. How many of these may have been "electric" or other non jewel watches is a matter of conjecture, but notwithstanding the absence of such information, it is clear that this country no longer has a domestic watch industry producing watches in any considerable volume.

However, a Madison Avenue surge during the 1950's resurrected the pin lever industry. The stylish punch pressed, non bearing, and very economical Timex movement rapidly became the largest single competitive factor in the industry.



General Time (Westclox) reappeared on the scene with a similar "new breed" of pin lever movement. The domestic plants of these companies rapidly spread abroad to Scotland, Germany, Japan and elsewhere attracted by low labor costs and the European markets. However, these companies are, in fact, domestic producers even today although a large percentage of their gross product is imported.

But, it is significant that the crafts and skills so long relied upon by Hamilton, Elgin and Bulova, to perpetuate the myth which afforded the comfort of the high protective tariff on 21 jewel watches, are non-existent in the machine operated, punch press pin lever industry, which is in truth and in fact the only surviving element of the fictitious domestic watch industry productive of watches, as opposed to precision instruments, in this country today.

The American Watch Association representing importers, agents or consignees of fine Swiss watches seeks a roll-back of the tariff and ideally, its elimination.

Hamilton, forced into the Virgin Islands by pin lever and its concomitants in competition, which gave rise to the insular industry, seeks retention of the high tariff schedules, dissolution of the mythically created status quo that will enable its watch segment to profitably bear its share of industrial diversification.

Elgin and Bulova, with Swiss adjuncts integrated into their systems, and consequently able to play on both sides of an one-way street, seek dissipation of Virgin Islands competition and the maintenance of present tariff schedules which lend themselves so aptly to their dual market planning.

On the other hand, Waltham, rejuvenated after acquisition by dynamic new management in the 1950's, and Benrus, an importer without domestic plants such as those of Elgin, Hamilton and Bulova, are competing on two sides of another, two-way street.

They are both principally (more than 50% of their product) Swiss importers. By virtue of this fact they are competitive with Elgin, Bulova and the various Swiss companies represented in these hearings by the American Watch Association. However, at least Waltham is non-competitive in the sense that it does not own a productive facility in Switzerland.

On the other hand, these two companies, and to the extent any of the others have done so, including Helbros (a division of Elgin) are meeting pin lever (General Time and Timex) competition in the low-priced market by acquisition of low-cost, tariff exempt insular products—Benrus from the Virgin Islands, Waltham from the Virgin Islands and from its own facility on Guam. In doing so, they are taking advantage of the intentionally created "loophole" and the advertising of the Swiss industry calculated to demonstrate to consumers the merits of jewels as opposed to non-jewel or pin lever movements.

But, competition runs a devious course, and the two large pin lever producers are now in the jewel-lever business. In fact, General Time has one of the larger establishments in the Virgin Islands.

Waltham and Benrus, then, are playing two sides of a two-way street. They want a roll-back of tariffs on the one hand, non-limitation of insular production on the other. Inherent in this two-way street is a saving to the consumer which would not otherwise be available. The competitive reasons for the differing interests in this legislation and in the report on roll-back of Tariff Schedules may now become somewhat less obscure.

#### ASSEMBLY OR MANUFACTURE

It is suggested that in our highly specialized technological economy the manufacturing process (apart from the watch industry) has become refined. It is no longer the production of the consumer product from basic raw materials. It is now almost universally the assembly of the final consumer product of components manufactured by sub-producers, sub-contractors, and pre-manufacture fabricators. The components finally assembled in the ultimate manufacturing process are imported. The importation of parts and components (as distinguished from the ultimate product) is rarely subject to a duty.

These same universal economic principles apply to the watch industry. Even fine Swiss and Japanese movements are "manufactured" into the final consumer products in those countries by companies at the end of a horizontal scale which assemble parts manufactured, in turn, by other companies in other plants developed over years of industrial specialization and technological development.

Hence, the insular industries of the Virgin Islands and Guam are, in fact, not different from the kind of industry that preceded them in this country, Switzer-

land and Japan. They differ in degree inasmuch as they have further differentiated the industrial specialization by simplifying the assembly technique. In addition, there is an admitted quality control problem in some of the plants, but this will be diminished by the forces of competition.

#### THE "LOUPE" VERSUS FINGER DEXTERITY

The "loupe" is the small telescopic eye piece traditionally associated with the watchmaker, a craftsman in an almost medieval sense of that word. However, a watchmaker is trained to repair and service watches and not to manufacture them. The loupe is still used in the manufacturing (assembly) plants to time, adjust, examine and repair watch movements. Those movements are universally manufactured by the delicate assembly of pre-manufactured components and subassemblies which, in turn are produced along the production lines of plants equipped with machinery and equipment designed for mass production.

In the insular possessions no less than in the final producing plants of Switzerland, Japan and to the extent there are any left, in the United States, the final manufacturing process requires sharp vision and nimble fingers, frequently categorized as finger dexterity.

In the most highly specialized technology inherited by the insular industry and developed by the stringent competitive forces inherent in the entire industry, it has been found that these requirements are most frequently available in young, intelligent women—a commodity available in copious quantities on Guam. The training period under the supervision of "loupe" specialists (watchmakers who also supervise the plants, examine, adjust, time and repair the final product) requires from eight to ten weeks and the trainees are paid the minimum wage (\$1.25 per hour) during the training period which is actually spent in the plant learning to assemble the components under the guidance and supervision of qualified instructors.

#### NATIONAL DEFENSE

It is our view that the present jewel lever so-called domestic industry does not develop skills vital in the interest of national defense. Formal engineering education has replaced the "loupe" and the skills (dexterity) developed in the final manufacturing or assembly process are available in countless other industries. Certainly, the pin-lever industry with its punch-press assembly technology is developing little in the area of vital skills.

The future of any really significant domestic watch industry is vested in the expansion and development of the insular industry, particularly Guam and American Samoa, so proximate to a supply of fine components and so in need of industrial development.

The 1965 domestic production of 1.5 million movements did not sustain a trained labor force even as large as that of the Virgin Islands which produced over four million units in the same way.

Thus, to the extent that there may be any validity at all in Hamilton's arguments for a high tariff and the abolition of insular industries in the interest of national defense, they become completely dissipated by the logic flowing from statistics available to all of us.

*The insular industry is already sustaining a large, trained, and skilled labor force such as might be required to meet a sudden national emergency, and a fortiori should be encouraged to expand that labor force in the interest of national security.*

#### THE QUOTA

As noted in our original statement submitted and filed with the Committee in behalf of Mr. Harry Aronson as spokesman for the manufacturers of Guam, there is no apparent reason for establishing a quota limiting insular watch production particularly on Guam where the industry is relatively new and has not expanded to the proportions found on the Virgin Islands.

As may be seen from all that has been set out above, limitations upon insular production may be motivated by the self-interest of quota advocates. We are here stating the fact and not condemning enterprising self-interest.

However, we submit that although a general limitation is unnecessary, undesirable and inadvisable, nevertheless limitation of Virgin Islands production may be necessary in the general public interest solely because the fixing of a quota there will encourage the expansion of the industry to Guam and Samoa where it is so sorely needed. These islands have no other industry at the present time, while the Virgin Islands have a potent watch industry, a lucrative growing tourist

industry and a generally diversified economy with other manufacturing plants and an exhausted native labor force.

#### GUAM QUOTA

We know of no reason why public policy should require the imposition of a quota on Guam watch production. Its available labor force is native and relatively untouched, and competitive forces will expand the industry to Samoa in due course. Competition will also bring about quality controls, price leveling and product standardization all required, though not legislatively, in the interest of the consuming public.

However, if Congress deems that some limitation of Guam production is necessary at this time to encourage immediate expansion to Samoa, then we submit that any quota for the next 12 months fixed at less than 2.5 million units would be unrealistic for the following reasons.

1. Optimum production at a profit involves the attainment of the production of approximately 300,000 units per year per company. There are already five companies producing in Guam, all members of this association as noted in our original statement.

2. That quota would permit the additional four or five companies presently interested to enter production during the next 12 months.

3. The capital investment of producers to date.

4. The firm commitments to date for delivery of parts through January 1, 1967, and the firm orders for inventories (actual sales) through January 1, 1967.

#### SYNOPSIS OF GUAM'S OPERATIONS

Communications have precluded inclusion of vital statistics pertinent here, apart from or in addition to those set forth on pages 16 and 17 of the initial statement filed herein in behalf of our group with respect to three of our producing members: Westminster Time Corp., Stratton Watch Co., and Maro Watch Co.

However, Hallmark Inc., the wholly owned subsidiary of Waltham on Guam, and Phoenix Industries Inc. have transmitted the following additional or supplemental information.

	Hallmark	Phoenix Industries
Capital investment to date (including lease).....	\$450,000	\$224,000
Order commitments for parts to date.....	\$500,000	\$1,164,600
Projected commitment through January 1967—these parts cannot economically be used elsewhere except on Guam subject to suit if revoked.....	\$500,000	-----
Number of employees at present time:		
Guamians production line.....	19	30
Average wage per hour.....	\$1.25-\$1.50	\$1.25-\$1.50
Technicians-managerial.....	1	2
Salaries (technicians).....	\$20,000	\$700
Lawyers to date (on Guam).....	(?)	5,000
Accountant to date (on Guam).....	(?)	2,000
Present production rate (per annum).....	250,000	120,000
Projected production commencing Sept. 1, 1966 (per month).....	20,000	25,000
Projected production commencing Jan. 1, 1967 (per month).....	40,000	38,000
Projected production by Sept. 1, 1966 (per annum).....	500,000	-----
Purchase orders or sales.....	(?)	\$100,000

<sup>1</sup> Amount per annum includes fringe benefits.

<sup>2</sup> Unknown.

<sup>3</sup> 100 percent of production.

<sup>4</sup> Amount per month and bonus.

<sup>5</sup> Amount sold and to be delivered Jan. 1, 1967.

Phoenix Industries is liable on sales contracts and would become subject to suit in the event of default for any reason. Hallmark, the subsidiary of Waltham, would be liable, but as a practical matter Waltham would take the loss and be forced to meet inventory requirements from other sources. As a practical matter, because of the lag time in order and delivery it could not do so. It is not unreasonable to assume that figures for the three other Guam producers are essentially the same in employees, capital investment and other items.

The Recommendations contained on pages 19 and 20 of our initial statement are referred to and adopted as part of this Supplemental Report.

## STATEMENT OF PHOENIX INDUSTRIES, INC.

Phoenix Industries, Inc., was incorporated in Guam in the early part of January, 1966. The company was capitalized at \$50,000. At that time there was one watch assembling company in existence, who commenced operations in November, 1965. Another company, Westminster Time Corporation, incorporated in Guam at about the same time as ourselves, making a total of three companies engaged in watch assembly. We incorporated before January 28, 1966, this being the dead-line set by the Legislature of Guam for companies wanting to manufacture in Guam. This date was subsequently changed to allow other companies to obtain manufacturing licenses and tax exemptions.

In January, 1966, it was understood that Guam would self-impose approximately two million units similar to that self-imposed by the Virgin Islands, which at that time was 3,600,000.

From the foregoing, ourselves and the other two companies anticipated sharing in a quota of at least 1,500,000 or approximately 500,000 each. To this end we geared our manufacturing operation, having at this time some 25 girls trained and able to produce between 1500 and 2000 units per working day.

In addition to the female labor force, we entered into employment contracts for one year with a factory manager, watch maker and sales manager. Considerable expense was incurred in transporting these people to Guam, in some cases with family. In addition, we hired a prominent consultant, who we brought over from England, and who spent 10 weeks in Guam at a salary of approximately \$250.00 per week and expenses.

Our present monthly payroll is in the vicinity of \$7000.00 per month. Our factory rent is \$500.00 per month on a four year lease.

Regarding our commitments for merchandise, we have firm orders with Hatori Trading Company for the year, 1966, to the amount of approximately \$400,000.00. In addition to these, we have firm commitments with suppliers in France to the extent of approximately an additional \$100,000.00.

Apart from the merchandise commitments already mentioned, we have given commitments for 1967 for approximately \$600,000.00 with other commitments pending.

As you are doubtless aware, if the suggested quota of 330,000 pieces is granted for all the manufacturers of Guam, now numbering 5 in production, and if this production is shared equally, we will be facing a very serious financial position. We, therefore, hope that the quotas granted will be large enough to enable us to meet our commitments and to be reasonably compensated for the difficulty of doing business from 10,000 miles away and we further trust that should the quota be established at a lower figure than originally envisaged, that we be given time to fulfill our commitments for merchandise and reorganize the size of our operation.

Senator BENNETT. The next witness is Mr. B. K. Wickstrum, president of General Time Corp. Mr. Wickstrum, we are happy to have you here. I have a copy of a statement. Do you wish to read it or are you going to tell us what is in it?

**STATEMENT OF ROBERT WIKEN, PRESIDENT OF ANTILLES INDUSTRY; ACCOMPANIED BY R. B. HALLY, VICE PRESIDENT, GENERAL TIME CORP., GENERAL MANAGER, WESTCLOX DIVISION; AND JOHN D. CONNER, OF SELLERS, CONNER & CUNEO, WASHINGTON, D.C.**

Mr. WIKEN. I am not Mr. Wickstrum. My name is Robert Wiiken president of Antilles Industry, which is a subsidiary of General Time. I am appearing today at the request of Mr. Barton K. Wickstrum, who is the president.

Senator BENNETT. Your name again is?

Mr. WIKEN. Robert Wiiken.

Senator BENNETT. You may proceed as you please. I curtailed Mr. Noble after 30 minutes of testimony. I hope you will be through by that time.

Mr. WILKEN. Let me assure the Senator I have no intention of reading the very complete statement we have submitted. I will try to keep my remarks as brief as I possibly can.

Senator BENNETT. We have reached the point where we are going back over the same material.

Mr. WILKEN. No, I appreciate that, and I will do my very best to keep my points concise and to the few additional points we would like to make.

First, however, I would like to introduce the gentlemen with me. To my left, Mr. Roland Hally, who is a vice president of General Time, and also Mr. Conner of Sellers, Conner & Cuneo, a Washington law firm, and it was Mr. Conner that represented us in our hearings in the watch quota bills in the Virgin Islands.

Senator BENNETT. You heard the statement this morning, Mr. Conner, as to whether the decision of the court regarding allocations was binding and in operation or inoperative? Do you have an impression?

Mr. CONNER. It would be my opinion, Senator, that as of now they are inoperative.

Senator BENNETT. That there are no quotas?

Mr. CONNER. Yes, that is right. I have noticed recently a newspaper sent to me from the Virgin Islands saying that the Governor has appealed. Now that differs from the information that was given the committee earlier this morning. I do not know whether they have or not.

Senator BENNETT. Not being a lawyer would the very process of filing an appeal bring it back until the appeal was heard?

Mr. CONNER. It would be my opinion that they would not.

Senator BENNETT. That they would not?

Mr. CONNER. Yes.

Senator BENNETT. Thank you.

Senator GORE. On what do you base that?

Mr. CONNER. It is based upon—

Senator GORE. A case is not settled until final judgment.

Mr. CONNER. It is based upon the fact, Senator Gore, that the court, the U.S. District Court for the Virgin Islands, has held that the government of the Virgin Islands is without constitutional authority to impose the quotas. Now if that goes on to the Third Circuit and the Third Circuit reverses the court, then I think that they could go back and collect the taxes on the amount that has been produced and shipped in the meantime.

Senator GORE. To that extent it would be operative.

Mr. CONNER. At that time it would be, yes. By my answer I intended to mean in the meantime I do not believe that the government could impose the quotas or collect the taxes, but if the Third Circuit should—

Senator GORE. Are you a lawyer?

Mr. CONNER. Yes, sir. If the Third Circuit should eventually uphold the decision of the district court, then I believe that the govern-

ment could go back and collect the taxes applicable to the production since that time.

Senator GORE. It has been a long time since I studied law, but I must say I don't think I quite agree with that.

Mr. CONNER. Well, that may well be, and I would like to state that my opinion is just a horseback opinion. My client has not asked me that question. I have not gone to the lawbooks on it. It has been quite some time since I finished law school.

Senator GORE. This is a fine point in your statement here. You mean if a Senator asks you a question you give him a horseback opinion, but if a client does, you don't?

Mr. CONNER. When a Senator asks me a question, I feel I had better give him some answer.

Senator GORE. I see. But you are a little hesitant about—

Mr. CONNER. I wish I had anticipated the Senator's question and had a chance to go to the lawbooks first, but I did not, and my client hasn't asked me, and I just have to give the best answer I can.

Senator BENNETT. Was the Senator from Tennessee here this morning when this came up?

Senator GORE. No; I was not.

Senator BENNETT. We have had two expressed opinions on both sides. One man said it was operative and another man said no it is not operative.

Senator GORE. Lawyers are running true to form.

Senator BENNETT. So I have a third man here, and I was going to ask him this.

Senator GORE. This makes for more business.

Senator BENNETT. The score is now two to one.

Senator GORE. It makes for more business. I must relate when one of my young constituents was before the august Supreme Court across the avenue for the first time, he was making a fervent plea, and one of the Justices looked over his glasses and said, "Young man, if you were back here under certain circumstances," which he specified, "would you say the same thing?" He said, "Your Honor, if properly retained, yes." [Laughter.]

So I gather if you are properly retained, your opinions assume a quality that they don't have here in response to ad lib.

Mr. CONNER. I would not want the Senator to think that because I was not retained by him, that my opinion wasn't given the same thought it would have been had he paid for it.

Senator GORE. Don't denigrate yourself.

Senator BENNETT. Excuse me for the interruption. Proceed, Mr. Wiiken.

Mr. WIKEN. First, as a means of identification, General Time is a long established publicly owned clock and watch company. In addition to its familiar name such as Westlox, Baby Ben, Big Ben, and Seth Thomas, General Time produces a variety of industrial and military time devices. The latter presently involve commitments which exceed some \$56 million. General Time's domestic facilities are located in the States of Alabama, Connecticut, Georgia, Illinois, and New York.

Although General Time once produced jeweled lever and pin lever wristwatches in the United States, its sole production today consists

of jeweled lever wristwatch movements assembled by its subsidiary in the U.S. Virgin Islands; namely, Antilles Industries.

Now why was it that General Time discontinued domestic wristwatch production in 1963 in La Salle, Ill., in favor of the Virgin Islands production? We are very willing to admit that this action was responsive to general headnote 3(a), the various inducements that were offered.

We fully recognize that Congress had established this provision for a very definite purpose, and we thought it was perfectly legitimate to become a partner in this economic bootstrap operation.

We recognized at the same time that there were problems inherent in going down to the Virgin Islands, problems of transportation, of training of people, things that you would not normally encounter in going to an up-to-date, a more progressive, a more economically advanced area. But we felt that this was a good and a sound business judgment, for several other reasons; namely, there is an inadequate tariff protection against imported wristwatches, and this made our domestic production economically unsound.

It also allowed General Time to upgrade watches that they had been formerly making, and these were primarily pin-lever watches, and to upgrade them into 17-jewel watches of a much better quality.

General Time's competitors had also established Virgin Islands facilities, and as always, we must remain competitive. Furthermore, General Time's domestic watch facilities, this space, the people, and the equipment could be used for the production of defense items, and as I previously mentioned, this is a very large and important part of General Time's overall business.

In due deference to some of the former people who have testified, we don't really need wristwatch production to augment or make possible the production of such things as fuses and other components that might be required for the military.

Now for a moment to the effects of the proposed amendment, H.R. 8436. Very frankly, this would remove General Time from the wristwatch business. It would remove it because the quota that is set forth in H.R. 8436, if divided among the existing companies in the Virgin Islands, would not be sufficient to allow anyone to operate economically. It might be that certain companies, maybe one, maybe two who have been there for some length of time, if they were able to couple tax exemption with a fair-sized quota might be able to do this. Unfortunately we don't have the tax exemption privilege.

It would also deprive the economy of the Virgin Islands of a major source of income. As previously mentioned, and I wish to restate it again, it would definitely deprive the U.S. watch consumer of a major source of low-priced quality watches. And just for the record, I would also like to say that the proposed amendments will result in a shift of the source of 17-jewel lever watches from American-owned industry of the Virgin Islands to foreign watch industries and to the subsidiaries of domestic watch companies in foreign countries.

The Virgin Islands producers, such as General Time, which have no foreign or domestic facilities for wristwatch production, would be forced to retire from the watch industry, or to acquire wristwatch production facilities in highly industrialized foreign countries.

I would like to state just once again that in our particular case we wear only one hat in the wristwatch business, and it is worn down in the Virgin Islands, and we would suffer very serious injury if H.R. 8436 were allowed to pass in its present form.

Mr. Chairman, I said at the outset I would try to keep my remarks as brief as possible, but there is something which I think might be helpful, and if you will indulge me, I would like to read what is our position in reference to H.R. 8436.

Senator BENNETT. Please do.

Mr. WIKEN. Point No. 1. H.R. 8436 should not be enacted, pending final determination by the President as to whether the trade agreement and duty reductions on watch parts and movements would be reinstated. If these lower duties again become effective, the Virgin Islands and the other U.S. insular possessions would be hard pressed to compete with watches produced in foreign countries. In this event, quota limitations would become largely academic.

Point No. 2. If it is the belief of this committee that the policy reflected by headnote 3(a) is no longer sound, the policy itself should be reconsidered only after careful and deliberate investigation and hearings, and by the enactment of whatever legislation would be considered then to be appropriate. Headnote 3(a) affects many commodities, and it is neither sound nor equitable to enact legislation directed only against the watch industry, leaving the basic policy of headnote 3(a) unchanged.

Point No. 3. Awaiting the outcome of the determinations contemplated by paragraphs 1 and 2 above would not endanger the domestic watch industry, because the domestic producers have not established that they are being seriously injured as a result of production in the Virgin Islands. Any restrictions on the production in the Virgin Islands would benefit primarily the importers of foreign watches rather than the U.S. producers.

The fourth and final point. If, nevertheless, it is the decision of this committee that prompt action respecting watches and watch movements must be taken, we recommend the imposition of quotas that, in effect, would fix the volume of duty-free importations from the U.S. Virgin Islands at substantially the present level, and would recognize the claims of Guam to an equitable share. This could be accomplished by imposing an overall quota for all U.S. insular possessions equal to one-seventh of the total of the apparent U.S. watch consumption as annually determined by the U.S. Tariff Commission.

Such overall quotas would be prorated at 80 percent to the Virgin Islands and 20 percent to Guam. This, in effect, with respect to the Virgin Islands would adopt the quotas which were imposed by the Virgin Islands government after due investigations and hearings. Mr. Chairman, that concludes my statement, and I thank you.

Senator BENNETT. Do you have any questions?

Thank you very much, Mr. Wiiken. We are glad to have your recommendations. This is a complicated problem, and I am afraid the hearings today have served to complicate it further, at least in my mind.

Mr. HALLY. Mr. Chairman, I believe that there was a request made to submit figures on employees.



Senator BENNETT. Oh, yes; that is right.

Mr. HALLY. And if I may at this time.

Senator BENNETT. Please.

Mr. HALLY. We have a total of approximately, in round figures, 7,000 employees, of which 6,000 are in the various locations of the United States. None of the foreign operations which employ these 1,000 employees are engaged in the watch business or have the facilities to produce watches. Of the total 7,000, approximately 75 are employed in the Virgin Islands, and that is our only source of watches.

Senator BENNETT. Yes, I was going to say from your earlier testimony you make no wristwatches anywhere except in the Virgin Islands.

Mr. WIKEN. That is correct.

Senator BENNETT. Thank you very much.

(The prepared statement submitted for Mr. Wickstrum follows:)

#### STATEMENT OF THE GENERAL TIME CORP.

My name is B. K. Wickstrum. I am the President and chief executive officer of General Time Corporation. As such I have executive responsibility to some 15,000 shareholders for all of the operations of the corporation, including General Time's watch production subsidiary in the United States Virgin Islands—Antilles Industries, Inc.

I appear in opposition to the quotas described in the Committee's press release of June 8, 1966, because such a quota upon the duty-free importation of wrist watches from the insular possessions, would deprive my company of its only remaining wrist watch production facility—a facility established in reliance upon Governmental policies which the proposed quota would negate.

In the opinion of my company, this result is not required by, and is demonstrably contrary to, the public interest. Those members of the domestic watch industry which have requested this stringent action would not be its primary beneficiaries. To the contrary, only the importers of foreign watch movements would stand to receive substantial benefit from this action—at the cost of destroying the investment of domestic companies in the insular possessions. Moreover, the proposed action would be contrary to the interests of the consumer as it would deprive him of a major source of low cost jeweled level watches.

#### THE GENERAL TIME CORP.

The General Time Corporation is one of the few publicly owned corporations in the horological industry. Its general offices are located at 355 Lexington Avenue, New York, New York and at High Ridge Park, Stamford, Connecticut. Its domestic production or research facilities are located at Torrington, Thomaston and Stamford, Connecticut; Athens, Georgia; Gadsden, Alabama; LaSalle, Elgin, Rolling Meadows and Skokie, Illinois. General Time is, in the fullest sense, an established, domestic manufacturer and marketer of timepieces. Our Seth Thomas Division originated in 1813 and has an established history of production of fine clocks and pocket watches. Our Westclox Division has been in business since 1885 and is currently marketing, in addition to its "Big Ben" and "Baby Ben" clocks, a line of high quality, low priced 17 jewel-lever watches produced by our assembly subsidiary in the United States Virgin Islands—Antilles Industries. The products of the Westclox Division currently are being retailed in over 200,000 outlets in the United States and Canada.

General Time's domestic, commercial manufacturing operations today consist primarily of the production of clocks of all types, pocket watches, industrial timing devices, controls, and time recording equipment.

In addition to its domestic commercial manufacturing operations, General Time's Westclox, Acronetics, Central Research and Industrial Controls Divisions contribute substantially to the national defense requirements for a variety of military timing devices.

## GENERAL TIME'S WATCH PRODUCTION AND MARKETING OPERATIONS

Since 1964, General Time's marketing requirements for wrist watch movements have been met exclusively by its jeweled-lever watch assembly operations in the Virgin Islands. Unlike the other major domestic watch companies, we have no domestic or foreign facilities, producing or capable of producing any part of our wrist watch marketing requirements, other than our watch assembly operations in the Virgin Islands.

Historically, General Time's participation in the domestic wrist watch market has been confined to lower and moderately priced watches. In 1963, when General Time decided to establish a Virgin Islands operation, our wrist watch marketing requirements were met by domestic production of both pin-lever and 7 jewel-lever watches, supplemented by imported 7 jewel-lever watches.

In 1963, General Time decided to discontinue both domestic production and importation of wrist watches and wrist watch movements and to meet its established market requirements through a watch assembly operation in the United States Virgin Islands. Many factors motivated this decision, including: (1) Inadequate tariff protection against imports of foreign low-priced watches had already reached the stage where continued domestic production of such watches economically was not feasible; (2) The Congress of the United States, in enacting General Headnote 3(a), TSUS, and the Government of the Virgin Islands, in enacting industrial incentive legislation, had extended a clear invitation to accept what appeared to be the last chance for a domestic producer of low-priced watches to meet the competition of foreign watch industries; (3) Domestic watch companies such as Hamilton, Elgin, and United States Time had accepted the above invitation and had established operations in the Virgin Islands which were producing low-price, high-quality 17 jewel-lever watch movements which competed directly with General Time's 7-jewel-lever and pin-lever watches; (4) The establishment of a Virgin Islands watch assembly operation afforded General Time an opportunity to up-grade its watch production by replacing its pin-lever and 7-jewel-lever watches with comparably priced 17 jewel watches; and (5) The domestic watch production facilities of General Time could be utilized in meeting the growing product requirements of the National Defense.

## GENERAL TIME'S WATCH PRODUCTION FACILITIES IN THE VIRGIN ISLANDS

In October of 1963, General Time acquired a controlling interest in Antilles Industries, Orange Grove, Christiansted, St. Croix. Beginning in early 1964, General Time began training local personnel to function as skilled workers in the assembly of watch movements. During the year 1964, Antilles Industries produced approximately 100,000 watch movements for export to its Westclox Division as well as to non-related customers.

By October of 1965, Antilles Industries was producing approximately 50,000 watch movements per month and was approaching the level of production which had been predetermined by General Time to be adequate to meet its marketing requirements. At this time, Antilles Industries was employing approximately 70 workers at an average hourly wage of \$1.30 and embodied an investment by General Time which exceeded \$600,000.00.

## THE ESTABLISHMENT OF VIRGIN ISLANDS WATCH PRODUCTION CONTROLS

Pursuant to the inducement of General Headnote 3(a), Title I, TSUS, and the industrial incentive legislation enacted by the Government of the Virgin Islands, by October 1965 virtually every domestic manufacturer of watches had established watch assembly facilities in the Virgin Islands and some were expressing an interest in the establishment of similar operations in Guam.

The domestic jeweled lever watch manufacturers (each of which had also established a watch assembly facility in the Virgin Islands and was also importing directly from foreign countries) and importers of foreign-made jeweled lever watches, began to express concern over the competition posed by the jeweled lever watches produced in the Virgin Islands.

In response to efforts undertaken by these interests the Government of the Virgin Islands imposed a quota, the effect of which was to "freeze" the quantity of jeweled watches shipped to the Territorial United States at a level approximately equivalent to the then percentage (1/9) of United States watch consumption occupied by Virgin Islands produced watches.<sup>1</sup>

<sup>1</sup> Section 512, Chapter 9, Title 53, Virgin Islands Code.

Numerically, this quota permitted shipment to the United States of 1,800,000 watches from October, 1965, to March 31, 1966, and imposed a \$2.50 tax upon all watches shipped to the United States in excess of the quota. Under the intended operation of the quota legislation approximately 3,800,000 watches would have been shipped to the United States from April 1, 1966, to March 31, 1967, without payment of the \$2.50 tax.

General Time's subsidiary, Antilles Industries, was accorded an initial quota of 192,518 movements which it was entitled to ship, without payment of the \$2.50 tax, to the United States from October 1, 1965, through March 31, 1966. Antilles Industries' quota for the next and most recent quota period (April 1, 1966, through March 31, 1967) was set at 378,255 units.

In view of this self-imposed limitation on watch production, H.R. 8436, as passed by the House, excluded the Virgin Islands from the bill's proposal to eliminate all duty-free importation of watches from the insular possessions.

Recently, however, as a result of litigation brought by the Virgin Islands subsidiary of United States Time Corporation, the Virgin Islands watch quota program has been declared invalid. *Virgo Corporation v. Ralph M. Palewinski, Governor of the Virgin Islands, et al.*, Civil No. 165-1965 (c).

Presumably prompted by this decision, the Senate Finance Committee has reported its consideration of an amendment to H.R. 8436 which would restrict duty-free importation of watches from all of the insular possessions to a maximum of 1,500,000 units per year—only 1,003,000 of which may emanate from the Virgin Islands.

#### THE EFFECTS OF THE PROPOSED AMENDMENT TO H.R. 8436

(1) *The effect would be to destroy the Virgin Islands watch industry.*—Absent the right to duty-free importation of a quantity of watches sufficient economically to justify the cost of an assembly operation in the Virgin Islands, as compared to direct importation from foreign countries, domestic watch companies have no economic incentive to continue watch production in the Virgin Islands. Distribution of an annual quota of 1,005,000 units among the existing Virgin Islands watch companies cannot possibly permit any company to maintain an efficient, economical watch production operation in the Virgin Islands.

(2) *The effect would be to remove General Time from the wrist watch industry.*—With respect to the General Time Corporation, any reduction in the amount of watches which it may ship to the United States, duty-free, pursuant to its most recent allocation under the Virgin Islands quota program (378,255 units) would force General Time to close its Virgin Islands facilities. Having no other domestic or foreign facilities for the production of wrist watch movements, General Time would be removed from the production of such movements and would be forced to either discontinue its watch line or follow the path established by the other major domestic watch companies and establish a wrist watch movement subsidiary in one of the highly industrialized nations. General Time cannot establish wrist watch production in its domestic facilities because watches so produced could not meet the competition of imported foreign watches and because General Time's former domestic watch production facilities are totally committed to the production of defense needs such as fuzes, arming devices and other timing units for military purposes. The present commitment of General Time to defense production exceeds \$50,000,000. Moreover, it is not as feasible for General Time to import watch movements from foreign watch industries as to establish its own foreign watch movement manufacturing subsidiary.

(3) *The effect would be to deprive the economy of the Virgin Islands of a major source of income.*—Elimination of its watch industry will deprive the Virgin Islands of one of its major industries and its only precision industry. The precise monetary effect may more knowledgeably be presented by other witnesses. However, General Time can state with certainty that the monetary effect will be substantial and will be paralleled by an equally substantial effect upon the more than 800 Virgin Islands workers who have invested their time in developing the skills requisite to staffing a watch assembly operation.

(4) *The effect would be to deprive the United States watch consumer of a major source of low-priced jeweled watches.*—The Virgin Islands and Guam constitute the only sources of 17 jewel-lever watches other than the watch industries of foreign countries. Such watches supply the domestic demand for low price, quality jewel-lever watches. If the Virgin Islands watch industry is terminated, United States watch distributors will be forced to purchase their low-priced jeweled watch requirements from foreign countries. The three domestic watch com-

panies which have domestic facilities capable of partially producing jeweled-lever watches confine their production to 21 jewel-lever watches and other more expensive watches such as the electric watches. There is no domestic company which continues to have the capacity of producing a jeweled watch exclusively from domestically manufactured parts and, the greater percentage of domestic parts and labor a watch contains, the higher price the consumer must pay for the finished product. Moreover, even the present domestic jeweled-lever movement production capacity appears to be giving way to foreign production by the domestic watch companies. Hamilton Watch Company has transferred a major portion of its electric watch production to its Japanese facilities and has acquired all of the stock in Buren Watch Company, S.A., Buren, Switzerland; a substantial equity interest in the Elgin Watch Company has recently been acquired by Swiss interests; and, United States Time is producing a major portion of the components of its "Timex" watches in its foreign subsidiaries.

IS THERE A NEED FOR A QUOTA UPON DUTY-FREE IMPORTATION OF WATCHES FROM THE INSULAR POSSESSIONS?

This question obviously is basic to the problems at hand. General Time submits that a reliable answer cannot be obtained without thorough study.

The domestic producers who have supported the request that this Committee sharply curtail duty-free imports into the United States from the Virgin Islands seek to justify this action on the basis of a contention that the current level of Virgin Islands watch production is seriously injuring their domestic operations. We question whether a reduction in the level of imports from the Virgin Islands into the United States would aid the domestic operations of these companies. It is our belief that any such curtailment would benefit only the foreign watch production facilities of the domestic producers, foreign watch industries, and the importers of their production.

Virtually all watch movements produced in the Virgin Islands are of conventional 17 jewel-lever construction. Such watches are not being produced in the United States. The domestic jewel-lever watch manufacturers are partially producing only 21 jewel and electric movements in the United States. They obtain their requirements for 17 jewel-lever watches from their subsidiaries in the Virgin Islands and from their foreign subsidiaries. If the Virgin Islands watch industry is terminated, those domestic companies which have foreign watch subsidiaries (all of major watch companies except General Time) will simply turn to those sources for their low price, 17 jewel-lever watch movement requirements or will import the products of other foreign watch production establishments. All other companies which now rely upon the Virgin Islands for such watches will have to import their requirements either from foreign production facilities which they will establish or from non-related foreign sources. This prediction is confirmed by the following recent statement of the United States Tariff Commission:

"If any Governmental action (e.g., a reduction of United States rates of duty on watch movements, or restriction of the United States duty-free entry of shipments from the Islands, should lead to a reduction or termination of these shipments, the United States concerns presently importing Virgin Islands movements would probably turn increasingly to low-priced jewel-lever watch movements imported from other sources." [underscoring added] [T.O. 150, March 1965, page 87]

This prediction gains further support from the increased reliance of the domestic watch companies upon foreign sources since production controls were placed upon Virgin Islands watch production—for example Hamilton's acquisition of a Swiss watch production subsidiary.

We presume that those domestic companies which advocated the stringent quotas outlined in the press release of the Committee dated June 8, 1966, premised their request on alleged injury to the domestic watch industry. In the hearings before the Virgin Islands Watch Committee, Hamilton, Elgin, Bulova and United States Time each contended that Virgin Islands production was injuring seriously their domestic operations. This claim was challenged in those hearings and it is challenged here. The claim is not supported by the evidence.

Although Government or other impartial statistics concerning recent domestic jeweled-lever watch production are not available, General Time is of the opinion that such production has experienced a gradual decrease over the last decade. This decline started before the domestic manufacturers established their facilities in the Virgin Islands and their production in the Virgin Islands has not

accelerated the decline due to the fact that the Virgin Islands industry is not producing the high jewel and electric watch movements which are being produced domestically. During the most prolific period of Virgin Islands production for which Government statistics are available (1964-1965) the Tariff Commission reports that although Virgin Islands production increased 51%, "there was virtually no change in the quantity of jeweled movements produced" in the United States and United States production of pin-lever movements increased 14% (T.C. 169, March 1966, pages 5, 7).

In fact, during the entire operating history of the Virgin Islands watch industry, the Tariff Commission's statistics report an overall increase in domestic watch production; a steadily increasing Virgin Islands watch production; and, the greatest increase in domestic production coincident with the most prolific period of Virgin Islands watch production.

	Domestic watch movement production <sup>1</sup>	Virgin Islands watch movement production <sup>2</sup>
1961.....	9,668,000	173,000
1962.....	11,919,000	420,000
1963.....	12,138,000	1,087,000
1964.....	11,970,800	2,369,000
1965.....	13,609,000	3,578,000

<sup>1</sup> T.C. 169, March 1966, table 3.

<sup>2</sup> T.C. 169, March 1966, table 7.

Whatever injury the domestic producers of high-jeweled watches have suffered has resulted from a market demand which they cannot meet by domestic production—the demand for low priced watches, as stated in the Tariff Commission's Report to the President in 1965, (Footnote T.C. 150, March 1965, pages 16, 17).

"Currently, at least two-thirds of all watches retail at less than \$30. Virtually the entire increase in annual consumption during the past decade was accounted for by watches retailing in this price range. Such watches include (1) nearly all those incorporating pin-lever movements (domestic and imported), (2) virtually all those incorporating movements received from the Virgin Islands, (3) a very large share of those incorporating jeweled-lever movements imported from foreign countries, and (4) a small share of those incorporating jeweled-lever movements produced in the United States."

But, any examination of the claim of injury by the domestic watch manufacturers cannot conclude with a mere realization that they are engaged in the domestic production of watches which have a low market demand. Hamilton, Elgin, Bulova and United States Time are meeting the demand for low priced jewel and pin-lever watches through their subsidiaries in the Virgin Islands and in foreign countries. Under the allocations of the quotas established by the Virgin Islands Government, which were based upon the comparative operations of the Virgin Islands producers, these four companies received combined allocations which recognized and established them as the source of the majority of watch movements produced in the Virgin Islands.

General Time is unable to acquire any reliable statistics concerning the share of watches imported from foreign countries which is attributable to the four domestic watch manufacturers and their subsidiaries.

If the domestic producers have any valid claim to injury from competition with foreign watch production, destruction of the Virgin Islands and Guam watch industries is neither an adequate, necessary or equitable solution to the problem.

In 1965, watches entering the United States from the Virgin Islands (the only significant source of watches entering under Headnote 3(a)) and watches imported directly from foreign countries represented 60% of apparent United States watch consumption. But, out of this 60%, 50% of apparent United States watch consumption in 1965 consisted of watches entering the United States directly from foreign countries, thus leaving only 10% of apparent United States consumption coming from the insular possessions.

<sup>3</sup> T.C. 169, March 1966, page 6.

By these statistics along, elimination of the Virgin Islands watch industry could at most eliminate  $\frac{1}{6}$  of the domestic manufacturers' import competition and that competition would be confined to 17 jewel-lever watches which are not being domestically produced. It does not accord with sound marketing opinion to expect that if the American consumer is deprived of the approximately 4 million, under \$30.00, jewel-lever watches now being produced in the Virgin Islands, he will turn significantly to high priced domestically produced jeweled-lever watches when foreign watch manufacturers are eager to supply him with low priced jeweled-lever watches. This expectation is supported by the Tariff Commission's 1965 Report to the President (T.C. 150, March 1965, page 37, quoted at page 11, *supra*).

Termination of the Virgin Islands watch industry is not merely a matter of destroying the investment of some domestic companies in order to give economic aid to other domestic companies. As previously stated, the "other domestic companies" which would seek aid in this manner are among the largest watch producers in the Virgin Islands and also import substantial quantities of watches from their subsidiaries in foreign countries. Thus, when the Committee is presented with statistics which compare direct imports from foreign countries, imports from the Virgin Islands, and domestic watch production and is told that domestic watch production is being seriously injured by each class of imports, the Committee is invited to inquire as to the percentage of such imports which is attributable to the very companies which claim serious injury is being visited upon them by imports.

General Time is unable to understand the motivation of those companies which seek to destroy the Virgin Islands watch industry—when they are among its largest members—except as an effort to eliminate from the jeweled-lever wrist watch industry the competition of companies, like General Time, which have no other watch production facilities than those in the Virgin Islands.

Apart from the validity of the claim that a stringent restriction should be placed upon Virgin Islands watch production to protect the domestic watch manufacturers, consideration should be given to whether a quota program is the most reasonable approach and whether, in view of pending considerations involving the watch tariff, any restriction is likely to be necessary.

A quota program is, to say the least, contrary to our established adherence to marketing based upon the concepts of supply and demand. A quota program requires an elaborate system of administration in order equitably to allocate the overall quota among the producing companies. Moreover, the question should be asked, whether the Committee is singling out the watch industry of the insular possessions as the sole industry benefiting from Headnote 3(a) which must bear the consequences of a change in the attitude of Congress regarding this legislation. If the Committee's concern, as reflected in the proposed amendments to H.R. 8436, is more directed to dissatisfaction with the concept of a "tax loophole", than to the alleged serious injury to some members of the domestic watch industry, would it not be more in the public interest to re-evaluate the Congressional policies which led to the enactment of Headnote 3(a) than to terminate only one of the many industries of the insular possessions which have been established in good faith reliance upon Headnote 3(a)?

The question of continued watch production in the insular possessions may be determined by the outcome of a pending decision of the President regarding the watch tariff.

In the hearings before the Committee established by the Virgin Islands Government to study the need for a watch quota, General Time urged the Committee not to impose a quota on the production of watch movements in the Virgin Islands or the shipment of them to the United States until after the President determines whether the present "escape clause" rate of duty on watch movements will be permitted to remain effective. This question is now pending before the President and the President may act at any time. Under law the trade agreement reductions would automatically become effective on October 11, 1967 unless the President affirmatively takes action to prevent this result.

If these duty reductions again become effective, the Virgin Islands producers will be in a very much less favorable position to compete with imports than is now the case. In its 1965 report to the President the Tariff Commission in discussing these duty cuts stated:

"In summary, full restoration of the trade-agreement rates of duty on imports of watch movements would probably have the following effects: (1) The

landed, duty-paid cost for most watch movements imported from foreign countries would become significantly lower; (2) a large share of the duty reductions on the bulk of the imported movements, particularly those that meet intense price competition, would be passed on to retail outlets and consumers in the form of lower watch prices; (3) the assembly of watch movements in the Virgin Islands would be less attractive; (4) imports from Europe and Japan would increase; (5) the share of the U.S. market supplied by watches incorporating imported movements would rise; and (6) *the concerns currently producing watch movements in the United States would, in the aggregate, account for most of the increase in imports.*" [T.C. 150, March 1965, page 4] [italic added]

We urge upon this Committee these same considerations.

#### RECOMMENDATIONS OF GENERAL TIME CORP.

1. General Time recommends that the Committee withdraw the amendments to H.R. 8436 described in the press release of June 8, 1966 because the members of domestic watch industry which seek this action can demonstrate no valid injury from watch production in the insular possessions which justifies: (a) destruction of the watch industries of the insular possessions; (b) destruction of the investments of domestic watch companies in the insular possessions; (c) depriving the American consumer of this major source of low-cost, high-quality jeweled-lever watches; and (d) the resulting injury to the economy of the affected insular possessions.

2. General Time recommends that, if the Committee's amendments to H.R. 8436 reflect a re-evaluation of the philosophy underlying Headnote 3(a), the Committee investigate the continuing validity of that philosophy, as it applies to all industries, and that it not single out the watch industry of the insular possessions to bear the economic loss in a change of Congressional policy.

3. General Time recommends that the Committee avoid any hasty determination of the issues involved in this matter pending the outcome of the President's current investigation of the watch duty structure.

In particular, General Time believes that the facts do not warrant this Committee imposing quota restrictions which are more restrictive than those which have been imposed by the Government of the Virgin Islands. In the hearings before the Virgin Islands Watch Committee no domestic producer voiced serious objection to a quota level approximating that which subsequently was established by the Virgin Islands Government; none seriously advanced the proposal before that Committee that the quota levels which have since been adopted by the Virgin Islands Government would inflict serious injury on the domestic producers. Accordingly, we urge that any quotas imposed by this Committee adopt the quota pattern which has been promulgated by the Virgin Islands Government. This would impose a minimum injury upon the Virgin Islands watch producers and would require the least amount of change in their marketing plans. At the same time it would give to the domestic producers a level of protection which we believe has been acquiesced in, in principle, and would eliminate any concern of the domestic producers over the possibility of greatly increased watch production following the determination of invalidity of the Virgin Islands watch quota program.

Moreover, we believe that any quota to be established should be limited to watch movements of the type that the domestic manufacturers are producing in the United States and, to that end, should be restricted to jeweled-lever watch movements which contain in excess of 17 functional jewels, or which are electrically powered.

In any event, the effective date of any quota which requires a reduction of the current level of duty-free importation from the Virgin Islands must not become effective without a minimum of six months' advance notice.

The members of the Virgin Islands watch industry must commit themselves for parts and supplies at least six months in advance of anticipated use. Thus, large quantities of watch parts are now in stock or on order and, unless they may be utilized, severe economic injury will be visited upon the Virgin Islands watch companies. In addition, the Virgin Islands watch companies require at least six months advance notice of the quantity limitations of any quota to be imposed in order that they may intelligently order their future watch parts requirements.

Likewise the domestic marketer, such as General Time, must have a minimum of six months' lead time to arrange for its source of supply. General

Time has based its marketing plans and commitments upon the expectation that it will obtain its needed production from the Virgin Islands. If this supply is to be cut off, General Time at least should be given reasonable time to seek alternative sources abroad.

To terminate abruptly the operations of General Time and the other companies which entered the Virgin Islands in good faith reliance upon the established policy of Headnote 3(a), without advance notice adequate to allow sufficient time to adjust marketing plans and effect maximum salvaging of their investment, would be most inequitable.

For the additional information of the Committee, I am attaching a letter from Mr. Chaim Diamond dated June 28, 1966, in which Mr. Diamond presents to me the benefits of his insight into the watch industry of the Virgin Islands. Mr. Diamond was instrumental in initiating the Virgin Islands watch industry and has a substantial interest in our Virgin Islands subsidiary, Antilles Industries, Inc. He is also a substantial stockholder in the Hamilton Watch Company.

NEW YORK, N.Y., June 28, 1966.

Mr. B. K. WICKSTRUM,  
President, General Time Corp.,  
New York City,

DEAR BART: I would like to give you my comments relative to the pending U.S. Senate Committee Hearing which is about to be held to consider proposed limitations on the number of watches which may be shipped annually to the USA from the Virgin Islands free of duty.

We have been informed that the Senate Finance Committee had made a recommendation (since then recalled for reconsideration) for a very drastic limitation that would have cut to less than one-third the quota previously approved by the Virgin Islands legislature on the basis of conclusions reached, by a committee appointed by the Governor of the Virginia Islands, after extensive hearings in which the entire watch industry and representatives of the U.S. Department of Interior participated and gave testimony. The views of the Senate Finance Committee have apparently been influenced by representatives of an organization which calls itself the American Watch Manufacturers Association. The Senate Finance Committee should be made aware of the fact that, in testimony given before the committee appointed to advise the Governor of the Virgin Islands, the counsel to Hamilton Watch Company stated with respect to the so-called American Watch Manufacturers (Hearing Board minutes, p. 313, July 9, 1965): "At present I would say that its membership is restricted to Hamilton and Elgin." So far as I have been able to ascertain, the membership of that Association is still so "restricted." The use of the all-embracing name "American" for an organization restricted to two companies is made even more ironic by the fact that the financial control of Elgin is about to pass into Swiss hands.

You know that my personal interest extends beyond my financial interest as a stockholder of General Time Corporation's Virgin Islands subsidiary, Antilles Industries, Inc. The scope of my interest was set forth in a letter dated May 12, 1965, which I wrote to Governor Palewonsky and in which I made certain proposals with respect to the Virgin Islands Government's plans for a quota on watch exports to the United States. In that letter I said:

"You may recall the pioneer role that I played in creating the Virgin Islands watch industry. I was the organizer and Chairman of the Board of Standard Time Corporation, the first watch company in the Virgin Islands, until it was sold to Hamilton Watch Company. Thereafter I served as a member of the Board of Directors of Standard Time Corporation and as a consultant to Hamilton Watch Company until I jointed with General Time Corporation in creating Antilles Industries, Inc., in which I have an interest. As a result of the sale of Standard Time Corporation I became, and I still am, the largest individual stockholder of Hamilton Watch Company."

As a matter of fact, my financial investment in Hamilton Watch Company is more than tenfold my financial investment in Antilles Industries, Inc.

It is therefore apparent that I have a very substantial interest in the financial success of Hamilton Watch Company. If I am critical of the position taken by the management of that company, it is because I sincerely believe that the management may be misguided.

Before the watch industry was established in the Virgin Islands the economy of the Islands was based (like that of neighboring Cuba) almost exclusively on the



production of sugar—a one-sided economy which was financially precarious and which could prove politically explosive. The establishment of the watch industry in the Virgin Islands improved the economic conditions substantially. Wages formerly as low as 50 cents per hour were increased to United States standards. The Islanders, who were United States citizens, were given an opportunity to share in the growing United States prosperity. The employees are working in beautifully equipped air-conditioned factories, protected by modern health and sanitary standards. The development of the watch industry in the Virgin Islands has also brought secondary benefits, so that the travel business, hotels, entertainment and indirectly even tourist trade have increased.

My interest in the Virgin Islands economy is not only financial. I have pride in my pioneer role in the great improvement of the Virgin Islands economy and I cannot be silent in the face of proposals that would destroy what I helped to build. Any action which would effectively destroy the watch industry in the Virgin Islands would adversely affect not only the watch manufacturing companies, which have made substantial investments in the Virgin Islands in reliance upon the announced policy of the United States Government, but also the entire economy of the Virgin Islands. The political effect of such an economic disturbance could be disastrous.

That the limitations proposed by the Senate Finance Committee would effectively destroy the watch industry in the Virgin Islands and would adversely affect the economy of the Virgin Islands without comparable benefit to the watch industry in the USA has been set forth by you in your draft of the statement of General Time Corporation to be made in opposition to HR 8436. I shall therefore limit myself to a few additional points which I think should be stressed.

A 1924 Treaty with Denmark established the Virgin Islands as a "free" port of entry for foreign goods. Section 301 of the Tariff Act of 1930 permits Virgin Islands goods to enter the US free of duty if they "do not contain foreign material in excess of 20% of their appraised value (when they reach a US port of entry)."

The treaty was intended both to give us a military base for the protection of the Panama Canal and to develop the Islands economically by stimulating tourism and trade. Since the Tariff Act upon its enactment in 1930 provided that 80 per cent, not 50 per cent, of the appraised value must be native or of US origin to qualify it as a Virgin Islands product eligible for duty free entry to the US, both objectives of the original agreement seemed satisfied. During World War II the Islands became an important outer defense base for Panama. Navy money poured in and greatly assisted the economic progress of the Islands. The end of the war, however, led to abandonment of the Islands by the Defense Department, which cut deeply into that territory's economy. The subsequent development of longer range defense weapons eliminated dependence on close-in island defense bases. This in turn required a permanent reappraisal of the means to make the 'slands economically independent.

In the early '50's a major effort was made to publicize the Islands' tourism attraction—their tropical climate. The Tariff Act was changed in 1954 to require that only 50 per cent—not 80—of the landed value of a product must be added there to qualify for duty-free entry to the US as a Virgin Islands product. This was intended as a further enticement to mainland industry to establish plants on the Islands.

Now is the time to focus perspective. Few can object to the economic development of the Virgin Islands. Few will mind relieving the US taxpayer from the obligation of supporting that territory. Since the Islands continue to be a US possession, none can argue that their products are not ours, even though their wage minimums have just reached ours.

One can only commend the Puerto Rican operation "Bootstrap" which, similar to the Virgin Islands program, woos mainland industry with tax abatements, building grants, etc., to help put their people to work. For those few subsidiaries of mainland plants, that are in fact assisting in the development of the islands by teaching lasting skills and utilizing native materials and labor in legitimate manufacturing operations, there should be no criticism.

Now a few companies are striving to hamper or to eliminate the successful efforts of the Congress and the Island government in the building and maintaining of a sound local economy. Congress and the Island government must judiciously weigh the economic and social effects on the community, to the gains the petitioning companies will derive via the relief they requested. There is ample evidence virtually everywhere in our own country and throughout the world that people are fighting and dying to attain the dignity of equality, both

socially and economically. This is not accomplished by slashing off gains that have been made by many for the good of a very few.

In our considerations we should first look at who is requesting the diminution of the watch production from the Islands. All are mainland manufacturing companies, all are companies with substantial investments in manufacturing facilities in Europe and/or Asia, and all have investments in Virgin Islands facilities. They are *not*, as they have represented, the spokesmen for the entire domestic watch industry. They are *not* companies wholly owned by domestic capital.

What do they want from the governments and why do they want it? They seek to emasculate the Island production by establishing a quota system at about 33% of the Islands' existing production level. This unrealistic quota is sought to protect the continued manufacture of watches made in the United States.

Members of the legislative arm of our government naturally are not fully aware of the intimate details relating to the functioning and movement within an industry. However, since they have been called upon to regulate part of the industry they should be aware of the currents within the industry, and make their decision predicated upon that knowledge. We who are fully cognizant of the day to day operation of the industry find some interesting paradoxes in the companies seeking the relief and the type of relief sought. Pandora's box should be opened for inspection and edification.

The tabulation provided as Exhibit 1 presents a seven year history of watch movement manufacture in the United States. It reveals the following facts:

1. Pin lever production, the major production of U.S. Time, one of the advocates for reduced production, has climbed about 27% during the period.

2. Jeweled movement production declined by an insignificant amount because—

(a) Production facilities were diverted to producing electric and electronic powered movements.

(b) As indicated by testimony in St. Thomas during July of 1965 Elgin's production had declined from the levels of prior years.

In 1964 the Island production was 2:4 million. Close to 90% of Island production did not at all affect domestic production. Almost the complete impact of Island production was on foreign movements.

It is a known and recognized fact within the industry that conventional movements of 17 or less jewels cannot be produced in this country and priced competitively with movements made in Europe or Asia. The conclusion is substantiated by the diversion of major manufacturers to Europe, Asia and the Virgin Islands. It is further corroborated by the fact one of the advocates for V.I. curtailment in 1966 further increased its foreign manufacturing facilities by acquiring another Swiss company.

Based upon this fact two pertinent questions to be asked the advocates for production reduction are—

(1) What per cent of your 17 jewel requirements are now produced by you domestically from parts made domestically?

(2) Would you expect to increase 17 jewel domestic production proportionate to the decline in Virgin Islands production?

On all levels—retail, wholesale and manufacturing, watch companies, as indicated in their financial statements, have enjoyed the best profits in their history. As examples—

(1) Per share earnings of Bulova were 69¢ in 1961. They were \$1.44 in 1965.

(2) In 1962 U.S. Time earned \$3,200,000 while 1965 earnings were \$10,200,000.

(3) In 1961 Hamilton Watch Company had a loss of 6¢ per share and sales of \$35,800,000. In 1965 earnings were 2.13 per share on sales of \$44,800,000.

(4) Exhibit 2 presenting newspaper articles on the financial conditions of some leading domestic companies.

From the statistics provided the conclusions are—

(1) Almost the total impact of Island production has been and will continue to be against foreign movements.

(2) It can be reasonably assumed domestic production will *not* increase proportionate to any curtailment made to Island production. Instead, foreign imports will be the primary beneficiary of the curtailment. Included, of course, are the applicants for curtailment who have very large foreign watch operations.

(3) None of the domestic manufacturers suffered or will suffer economically because of Island production.

These conclusions apply to all but one of the major watch companies—General Time Corporation. General Time was sitting back watching for the first two years (60 and 61) the direction of the development in the Virgin Islands. The company, as everybody else, was fully aware of the then paragraph 301, later modified to 3(a) Headnote, and was following carefully the expansion started originally by my group, which was later sold to Hamilton. Only after Hamilton, U.S. Time, Elgin and Benrus entered the Virgin Island watch field did General Time assume all eventual objections were removed since full scale production was now developed.

Recognizing the industry was and is taking full advantage of the law and incentive availability in the Island, a decision was made to join this pilgrimage. Great effort was undertaken in assigning capital, equipment and training of people. General Time actually welcomed the opportunity in the Virgin Islands after convincing themselves this was a permanent industry. The company abandoned all watch imports from any other foreign country. It discontinued its own manufacturing operation in this area and converted the facilities in the mainland to the manufacture of fuses and other military products where demand has increased heavily.

Therefore, General Time relied fully for their watch supply on the Island sources. This in a time where other companies, although primarily benefitting from the Virgin Islands, were obtaining control and buying foreign companies. General Time also was approached by companies in foreign countries which are producing watches to merge or purchase facilities in those countries. In line with the policy of President Johnson, General Time delayed this step and would only do so with great regret if compelled by circumstances. This would only happen if the production in the Virgin Islands was curbed and quotas established which will be insufficient and unsatisfactory to the needs of General Time.

Proof has *not* been presented that the domestic industry has been impaired by the Island industry. If such proof is presented to the satisfaction of the legislature then appropriate remedy must be devised. In this respect we should first consider the timing of the remedial measure. It would be expedient that no action should be taken until the President makes his decision now pending on the escape clause. If the duty is lowered there would be no need for action.

It will be for the US Senate to decide which is more important, the alleged unproven fact that imports from the Virgin Islands will indirectly impair the domestic watch production which from the testimony seems to be in the vicinity of 1,250,000 units in relation to a total watch consumption of 35,000,000 against the value of a strategic window on the Atlantic Ocean in a community consisting of peaceful working US citizens, with their hopes to share in the US progressive economy.

I have unlimited trust in our legislative government and I know they will make the right decision.

Sincerely,

CHAIM DIAMOND.

EXHIBIT 1

*Watch movement sales in United States*

(In millions of units)

Year	U.S. production			Virgin Islands units <sup>1</sup>	Imported units <sup>1</sup>	Total shipments <sup>1</sup>
	Pin lever units <sup>2</sup>	Jewelled units <sup>2</sup>	Total units <sup>1</sup>			
1959.....	9.7	1.6	11.3		13.5	24.8
1960.....	7.9	1.6	9.5		13.2	22.7
1961.....	8.4	1.3	9.7	.2	12.6	22.5
1962.....	10.3	1.6	11.9	.4	13.8	26.1
1963.....	10.6	1.5	12.1	1.1	12.7	25.9
1964.....	11.7	1.3	12.0	2.4	13.0	27.4
1965.....	12.3	1.3	13.6	3.6	17.1	34.4

<sup>1</sup> "U.S. Tariff Commission Report to the President" (No TEA-IR-4-66) Page 15.

<sup>2</sup> Virgin Islands watch industry—testimony before the hearing board on May 27, 1965, by Mr. S. Flick, page 73, line 19.

<sup>3</sup> Col. 3 minus col. 2.

<sup>4</sup> Jeweled movement production not available. Estimated at rate in existence during 1964.

## EXHIBIT 2

[From Barron's, Mar. 14, 1966]

## HAMILTON WATCH PROFITS SPRING TOWARD NEW HIGH

Aided by strong consumer demand and a sizable increase in military business, Hamilton Watch Co. appears likely to tick off peak sales and earnings in the current fiscal year ending January 31, 1967.

The company has not yet reported results for the 12 months ended January 1, 1966. In the first nine months though, on a 9.8% rise in sales (to \$32.8 million), profits mounted 72%, to \$1.49 per share, from 95 cents. For the full fiscal year, sales probably reached a new high just short of \$45 million, which compares with \$38.1 million the year before. Net probably exceeded \$2.10 per share, against \$1.30. Not included in fiscal 1966 net is a capital gain, resulting from the sale of 100,000 shares of New Jersey Zinc stock, equal to \$1.70 per share.

This year, further gains appear in the works. Sales of watches and silverware are brisk. Moreover, military orders for timing fuses have jumped sharply; the current defense backlog approximates \$25 million, up from \$4.5 million a year ago. All in all, Hamilton's earnings in fiscal 1966-67 could approach \$2.50 per share, on revenues of around \$55 million.

## DIVERSIFIED SALES

Situated in the rolling Amish country of Lancaster, Pa., Hamilton in fiscal '66 obtained about 50% of its volume from the sale of watches, 17% from military business and most of the rest from the manufacture of sterling silver flatware (Wallace Silversmiths, Inc.). The Precision Metals division makes magnetic tapes and metal foils for electronic applications.

Watches—the mainstem of the business—range in price from \$12 to several thousand dollars (for the more esoteric models made with diamonds and of engraved gold). Hamilton brand timepieces, accounting for some 30% of overall corporate volume, are sold directly to some 10,000 retailers. Watch movements are manufactured in the U.S. Prices of the Hamiltons range from \$39.50 to \$5,000 or more; some 75% of the business falls in the \$50 to \$75 area. Electronic watches sell for \$65 and up.

To compete effectively in the low-priced watch market, Hamilton three years ago organized the Vantage Products division. It buys watch movements from wholly owned Standard Time Corp., of Bermuda and then cases them and markets them domestically. Vended originally as private-label merchandise, the bulk of the output now bears the Vantage name. The emphasis has paid off: last year Vantage doubled its sales. Output includes 17- and 21-jewel watches priced from \$11.95 to \$29.95, and an electronic item that is tagged at \$37.50.

## FOREIGN ACQUISITION

In April 1959, Hamilton acquired a Swiss supplier of time pieces, A. Huguenin Fils S.A. More recently, it bought for an undisclosed cash sum Buren Watch Co. S.A., of Buren, Switzerland. Since Hamilton, as do most watch companies, has long-term contracts with Swiss suppliers, full benefits of the Buren purchase may not be realized for at least two years. Swiss movements primarily are used for watches made by Hamilton for European and other foreign markets; its watches now are sold in 37 countries.

At home, meanwhile, the watch business is in excellent shape. Judging by spring orders for timepieces, jewelers apparently cleared their shelves of merchandise during the important pre-Christmas selling season. Thus, current purchasing is chiefly for inventory replenishment. However, the outlook for fall buying is also good and barring any change in economic conditions should be no less satisfactory than this past season.

The market for flatware also is benefiting from heavy consumer demand. Wallace Silversmiths enjoyed a 30% rise in sales last year, far in excess of the industry average. Contributing importantly to the gain was a new pattern. Two new patterns will be introduced this year, including a traditional style called Shenandoah. Wallace, located in Wallingford, Conn., makes some hollowware, but the bulk of its output is in sterling silver flatware. Prices for a five-piece place setting run from \$37.50 to \$60.

## NEW TIME FUSE

Hamilton's Industrial & Military Products division got a major fillip from a \$18 million fixed price contract for a new technical time fuse of the Army's own design. The unit usually employs 1,700 people, but the order has necessitated the addition of 1,000 more workers; so far 600 have been hired and are being trained. Production on the new fuse will get started around mid-year, when tooling is expected to be finished. About \$10 million of the current backlog probably will be taken down this year.

The main Lancaster plant measures 325,000 square feet and the Wallingford unit runs 500,000 square feet. A 25,000-square-foot facility at East Petersburg, Pa., is undergoing an expansion of 30,000 square feet, half of which is ticketed to handle expected operations of Vantage, the rest will be for military orders.

Proceeds from the sale of a block of New Jersey Zinc stock brought the company an after-tax profit of \$1.6 million, most of which is going to help finance the expanded defense operations. At the fiscal '66 year-end, current assets totaled \$26.8 million. Cash items of \$5.6 million alone were in excess of current liabilities of \$4.3 million. The large current ratio (of almost 6-to-1) reflects the nature of the jewelry business, where receivables on merchandise shipped in July are carried through to the following January.

The quarterly cash dividend was upped recently from 17½ cents to 30 cents per share.

Capitalization consists of about \$7 million in long-term debt and 1,078,076 shares of common. Roughly 50% of the stock is held by Bush Terminal Co.

Hamilton Watch Co. common is listed on the New York Stock Exchange.

[From the Wall Street Journal, June 17, 1966]

## DIGEST OF EARNINGS REPORTS

*Gruen Industries, Inc.*

	Mar. 31, 1966	Mar. 31, 1965
Sales.....	\$12,204,523	\$10,663,859
Net income from operations.....	1,997,408	993,113
Common shares outstanding.....	1,831,243	506,338

<sup>1</sup> Excludes special credits of \$177,383.

<sup>2</sup> Includes shares issued as result of conversion notes.

NOTE.—The 1966 results reflect provision of \$265,730 for income taxes. No provision was required for 1965—to carry forward of losses.

[From the Wall Street Journal, June 16, 1966]

## WATCH SALES ROSE IN 1965

NEW YORK.—Estimated sales of watches rose to about 35 million last year from 25 million in 1964, and a similar gain is expected in 1966, according to Bulova Watch Co. Higher-priced and "second" watches account for a substantial portion of the increased sales, a company spokesman said.

GENERAL TIME CORP.,  
OFFICE OF THE PRESIDENT,  
New York, N.Y., July 22, 1966.

HON. RUSSELL B. LONG,  
Chairman, Senate Finance Committee,  
Senate Office Building,  
Washington, D.C.

DEAR SENATOR LONG: At the conclusion of the hearing on H.R. 8436 held before the Senate Finance Committee on June 30, 1966, one of the Senators stated that he was more confused than he was at the beginning of the hearing. We recognize that this may have been the inevitable result of the hearing, particu-

larly to a person who is not thoroughly familiar with the many ramifications of the watch industry. However, as I review the transcript, it appears to me that these were the controlling principles which were established:

1. Production of watches in the Virgin Islands has not resulted in any loss of employment in the United States by the domestic companies.

2. Even if the Virgin Islands watch industry were closed down or further curtailed, this would result in no increase in domestic production. Instead it would result in increased direct importations from foreign countries, primarily from the foreign subsidiaries of domestic companies.

3. General Time is the only major domestic company which has no foreign watch production facilities. Curtailing the Virgin Islands Operations would force General Time to either discontinue marketing wristwatches in the United States or to acquire a foreign subsidiary with watch making facilities.

We enclose a chart which outlines in succinct form information which is pivotal to the issues in this proceeding. This chart was prepared by Mr. Diamond, whose letter was attached to my statement presented at the hearing, and by Mr. Wilken of General Time. In reviewing this chart may we invite your attention to the following points:

1. The ownership of General Time is much more widely dispersed than is that of any of the other domestic companies.

2. General Time has the largest number of employees in the United States of any of the domestic companies.

3. General Time is the only domestic company which does not have foreign watch assembling-manufacturing operations (none of the 1,000 foreign employees of General Time are engaged in watch production operations).

4. The only remaining facilities for producing wristwatches which General Time now has are those located in the Virgin Islands (it does produce pin-lever pocket watches domestically).

It appears to us that an equitable compromise of the issues presented would be for the Committee to adopt the quota system heretofore established by the Virgin Islands and to give to Guam and American Samoa such quota as to the Committee appears reasonable. The quotas heretofore established by the Virgin Islands Government reflected compromises arrived at by the Government of the Virgin Islands after an extensive investigation. The imposition of these quotas has already resulted in a substantial reduction in the production of General Time's Virgin Islands subsidiary, Antilles Industries, Inc.

We enclose the draft of an amendment which has been prepared jointly by Bulova Watch Company Inc., the Benrus Watch Company, Inc. and General Time Corporation. This amendment in effect would continue the quota system adopted by the Virgin Islands Government but under the authority of the United States Government. We hope you will support this amendment.

Very truly yours,

B. K. WICKSTRUM.

Statistics from transcript of hearings on H.R. 8436 and Standard and Poor's

	Stock exchange	Stockholders		Employment			Watch assembly—Manufacturing				Recommendations for			Tax exemption
		Total	Big holder	In United States	U.S. insular possessions	Foreign	Lever USA	Lever V.I.	Pin lever	Foreign factories	House version bill No. 8436	Senate finance Committee proposal (recalled)	Post ponement	
<b>Virgin Islands, U.S.A.:</b>														
Bulova (Atlantic Time).....	NSE	5,583		4,000	100	12,600	X	X		X	X			
General Time (Antilles Industries).....	NSE	16,000		6,000	75	1,000		X				X		
Hamilton (Standard Time).....	NSE	1,177	(2)	2,280	180	1,600	X	X		XX		X		X
Elgin (Master Time).....	NSE	3,574	(2)	1,300	30	1,504	X	X		X		X		
Benrus (Quality Products).....	ASE	NA	(2)	1,200	83	400		X		X		X		X
US Time (Virgo).....	UNL	NA	(2)	5,000	125	5,000		X	X	XXXXXX		X		
<b>Guam, U.S.A.:</b>														
Waltham (Hallmark).....	UNL	NA	(2)	NA	(2)	NA		X						
<b>Virgin Islands:</b>														
Admiral.....								X			X			X
Belair.....								X			X			
Multi Jewel.....								X			X			
Unitime.....					222			X			X			X
Virgiline.....								X			X			
Sussex.....								X			X			
Summer Watch.....								X			X			
Belmont.....								X			X			
Rosa.....								X			X			
Watches, Inc.....					108			X			X			
<b>Total Employment, U.S. Virgin Islands</b> .....					863									
<b>Guam:</b>														
Stratton.....								X						
Morrow.....								X						
Westminster Time.....					149			X						
Bendix Industries.....								X						
<b>Foreign watch importers</b>														
Governor Virgin Islands.....												X		
Governor Guam.....											X		X	
Governor Samoa.....														
U.S. House of Representatives.....											X			

<sup>1</sup> Foreign figures obtained by deducting figures stated at the hearings in Washington from the total employment figures shown in Standard & Poor's.  
<sup>2</sup> Big holders shown in Standard & Poor's are as follows: Hamilton over 50 percent owned by Bush Terminal. Elgin of the total of 928,390 shares (\$5 par); 240,700 shares held by Sopinter, S. A., a Swiss concern; 196,000 shares held by S. Hoffman & associates; 102,900 shares held by Zale Corp. Benrus shows Lazarus family owns about 33 percent. Waltham shows that officers and directors own 42 percent of the stock. Shareholders:

About 2,650. US Time information about stock ownership impossible to obtain. Allegedly foreign holdings large.  
<sup>3</sup> Included in Guam total below.

NOTE.—Matter set in light face taken from Standard & Poor's, bold face, other; italic, transcript.

## DRAFT AMENDMENT TO H.R. 8436

(Senate Finance Committee print of June 16, 1966)

Revise paragraph (b) of the new headnote 6 for schedule 7, part 2, subpart E of the Tariff Schedules of the United States, as set forth in section 1(b) of the bill (page 4, lines 7 through 18 of the Committee Print of 6/16/66) to read as follows:

"(b) If the requirements for free entry set forth in general headnote 3(a) are complied with, watches (provided for in item 715.05) and watch movements (provided for in items 716.08 through 719.—) which are the product of the Virgin Islands and which contain any foreign component may be admitted free of duty, but the total quantity of such articles admitted free of duty during each 12-month period beginning on July 1 of each calendar year shall not exceed one-ninth of the number of watches and watch movements apparently consumed in the United States in the immediately preceding calendar year, as determined by the United States Tariff Commission."

[Additional paragraph could be inserted at this point to provide quotas for Guam and American Samoa, if desired.]

Senator BENNETT. We will next hear from Mr. Flick. Would you like to introduce the gentleman with you?.....

**STATEMENT OF SOL E. FLICK, BULOVA WATCH CO., INC.; ACCOMPANIED BY LLOYD SYMINGTON, OF THE FIRM OF FOWLER, LEVA, HAWES & SYMINGTON**

Mr. FLICK. I am accompanied by Mr. Lloyd Symington of the firm of Fowler, Leva, Hawes & Symington, counsel for Bulova Watch Co.

My name is Sol E. Flick. I am executive vice president and general counsel of Bulova Watch Co., Inc.

Perhaps at the outset I should correct at least two perhaps inadvertent misstatements. One, in response to a question that was asked earlier this morning as to which firms were among the four that enjoyed the tax concessions that we have been talking about, the Bulova Watch Co. was named as one. We are not one of those lucky four.

Senator BENNETT. You regret to inform the committee.

Mr. FLICK. Except I thought for a moment we had gotten this concession without my knowledge. But the fact is, sir, that we do not have this tax concession, and again when we talk of these tax concessions, we are really talking about three different tax concessions.

One is the income tax concession, which amounts I understand to approximately 75 percent of the normal U.S. income taxes in the Virgin Islands. Another is a concession which is granted with respect to the local import duty of 6 percent on components imported into the Virgin Islands, and lastly, I believe, there is an addition tax concession, that with respect to certain excise taxes. So there are really three taxes we are talking about.

Senator BENNETT. Before you start on your statement, can you give us the employment information that the other manufacturers have given out?

Mr. FLICK. Yes. The Bulova Watch Co. in the United States employs in excess of 4,000 people. In the Virgin Islands I know that as of December of 1965—and the figure has not gotten any less, it may conceivably be more—it was in the vicinity of 100 persons in our subsidiary, Atlantic Time Products Corp.



Also it was stated by a witness—and I hope that I can correct this, because it was rather fuzzy when stated previously—that with respect to the three jeweled lever watch manufacturers in the United States—and there are only three in the United States that manufacture jeweled lever watches, Hamilton, Elgin and Bulova—these three companies, I believe, and certainly with respect to Bulova, with the exception of jeweled bearings, manufacture the complete watch movement from components, from parts, which they wholly manufacture within the United States. And this impressive list of names that was referred to, members of the American Watch Association—they do not manufacture watches from components which they manufacture in the United States. As a matter of fact, they do not manufacture watches in the United States at all. To that extent the name is a slight misnomer.

Senator BENNETT. Do any of these big name companies who are not among the three assemble any movements in the United States or are their movements all assembled abroad, and brought here to put into cases?

Mr. FLICK. I think they assemble them into cases, sir.

Senator BENNETT. That is what I meant.

Mr. FLICK. Yes, sir.

Senator BENNETT. They put them in cases?

Mr. FLICK. Yes, sir.

Senator BENNETT. But they do not put the movements themselves together?

Mr. FLICK. They do not assemble the movements in the United States from the individual component parts.

The Bulova Watch Co. cannot support H.R. 8436 in its present form for the following reasons: Bulova is the largest producer of jeweled-lever watch movements in the United States, and the largest importer of such watch movements into the United States. I might add parenthetically that Bulova is also the largest single producer-manufacturer of jeweled-lever watch movements in Switzerland as well as in the United States. By and through its subsidiary, Atlantic Time Products Corp., it also conducts one of the largest watch assembly operations in the Virgin Islands under a quota allocation from the Virgin Islands government—one distinction being of course that, unlike several of our major competitors in the Virgin Islands, we do not there have that tax exemption so often referred to, which makes necessary for our subsidiary a relatively large volume operation to help overcome this competitive disadvantage.

For further background, I think the committee should know that, for many years, Bulova was the only major U.S. watch producer which refrained from taking advantage of the special opportunity provided by headnote 3(a) for operations in the U.S. possessions. This was because we felt that the duty-free importation of watch movements from the Virgin Islands undermined the continuance of a viable domestic watch industry—and would thus have a serious adverse effect upon our national defense.

Bulova has advocated the defense importance of the U.S. watch industry before the Congress and many other Government bodies for the past 15 years; and this is still its primary position. To that end,

Bulova and the other domestic watch producers supported the original Mills bill, 2 years ago, which would have prohibited duty-free shipments of watches from the insular possessions.

While advocating this position, however, Bulova was witnessing its major U.S. competitors develop very substantial watch assembly operations in the Virgin Islands, with increasing duty-free shipments to the U.S. market. To meet this serious competitive disadvantage, watch operations in the insular possessions are harmful to the best interests of the U.S. watch industry. If it were possible to roll back the clock, our strong preference would be to prohibit these duty-free Bulova reluctantly decided last year that it could not stand by any longer. Early in 1965 it made a substantial investment in a modern watch-assembly facility in the Virgin Islands, and is now in full operation there under its quota allocation.

As stated above, Bulova has always believed that uncontrolled shipments entirely, as provided in the initial version of H.R. 8436—even though this would cause us to close down our plant in the Virgin Islands along with all the others now producing there.

We realize, however, that this may not be a realistic possibility under today conditions. But the alternative now proposed is not a fair or proper solution. We feel strongly that, if insular watch operations are to be permitted, they should be controlled—but should not be at such a low level that only a select few producers could operate profitably.

In our opinion, the quota of some 1 million movements per year proposed for the Virgin Islands is far too low. Under such a quota, only a few companies—those with a reasonably large allocation and with tax exemption status—could afford to stay in business.

Again parenthetically there was some questioning earlier this morning, I believe by Senator Douglas, with respect to the meaningful effect of this tax exemption, and there was some colloquy, which indicated that the net result of this tax exemption was really very little.

It might be small if these companies chose to repatriate these tax-free profits from the Virgin Islands to the United States, but the fact is they don't. No one in his right mind would under these circumstances.

You use those tax-free profits in the Virgin Islands for further expansion, additions, or other foreign operations. You don't bring those profits back into the United States, so you actually realize a tax-free profit which puts you in a far better competitive position than your competitors who don't have it. It is a real meaningful advantage.

As I stated before, Bulova not having this tax exemption, does need a relatively large volume operation in order to make a reasonable profit in competition with those having this tax privilege. Even Bulova's present allocation is not large enough to fully compensate for this competitive disadvantage—but Bulova's share of the proposed 1 million-unit quota, which would be the Virgin Islands' share under the present bill, would be only about one-quarter of its present volume. Such a greatly reduced rate of production for Bulova would be far too low to permit a feasible operation.

It seems only right and fair that, if there is to be a quota at all, it should be high enough to permit producers who have a substantial

investment in the Virgin Islands, and who are currently operating there, to continue to operate. In our view, the present total quota established by the Virgin Islands government—somewhere between 3,500,000 and 4 million units per year—as a much fairer and more realistic figure than the 1 million proposed in the bill. On the other hand if all firms now in the Virgin Islands, including Bulova, were to receive the tax exemption now accorded to a favored few, a lower total quota would be feasible—perhaps in the range of 2 million to 2,500,000 units per year.

In regard to Guam and Samoa, their situation is quite different from that in the Virgin Islands. I understand that there are no watch operations at this time in Samoa; and those who rushed into watch operations in Guam can claim no equity. As I understand it, they all went into Guam only after the House Ways and Means Committee had approved H.R. 8436, last August, in a form which would have prohibited duty-free shipments from Guam and Samoa.

In this connection, I believe the committee should bear in mind that the Virgin Islands, after a very thorough study by a special committee, enacted specific legislation setting up controls over watch production. Neither Guam nor Samoa has made any such study nor enacted controls. Moreover, those producers who have established operations in Guam have done so, I understand, with minimum investment and facilities, with the incentive of tax exemptions—and certainly at their own risk in light of the House action last August.

In sum, the 1 million-units-per-year quota proposed for the Virgin Islands is not a fair or proper level as far as Bulova is concerned. The share of that 1 million to which even a substantial producer such as Bulova might be entitled, would be meaningful and economically feasible only for the favored few who have the tax exemption privilege. For others, including Bulova, it is much too low to permit a profitable operation.

Therefore, Bulova would prefer either to eliminate the duty-free privilege completely as to all insular watch operations; or, if this is not feasible, establish controls which would permit Virgin Islands operations to continue at approximately their present level.

Senator BENNETT. Thank you very much, Mr. Flick. I think your statement is very clear to me, and I see no reason to ask you any questions to clarify it. Do you have any other comments to make?

Mr. FLICK. Well, the last witness sometimes indulges himself and perhaps thinks of himself as a wrapup witness. I prefer not to occupy that role, because I think there is a lot here that could be wrapped up.

Senator BENNETT. I would like to let you in on a secret. There is still another witness.

Mr. FLICK. Oh, I am sorry, I didn't know that.

Senator BENNETT. I did not realize it when I addressed you as the last witness when you came.

Mr. FLICK. Thank you.

Senator BENNETT. We appreciate your coming very much.

Mr. FLICK. Thank you.

Senator BENNETT. I have been wondering whether American Samoa would have a voice in the hearings. We will now hear from Mr. Martin P. Mangan, the Assistant Director of the Office of Territories,

who is speaking for Governor H. Rex Lee of American Samoa. Governor Lee is in this country and we had expected him, but he was unable to come. Mr. Mangan, we will be very happy to hear what you have to say.

**STATEMENT OF MARTIN P. MANGAN, ASSISTANT DIRECTOR, OFFICE OF TERRITORIES, SPEAKING FOR GOV. H. REX LEE, GOVERNOR OF AMERICAN SAMOA**

Mr. MANGAN. Thank you, Mr. Chairman. The Governor had expected to be here, but he got only as far as the west coast and couldn't get beyond it because of business appointments, so he asked me to come up and make a few remarks to the committee.

I have no prepared statement because we had expected one from the Governor. The Governor did ask me to simply emphasize to the committee that he, as the Governor of the Territory, did participate in the formulation of the supplementary report of the Department of the Interior on H.R. 8346 to this committee dated March 30, 1966, and the Governor simply wanted to say that he still very vigorously supports that position, which in effect is one of recommending against the enactment of the bill as passed by the House.

The reason the Governor opposes it is that it, he feels, discriminates against two of the Territories, and it also begins the splintering process of the treatment of commodities under section 301 of the Tariff Act.

Skimming briefly down through it, the report in its third paragraph cites that American Samoa, having a per capita income of less than \$500 per year, needs the watch industry perhaps more urgently than any other territories. It then cites a sequence of events in the course of which several watch companies had opened negotiations in the territory of American Samoa, but the Governor broke off discussions with those firms, believing it inconsistent with his position as a Federal official to be engaged in an action which might be construed as an attempt to frustrate the Congress or to take advantage of the Congress' need to weigh and consider this matter in deliberate fashion.

In the second full paragraph of page 2 of the report that the Governor alludes to, there is a recommendation by the Department that the watch industry in Samoa, or in the territories, be regulated; that there be a quota established of one-sixth of the total U.S. consumption of watch movements, as such consumption is determined by the Tariff Commission by April 15 of each year for the preceding calendar year, and that quota of watches would be produced under the circumstances that generally obtain now under section 301 of the tariff act.

That total quota would be allocated by the Secretary of the Interior among the territories and possessions of the United States prior to June 1 of each year. In making such allocations, the Secretary of the Interior would give due regard to the special needs of each territory and possession, and to the existing industry, horological and otherwise, in each of the territories and possessions. In order to be eligible to produce under that quota with the benefits of section 301, however, the producer would have to pay the territorial income tax or the territorial equivalent of the Federal income tax.

That briefly is the position that the Governor advances for the government of American Samoa. American Samoa does not now have a watch industry. It probably does not have a prospect of a watch industry in the foreseeable future. The Governor, in his negotiations, has announced that he will not give tax forgiveness to any producers in American Samoa. He would simply like to point out further, however, that the United States, in addition to this type of benefit under section 301 of the tariff act, has seen fit to accord aids to our territories, which are generally very resources-poor, in other forms; that is they have exempted the Virgin Islands and American Samoa from the coastwise shipping laws. They have provided by law excise and income tax rebates to the territories. They have doubled the value of purchases of tourists in the territories.

Senator BENNETT. Duty free?

Mr. MANGAN. Duty free, and the liquor exemptions that tourists may bring back from these territories as opposed to foreign areas. These things have all added up to growing economies that are the envy of the regions where our territories exist, and we would simply like to recommend against any precedents under section 301 of the tariff act, which would discriminate as between territories or as between commodities. That is my statement.

Senator BENNETT. Thank you very much.

Mr. MANGAN. Thank you.

Senator BENNETT. Mr. Mangan is our last witness. We will hold the record open until the 6th of July, if any of you feel that you have anything you would like to add to the record. If there is nothing further, this hearing will be adjourned.

(Whereupon, at 4 p.m., the hearing was adjourned.)

(By direction of the chairman, the following communications are made a part of the record:)

PRECISION INSTRUMENTS, INC.,  
*Agaña, Guam, U.S. Marianas Islands, July 2, 1966.*

HON. RUSSELL B. LONG,  
*Chairman, Senate Finance Committee,  
New Senate Building, Washington, D.C.*

MY DEAR SENATOR: My name is Eugene Basch, President of Precision Instruments, Incorporated, a Guam Corporation formed on April 11, 1966 by United States citizens for the purpose of assembling sub-assembled watch movements imported from Europe.

For the record I am furnishing the following information:

On May the 9th of this year The Guam Economic Development Authority advised Precision Instruments by letter that its application for tax exemption has been approved.

On or about the 20th of April, 1966, Precision Instruments approached Miss Francis T. Reyes, Counselor for the Guam Rehabilitation Department for prospective employees from among its handicapped people. Consequently, on April 25, 1966 Miss Reyes prepared a list of thirteen (13) prospective employees. Precision Instruments promised voluntarily and on its own initiative to give first consideration to this and subsequent lists of handicapped applicants, and eventually employ up to eighty (80) per cent of its employees from these lists.

Precision Instruments, Incorporated has no other interests in Guam, the United States, Virgin Islands or Samoa.

The principal officers of Precision Instruments have been in the jewelry business for over twenty years. Its General Manager was previously Service General Manager of Benrus Watch Company of Canada, General Manager of Master Time Company Ltd. of the Virgin Islands and General Manager of Westminster Time Corporation of Guam.

We were not represented in the Senate Finance Committee's hearing on HR 8436 of June 30, 1966 due to the short time element involved.

From the written statement before the United States Senate Finance Committee, Public Hearing June 30, 1966, by Mr. Harry Aronson, President of Waltham Watch Company of Chicago, it would seem that the five watch companies of Guam, who have been able to get sub-assembled movements in a hurry, and are now in production, have formed an association with the apparent intent of asking an allocation for Guam of 2.5 million movements to be distributed among the members of the association. If this is true, it is, in my opinion, an attempt to monopolize the watch industry in Guam and to prevent any additional watch manufacturers from establishing in Guam.

The oral statement by Mr. Ben Noble, attorney for the associated manufacturers of Guam would seem to indicate as much.

I believe that this is wrong. As previously stated, our Corporation was formed in April of this year and in the same month we were issued a license to assemble watches. In May the Guam Economic Development Authority has approved our application for tax exemption and we were given 120 days to be in production. Notwithstanding this we are ready to go into production within two to four weeks and employ, as we have originally offered, up to eighty per cent of our employees handicaps from the Rehabilitation Department.

While we believe that HR 8436 is wholly inadequate as offered to Guam, we also believe that 2.5 million as asked by the association, distributed among five or even ten watch manufacturers, would cause a great loss of revenues in duties to the United States Government and further, considerably aggravate the deficit in our balance of payments. We believe that 1.5 million as asked by the Government of Guam is wholly adequate for a twelve month period, as a good profit could be realized by any one corporation having tax exemption even on a 100,000-125,000 unit individual allocation. Naturally, the companies who are used to count their profits into the millions would deem this unreasonable. But we believe that \$150,000-\$175,000 which we stand to realize from such an annual allocation, while wholly irrelevant, could not be realized in the old country in a lifetime.

We further believe that a 1.5 million allocation to Guam could employ as many as 250-300 employees in direct labor and probably create an equal number of jobs indirectly.

Further, 1.5 million would be "consistent with the protection of the economic stability and commercial relations of the Territory of Guam."

In conclusion, Mr. Chairman, distinguished members of the Finance Committee, we are suggesting that as the total quota is allocated by the Federal Government, so should the quotas be distributed individually among the manufacturers by the Secretary of Interior and/or the Secretary of Commerce, and, as the Government of Guam pleads "for fair and equitable treatment and its rightful and deserved share of any quota the Congress may . . . see fit to impose," so am I, for Precision Instruments, Incorporated, plead for fair and equitable treatment.

We have made a substantial investment in Guam with the full knowledge and encouragement of the Government of Guam. We have ordered in excess of 100,000 sub-assembled movements from European manufacturers some of which are now in transit. We have opened letters of credit and we have commitments.

We believe, as I am sure you do, that only by a fair and equitable treatment can the cause of justice be served.

Sincerely,

EUGENE BASCH, *President.*

#### STATEMENT ON BEHALF OF THE TERRITORY OF GUAM

The Territory of Guam, a possession of the United States, respectfully objects to the provisions of H.R. 8436, amending the Tariff Schedules of the United States with respect to the dutiable status of watches, clocks and timing apparatus from insular possessions of the United States. The provisions of the Bill, as passed in the House, grant unwarranted favoritism to one Territory (the Virgin Islands) to the substantial prejudice of Guam and American Samoa. In its present form, the differing treatment accorded by the legislation to watch imports from the possessions of the United States is unfair and inequitable and adverse to economic interests and objectives of the Territory of Guam.

## GENERAL STATEMENT

The Territory of Guam is engaged in a program to broaden its economic base and to develop diversified industries suitable to its geography and resources. In 1965, consistent with this objective, a watch industry was initiated in the Territory and the first watch factory was equipped and placed in operation. The watch industry in Guam has grown in a short period of time to the point where four manufacturers are now licensed, substantial investments in specialized equipment have been made, employment is currently provided for approximately fifty Guam residents (citizens of the U.S.) at FLSA rates or above and planned production for calendar 1966 will exceed 500,000 watch units. It is expected that as the trained labor force expands, production, wages, and the opportunity for employment will increase. This new industry, ideally suited to the Territory of Guam, represents a significant contribution to the economy of the island and is an important step toward accomplishment of its industrial objectives. It is important to recognize that—

- (1) There is an existing watch industry in Guam providing employment to Guamanians and contributing to the economy of the Territory; and
- (2) It is anticipated that this industry can and will expand as the trained Guamanian labor force increases.

## OBJECTIONS TO H.R. 8436

H.R. 8436, as passed in the House, continues the existing exemption from duty to articles produced in the Virgin Islands and denies a similar or corresponding exemption to like articles produced in Guam. The Bill seeks to justify this discrimination on the fact that the Virgin Islands Legislature enacted Bill No. 2638 on August 30, 1965 "establishing quotas for watch movements produced in the Virgin Islands for shipment to the United States".

The principal predicate for the action of the House favoring the Virgin Islands was the passage of its quota Act. On March 14, 1966, by Memorandum Opinion of the District Court of the Virgin Islands in Civil #165-1965, *Virgo Corporation vs. Ralph M. Palewonsky, Governor, et al.*, the Court found that Act illegal in contravention of Section 36 of the Organic Act of the Virgin Islands of the United States (49 Stat. 1816).

The Territory of Guam seeks only fair and equitable treatment for its watch industry with the same benefits available to it as are made available, by legislative enactment, to any other insular possession of the United States and specifically the Virgin Islands. To discriminate between Territories in this matter is without justification.

## RECOMMENDATION

It is the position of the Territory of Guam that if existing legislation relating to the dutiable status of watches from the insular possessions is amended, such amendment must provide fair and equitable treatment for all possessions and, especially, must not discriminate against the watch industry in Guam. We submit that this objective might be accomplished, if amendment to current law is deemed necessary, by providing an annual quota for all U.S. Territories to be divided fairly and equitably among the three Territories (Guam, Virgin Islands and American Samoa) by the Secretary of Interior. Those watch movements produced in each Territory within the limits of its allotted quota would be entitled to the continued benefits of Paragraph (a) of General Headnote 3 of the Tariff Schedules of the United States (19 U.S.C.A. § 1202). The Territorial allotments could be divided among manufacturers in accordance with local law.

It is important, under such an approach, that the quota for all Territories be adequate to support the watch industry in the insular possessions; such quota might properly be a stated percentage (i.e., 1/6) of the total U.S. consumption of watch movements based on U.S. Tariff Commission data.

Such an approach would have the virtue of overcoming defects in Territorial quota legislation as found in *Virgo vs. Palewonsky, et al., supra*, and would assure to the Territories their fair share of an industrial activity vital and necessary to their economic well being.

Respectfully submitted.

EDWARD A. McDERMOTT,  
Attorney for the Territory of Guam.

WASHINGTON, D.C.

EIGHTH GUAM LEGISLATURE,  
 Agana, Guam, U.S.A., June 27, 1966.

Hon. RUSSELL LONG,  
 Chairman, Finance Committee,  
 U.S. Senate, Senate Building, Washington, D.C.

DEAR HONORABLE LONG: It is with great pleasure to transmit to you a copy of Resolution No. 303, duly adopted on June 17, 1966 by the Eighth Guam Legislature, relative to respectfully requesting the U.S. Senate finance committee, under your able chairmanship, to reconsider its recommendation on the proposed watch quota legislation for the territory of Guam.

As you will note, the resolution was sponsored by all 20 members of the Legislature which represent the Territorial majority and Democratic minority.

The people of Guam were highly concerned upon learning that your committee had approved a bill which would establish a certain quota to limit the import of watches assembled in Guam into the continental U.S. I assure you, Honorable Long, that our concern over the effect of such a measure, if enacted into law, is not solely based on the fact that it would adversely affect our budding watch industry. While it is an almost certainty that some of our five watch-assembly plants currently in operation would have to close their doors if the proposed quota should be imposed on Guam, our main concern is centered on the over-all impact on our economic development program.

If Congress sees fit to enact such legislation hampering our watch-assembly industries, it would be pretty hard for Guam to convince other investors planning to establish industries on our little island that such a curtailment would not similarly befall them in the near future. Such a predicament, we sincerely believe, would be disastrous to our endeavors in promoting a sustaining economy for our people.

Our island has had its share of misfortunes. After the reoccupation by American forces at the end of World War II, our home island was an almost complete ruin. But with assistance from the Federal Government and through our unceasing dedication to rebuild, we have managed to transform Guam into a modern American community and a showcase of American democracy in this part of the Pacific.

But fate has taken another toll on our territory only four years ago. As you know, the devastating Typhoon Karen left what we have built since the war's end in shambles. The Federal Government again came to our aid through the Guam Rehabilitation Act, granting our government millions of dollars in loans and grants so that we may start another reconstruction program.

Guam's present economic condition is so unstable, dependent largely on military spending. And with the lack of natural resources, we can only hope to develop a sustaining economy through the maximum use of duty-free imports to the United States, our tax incentive program for the establishment of industries, and our human resources and manpower.

We respectfully appeal to you and your committee to reconsider the proposed watch quota for Guam. We do not ask that a quota should not be set up for Guam, but we do ask for a "more realistic" quota in order not to completely jeopardize our watch industries, and our over-all economic growth.

The fate of Guam's economic development may well rest on the action taken on the watch quota bill. It is the humble prayer of the people of Guam that we be given the privilege to develop our economic potentials.

With kindest regards, I remain  
 Sincerely yours,

VICENTE C. REYES, *Vice Speaker.*

[Eighth Guam Legislature, 1966 (second) regular session]

#### RESOLUTION 303

(Introduced by G. M. Bamba, J. Muna, M. U. Lujan, W. D. L. Flores, R. J. Bordallo, F. G. Lujan, F. T. Ramirez, Carlos P. Bordallo, Paul M. Calvo, Carlos G. Camacho, Antonio S. N. Duenas, Alberto T. Lamorena, Kurt Scott Moylan, Francisco D. Perez, Vicente C. Reyes, G. Ricardo Salas, Tomas R. Santos, Carlos P. Taitano, Tomas S. Tanaka, Raymond F. Underwood)

*Be it resolved by the Legislature of the Territory of Guam:*

Whereas the legislature is advised that the Finance Committee of the United States Senate has proposed a federal quota on watch movements imported into



the United States from Guam at approximately 300,000 movements a year; and

Whereas up until late 1965 Guam had no light industry of any sort, its economy being entirely dependent on military spending over which it had no control whatsoever, but in that year a local watch company was organized to manufacture watch movements from foreign components for export to the United States under the exemption provisions of General Headnote 3(a) of the U.S. Tariff, which provision requires that at least 50% of the value of the finished watch movement result from Guam Activity; and

Whereas since the fall of 1965, five local watch companies have gone into production in Guam using local labor exclusively except for a very few technicians, and the annual production of each one of these companies will be in excess of the 300,000 units awarded the whole territory, with the result that if the Senate Finance Committee version of the bill is enacted, only one of these companies will likely survive and approximately 150 girls will lose their jobs; and

Whereas for many of these girls, it is the first time they have ever been gainfully employed since jobs are scarce in Guam, particularly for women, and not only were they thus employed for the first time but they were paid a minimum of \$1.35 an hour, and often more and worked in hygienically clean surroundings doing interesting work which provided them a chance for advancement and higher pay; and

Whereas the legislature recognizes that it is the obligation of the U.S. Congress to protect the domestic watch industry, and therefore agrees that a limitation should be placed on the number of watch movements shipped from the territories and possessions of the United States, but further believes that the figure of 300,000 movements a year is very unfair to Guam and to the young ladies employed in the Guam watch factories; and

Whereas the Guam Legislature is conscious of its duty to develop in Guam an economy independent of military activities since otherwise Guam and its people will always be dependent on Washington and the Defense Department, and accordingly enacted legislation to attract outside capital to invest in Guam to make use of the relatively large labor pool of young women, and now that as a result of this legislation watch factories have been set up in Guam and a number of local girls put to work at wages which are high for the territory, it is extremely discouraging to have this new industry practically reduced to nothing, especially since this will make it very difficult to persuade other industries to locate in Guam since they will fear the same thing will happen to them: Now, therefore, be, it

*Resolved*, That the Eighth Guam Legislature does hereby on behalf of the people of Guam respectfully request and memorialize the Finance Committee of the U.S. Senate to reconsider its decision to limit Guam's watch production to approximately 300,000 units per year, which figure the legislature submits is unrealistic and unfair to the employees of the watch industry in Guam, and be it further

*Resolved*, That the Speaker certify to and the Legislative Secretary attest the adoption hereof and that copies of the same be transmitted thereafter to the Honorable Russel Long, Chairman, Finance Committee, United States Senate, and to the Governor of Guam.

Duly adopted on the 17th of June 1966.

ANTONIO S.N. DUENAS,  
*Legislative Secretary.*  
V. C. REYES,  
*Vice Speaker.*

GUAM JUNIOR CHAMBER OF COMMERCE,  
*Agana, Guam, U.S.A., June 22, 1966.*

HON. RUSSELL B. LONG,  
*Chairman, Senate Finance Committee, Senate Building,*  
*Washington, D.C.*

DEAR SIR: Enclosed herewith is copy of Resolution duly approved by this Chamber in connection with the Guam watchmaking industry which we hope will receive your favorable consideration.

Respectfully,

BENIGNO M. PALOMO, *President.*

## RESOLUTION OF THE GUAM JUNIOR CHAMBER OF COMMERCE

Whereas in late fall of 1965, the territory of Guam for the first time in its history saw the start of a civilian light industry, the assembly of watches for export to the United States under the tariff exemption provisions of the United States Tariff Schedule; and

Whereas as a result, approximately 200 young ladies obtained employment in the five watch factories now operating in Guam, which employment is for Guam high paying, the girls obtaining a minimum of \$1.25 an hour and frequently more, and is interesting work in modern new hygienically clean factories; and

Whereas the territory of Guam has never before had a chance to develop any local industry at all, being completely dependent on military spending, which dependence is dangerous and of concern to all interested in the welfare of the territory, since until 1962 the territory was subject to a security clearance program which in effect prohibited outsiders from investigating the commercial possibilities of Guam and since the distances were so far and the territory so small, there was no incentive to operate in the territory; and

Whereas when the late President Kennedy removed the security clearance requirement, and when the Guam Legislature, under prodding from the United States Congress which has always encouraged the territory to seek other sources of revenue apart from military spending, industry incentive acts were passed which when combined with the provisions of Headnote 3(a) of the United States Tariff Schedule which permits products of Guam duty-free entry into the United States, light industry in the form of watchmaking was finally attracted to the territory; and

Whereas the young ladies now employed in the Guam watchmaking industry are frequently for the first time in their lives obtaining an adequate income and are able to now meet the increasingly high cost of living in this territory; and

Whereas the Junior Chamber of Commerce is advised that the Finance Committee of the United States Senate has determined to impose a quota on the number of watches coming from Guam to the United States in the annual amount of approximately 300,000 movements, which quota if imposed would cause most of the watch factories here to close down and leave only one or at the most two in operation and thus throw approximately 150 women out of work, and while this amount might not seem large, for the territory of Guam it is large, and for the girls involved it becomes a personal tragedy, and in addition it will serve to discourage other investors from setting up factory operations in Guam because they will fear that their industry will later be similarly curtailed; and

Whereas the Junior Chamber of Commerce completely concurs with the idea of imposing some Federal control on the number of watch movements exported from Guam to the United States since the Junior Chamber of Commerce, composed of U.S. citizens all, has no desire to see the domestic watch industry of the United States harmed by competition from Guam, but the Chamber feels strongly that in imposing such a quota the Senate should consider Guam's present production and the girls presently employed and that therefore the quota should be based on the present figures: Now, therefore, be it

*Resolved*, That in view of the foregoing the Board of Directors of the Guam Junior Chamber of Commerce does hereby on behalf of its members and the people they serve, respectfully request and memorialize the Finance Committee of the United States Senate to reconsider its decision to curtail Guam's local watch industry.

In witness whereof, the undersigned directors of the Guam Junior Chamber of Commerce have hereunto subscribed their names this 17th day of June, 1966.

BENIGNO M. PALAMO,  
*President.*

JOSE Q. TAITANO,  
*Vice President.*

EDWARD R. DUENAS,  
*Secretary.*

RUFO C. TAITANO,  
*Treasurer.*

JOE T. SAN AGUSTIN,  
*Director.*

WILLIAM H. McCONNELL,  
*Director.*

NEW YORK, N.Y., June 24, 1966.

Senator RUSSELL B. LONG,  
 Chairman, Senate Finance Committee,  
 U.S. Senate, Washington, D.C.:

As attorney for watch manufacturers in the Virgin Islands and Guam to whom matter is vitally important respectfully request 30-day continuance of hearing on H.R. 8436 necessitated by inadequate opportunity to gather data for effective presentation. Shortness of notice compounded by the fact that many interested parties abroad on business.

HARVEY M. LEWIN.

STATEMENT OF UNITIME CORP.

Honorable Chairman and Members of the Committee, Unitime Corporation is a manufacturer of watch movements and timing instruments in the Virgin Islands. This company is a pioneer in the establishment of the watch industry in the Virgin Islands and one of the largest watch movement manufacturers there at the present time. As such, it is vitally interested in H.R. 8436. It is expected that a statement concerning this bill and its application and effect upon the manufacture of watch movements will be submitted on behalf of Unitime Corporation and other Virgin Islands watch manufacturers by Donald Dawson, Esq.

The instant statement does not cover the question of watches or watch movements under the proposed bill. It is directed solely to the question of its application and effect upon clock movements and timing apparatus. It is submitted that these items should not be denied free entry as they would be under the bill.

UNDER THE PROPOSED BILL CLOCK MOVEMENTS AND TIMING APPARATUS WOULD BE DENIED EXEMPTION FROM DUTY

The bill provides that articles covered in schedule 7, part 2, subpart E of the Tariff Schedules of the United States (TSUS) which are products of an insular possession and contain foreign components shall be exempt from duty only if they are watches or watch movements.<sup>1</sup> The articles set forth in schedule 7, part 2, subpart E are watches, clocks, timing apparatus and parts of these articles.<sup>2</sup>

As to such articles which are products of an insular possession and which contain any foreign component, they are subject to duty<sup>3</sup> unless they are watches or watch movements.<sup>4</sup>

CLOCK MOVEMENTS AND TIMING APPARATUS SHOULD NOT BE DENIED FREE ENTRY

Under the proposed bill the exemption from duty of products of insular possessions provided for in General Headnote 3(a) TSUS would be abolished for clock movements and timing apparatus other than watches and watch movements. It is difficult to believe that this harsh result is intended. There is no necessity to restrict the manufacture and shipment of clock movements and timing apparatus, much less to abrogate their manufacture and shipment entirely. Nevertheless this would be the result since removing them from the chance to qualify for free entry under General Headnote 3(a) TSUS would discourage any possibility of such manufacture in insular possessions. The plain and simple fact is that no clock movements or timing apparatus have been manufactured in an insular possession and shipped to the United States. Nevertheless, the right to do so should not be abolished.

The enactment of H.R. 8436 would constitute a partial reversal of congressional policy with regard to insular possessions. It is submitted that it could

<sup>1</sup> Committee Print, June 16, 1966, of H.R. 8436, page 3, lines 5-12.

<sup>2</sup> Tariff Schedules of the United States Annotated (1963), page 416.

<sup>3</sup> Committee Print H.R. 8436 in the Senate, page 3, lines 5-12.

<sup>4</sup> *Ibid.*, page 4, lines 7-10; watches (item 715.05) and watch movements (items 716.08 through 719.0) are specifically permitted free entry if they qualify under General Headnote 3(a) but clocks and timing apparatus (items 715.15 through 715.68) are removed from qualifying for free entry under General Headnote 3(a) since they are omitted.

be justified, if at all, only to a limited extent with a reasonable limitation on watch movements. Although the House bill covered watches, clocks and timing apparatus, its sole purpose was to restrict the expansion of shipments of watch movements.<sup>5</sup>

In support of the bill in the House, Mr. Mills stated that it was necessary to limit the shipment of watch movements, citing the increase assembly of watch movements from 4,900 in 1959 to over 2.4 million units in 1964.<sup>6</sup> It is obvious that there is no necessity to limit the production of clock movements or timing apparatus in the insular possessions as there has been no such production up to the present. A fortiori, there is no basis or establishing of any harm or violation of congressional intent as to these items so as to bar them forever of any chance to qualify for free entry. Despite this, this is exactly the result of the proposed bill.

The Tariff Commission stated that the only articles that would be immediately affected by the bill are watches and watch movements but it apparently recommended to this Committee that quotas be established on clocks and timing devices as well as on watches and watch movements.<sup>7</sup>

There is no more reason to eliminate clock movements or timing apparatus from the articles which may qualify for free entry under General Headnote 3(a) TSUS than there is to eliminate any one of the thousands of other articles which now may qualify and which are left unaffected by the proposed bill. In 1963 the then Secretary of the Treasury commented upon this, stating that it was undesirable to attempt to cope with problems presented by General Headnote 3(a) on a piecemeal commodity-by-commodity basis. The intended legislation, as it affects clock movements and timing apparatus is without any valid basis or reason and is discriminatory.

#### CONCLUSION

The status of clock movements and timing apparatus under General Headnote 3(a) should not be affected by the intended legislation and such articles should be expressly deleted from the proposed bill.

ELGIN NATIONAL WATCH CO.,  
Elgin, Ill., July 5, 1966.

HON. SENATOR RUSSELL B. LONG,  
Chairman, U.S. Senate Finance Committee,  
Senate Office Building,  
Washington, D.C.

DEAR MR. LONG: This letter is submitted to supplement the statement made in support of the subject bill by Mr. Arthur B. Slinkler, Chairman of the Board and President of the Hamilton Watch Company, at the subject hearing on the behalf of Hamilton and Elgin. It is also intended to rectify possible misunderstandings of Elgin's operation which might be drawn from statements made by others at the hearing.

Elgin is a publicly held U. S. corporation and one of the three remaining domestic manufacturers of jeweled-lever watches. Approximately 70% of Elgin's domestic production is of seventeen (17) jewel movements, many of which are in direct competition with movements assembled in and presently considered a product of the several U. S. insular possessions.

In 1963, Elgin opened in South Carolina, the newest and most modern facility in the United States for the production of fine jeweled watches, and today is

<sup>5</sup> Congressional Record, House, October 21, 1965, page 26824.

<sup>6</sup> Congressional Record, House, October 21, 1965, page 26824.

<sup>7</sup> U.S. Tariff Commission Report to Senate Finance Committee, January 26, 1966, page 1; pages 8 and 9: "It is also of interest to note that the statute (Virgin Island tax statute) apparently applies only to watches and watch movements and would not apply to clocks and other timing apparatus and their parts. It is the Commission's view that the purposes of H.R. 8438 can best be accomplished if general headnote 3(a) TSUS, is amended to provide criteria for the establishment of import quotas on the articles in question. \* \* \*

NOTE.—After this report, the Virgin Island Legislature passed another Tax Statute in which clocks, clock movements and timing apparatus were included in addition to watches and watch movements.

the largest producer of jeweled ladies watch movements in the United States. In addition, Elgin has improved its Elgin, Illinois facilities, all with the intent of increasing domestic watch production in the future. If the present exception from duty for watches of U. S. insular possessions afforded by Section 301 of the Tariff Act of 1930, as amended, is left unchanged, Elgin's present and future domestic watch operations and employment of U.S. watchworkers may be reduced and possibly eliminated.

At the present time, Elgin imports some parts used in its domestic watch movements, but it does not have the capacity and capability to produce all parts in its watch movements (with the exception of jewels, which it has not produced in many years.)

If the subject bill is passed, Elgin plans to increase its domestic manufacture of ladies movements and manufacture some parts now purchased overseas. Consequently, a substantial number of jobs will be created in Elgin, Illinois and Elgin, South Carolina. These jobs will be true production type work requiring watchworker skills.

Yours very truly,

JEROME W. ROBBINS, *President.*

NATIONAL COUNCIL OF AMERICAN IMPORTERS, INC.,  
New York, N.Y., June 27, 1966.

Hon. RUSSELL B. LONG,  
Chairman, Committee on Finance,  
U.S. Senate, Washington, D.C.

DEAR SENATOR LONG: The National Council of American Importers wants to go on record in opposition to H.R. 8436 as amended by the Senate Finance Committee.

For many years, our organization has been concerned with the tariff treatment applied to articles coming into the customs territory of the United States from the insular possessions, i.e., the Virgin Islands, American Samoa, and Guam.

We believe the present statutory provisions (General Headnote 8(a), Tariff Schedules of the United States), under which such articles are brought in *free of duty*, are being used in many cases as a "loophole" to avoid payment of duty. These provisions are an open invitation for the establishment of operations in the insular possessions to secure duty-free treatment when these articles are shipped to the mainland.

This problem is much bigger than the present situation concerning watches and textiles. Under present law this loophole is wide open for any articles which carry high rates of duty and are susceptible to the peculiar circumstances of ratios of component costs, labor and overhead.

This situation is very unfair to importers who must pay full duty on articles they import directly from foreign countries. It is discriminatory in favor of the citizens of the islands versus the citizens of the mainland.

Without extremely high tariffs on certain items, this unfair practice would disappear. The most equitable solution of this problem therefore would be the elimination of the exceedingly high rates of duty.

Our organization has always opposed quotas as unfair and discriminatory. We do not believe that this problem can be solved by the establishment of quotas as proposed in H.R. 8436 by your Committee, nor those attempted by the Virgin Islands legislature on watches and woolen cloth.

The best solution of course, would be revision of General Headnote 8(a) to eliminate the "loophole." We cannot believe it was the intent of Congress to permit this kind of discrimination. If the insular possessions are to receive financial support from the United States Government it should be through Congressional appropriations—not through special advantages which violate the basic tariff laws.

H.R. 8436 as originally introduced by the chairman of the House Ways & Means Committee did just that—it required that the foreign components of watches imported from all the insular possessions be subject to the same rate of duty as those imported directly to the mainland. We urge that H.R. 8436 be amended back to its original version.

Sincerely,

GERALD O'BRIEN, *Executive Vice President.*

NATIONAL COUNCIL OF AMERICAN IMPORTERS, INC.,  
New York, N.Y., June 28, 1966.

Hon. LYNDON B. JOHNSON,  
The White House, Washington, D.C.

DEAR MR. PRESIDENT: We note that you have not yet taken any action on the report which the Tariff Commission submitted to you on March 5, 1965 as a result of its investigation under section 351(d) (e) of the Trade Expansion Act of 1962 to determine the probable economic effects on the domestic watchmaking industry of restoring the trade-agreement concession rates of duty on watch movements. For the sake of both the importers of watches and the domestic industry, we earnestly hope that your decision on this matter will be announced soon.

We want to take advantage of this opportunity to respectfully urge that you terminate the increased duties on watches which President Eisenhower proclaimed in 1954 following the escape clause investigation. We believe that the purpose of increased protection under the escape clause—to permit the domestic industry to adjust to new competitive conditions—has been completely fulfilled during the 12 years during which the higher duties on watches have been in effect. The financial press regularly provides evidence that the health of the domestic watch industry has never been better.

Even though the commodity involved is not a major one from a dollar standpoint, your decision in this case is important to the entire world trading community. The 1954 escape clause action on watch movements was a *cause celebre* in trading circles. Your decision to terminate the escape clause and thus restore the trade-agreement rates of duty would certainly be interpreted here and abroad as a sign that the United States intends to continue on the path of freer trade which has carried us so far along the road to Free World strength and prosperity.

Secondarily, we wish to call your attention to the fact that a decision to reduce duties would help to relieve the pressing problem of duty-free shipments of watches from the Virgin Islands and Guam. Such shipments compete unfairly not only with duty-paying imports but with domestic merchandise as well, and have done much to undermine the stability of the market. Duty-free operations in U.S. insular possessions are a problem in a number of industries where mainland tariffs on regular imports are extremely high. While the problem is much broader than watch operations, there can be no question that a reduction in the tariff on watch movements to pre-1954 rates would materially lessen the pressure in that industry on domestic production and dutiable imports.

Very truly yours,

GERALD O'BRIEN,  
Executive Vice President.

Senator RUSSELL LONG,  
Committee on Finance,  
U.S. Senate,  
Washington, D.C.

DEAR SENATOR: We are watch importers. We wish to reflect our viewpoint on the importation of watch movements from the Virgin Islands.

The enclosed letters are self explanatory.

Your kind consideration will be greatly appreciated.

Very truly yours,

EDWARD GUNSHER,  
President.

JUNE 22, 1966.

Senator RUSSELL LONG,  
Committee on Finance,  
U.S. Senate, Washington, D.C.

DEAR SENATOR: We, the undersigned are importers of foreign watches, and as such pay full duty to the United States Treasury, equivalent to about 100% ad valorem. We object to insular possession imports of foreign watches.

We object to the discrimination in permitting foreign watches to enter the United States, free of duty, and free of label as to origin.

We object to the test made by Customs that the watches brought into the Virgin Islands "not in the entirety" (Treasury Decision March 18, 1959) constitute a product of the Virgin Islands.

There are little or no skills in the insular possessions, and as a result the alleged production is only limited by the amount of foreign imports available for insular possession transference to the mainland.

That the insular possession alleged watch production is limited to lever movements, and in this category the total U.S. consumption is about 11,000,000 movements annually. Of this total it is estimated that the insular possessions will export foreign watches to the United States mainland, free of duty and free of origin marking to the extent of about 6,000,000 pieces this year, or roughly six times the domestic production.

We ask that insular possession watch production be restricted, and even more important that all ambiguities as to what constitutes a product of the insular possessions be clarified.

For example, on the definition "not in the entirety," watch movements could be completed in a foreign country, the barrel assembly dismounted, and then shipped to the Virgin Islands or similar insular possessions, in two separate shipments to avoid duty. If there is to be a watch industry in the insular possessions, it should be a "real" industry and not the assembling of components, to simulate a watch industry.

A sham industry to avoid tariff duties should not be condoned by Congress or Treasury.

Most Virgin Islands sales of watch movements are from Virgin Island alleged producers to mainland related companies. This creates distorted values and perpetuates a monopolistic practice. Relief along these lines should also be granted.

Very truly yours,

S. H. POMERANCE CO., INC.  
THE PEDRE CO., INC.  
SPARTAN TIME DISTRIBUTORS.  
MEDANA WATCH CORP.  
TAYLOR WATCH CO., INC.  
CONTINENTAL FIFTH AVE., LTD.  
RODANIA WATCH CO., INC.  
BERMAN WATCH CO., INC.

NEW YORK, N.Y., June 29, 1966.

Hon. RUSSELL B. LONG,  
Chairman, Committee on Finance,  
U.S. Senate, Washington, D.C.:

This company owned and operated by U.S. citizens has been in the watch importing and distribution business for the past 48 years.

We strongly oppose the legal loophole provided by general headnote 3(a) of the TSUS because it promotes unfair competition, misrepresentation, and discriminates against the majority of legitimate watch importers. This inequity injures the entire industry.

Under the guise of providing employment for about 600 persons in the Virgin Islands with an annual payroll estimated at less than \$2,000,000 a few favored firms have avoided payment of more than \$15,000,000 in USA customs duties in 1965 alone. Some of these very firms have for years relentlessly supported high watch tariffs "to protect U.S. workers from cheap foreign labor." The four million watch units processed annually in the Virgin Islands by 600 workers would, if manufactured in the USA, provide employment for at least 5,000 workers.

The only equitable solution is the elimination of this malignant growth now spreading from the Virgin Islands to Guam and Samoa by requiring equal payment of duties by all importers.

Hence we oppose any quotas proposed by H.R. 8436 as amended because quotas favor very few to the great disadvantage of the majority of importers. We therefore endorse H.R. 8436 as originally introduced (covering all insular possessions) by the chairman of the House Ways and Means Committee.

It is respectfully requested that this program be made a part of the official record of your committee's public hearing of June 30, 1966.

R. GSELL & Co., INC.  
ROLAND GSELL,  
Chairman of the Board.  
CYRIL C. GSELL,  
President.

STEPTOE & JOHNSON,  
ATTORNEYS AT LAW,  
Washington, D.C., July 6, 1966.

Hon. RUSSELL B. LONG,  
U.S. Senate, Washington, D.C.

DEAR SENATOR LONG: The record in the Hearing on H.R. 8436 was left open until today for submission of additional facts. I would like to supply some information for the Committee's consideration, together with a few clarifying comments on the testimony already submitted.

1. A witness for U.S. Time Corporation testified that watch movements entering duty-free from the Virgin Islands directly displaced movements made by it in the U.S. and that its employment on movement manufacture in the U.S. would be increased if the Virgin Islands loophole were closed or limited as provided by H.R. 8436. Elgin National Watch Company has requested me to advise the Committee that the same is true of its U.S. production.

2. Several witnesses opposed to the 1.5 million quota fixed by H.R. 8436 asserted that the 17 and 21 jeweled watches from the Virgin Islands do not compete with the jeweled lever watches made in the U.S. by Hamilton, Elgin and Bulova, or perhaps even with the pin lever Timex watches of U.S. Time. There is no such compartmentalization of the U.S. watch market. Jeweled and nonjeweled watches of all prices compete with each other, with ever increasing intensity. This is established by the recent testimony from U.S. producers, importers and retailers before the Tariff Commission and by the findings of the Commission itself.

Mr. Cartoun, President of the American Watch Association (the importers' trade association) and Chairman of the Board of Longines-Wifflnauer Watch Company, speaking of the competition from low cost jeweled lever movements out of the Virgin Islands, testified as follows:

"Chairman DORFMAN. But your statement refers to displacement of domestically made jeweled lever watches.

"Mr. CARTOUN. Yes. *I think they compete with all.* You find them in the price range of the pin levers. Many of them must come either via smuggling or the Virgin Islands. They must compete directly with the lowest priced jeweled lever watches produced in this country, because even a pin lever certainly displaces the sale of a jeweled lever watch. When a person buys a watch, he buys a watch. I think price and quality relationships are part of the picture.

"Chairman DORFMAN. Do you think that even Hamilton loses sales of domestically produced jeweled lever watches in consequence of imports of Virgin Islands jeweled lever watches?

"Mr. CARTOUN. *I think we all do.* I just think when a person buys a watch, he is out of the market for a Hamilton watch—if he buys one of these cheap watches that have come in via the Virgin Islands, which is 17 jeweled, and which apparently is such a great value—I think Hamilton could lose that sale, or Bulova, or Benrus could lose that sale, or ourselves. Any of us could lose that sale." (Emphasis added.) [Tr., No. TEA-I-A-2, pp. 143, 155.]

Mr. Lipsky, President of Zale Jewelry Company, which is the largest jewelry store chain in the world, with approximately 500 retail jewelry outlets handling all types of watches at prices ranging from \$9 to \$7,000, testified as follows:

"As retailers, we also know that the expansion of pin-lever sales has not occurred at the expense only of the lower-priced jeweled-lever movements. A purchaser often will choose a pin-lever watch as a substitute for a high-priced jeweled-lever timepiece, because of planning to replace the pin-lever watch rather than to have the more expensive watch periodically cleaned or repaired. *This has affected sales of jeweled-lever watches in all price categories.* \* \* \*

"Retailers know that when a customer buys a Timex, he is not likely to buy an Elgin, Bulova, or Hamilton at the same time." (Emphasis added.) [Tr., No. TEA-I-A-2, pp. 204-5.]

This testimony shows both the intensity of the competition and the importance of the price advantage.

Testimony on behalf of all three jeweled watch producers, Hamilton, Elgin and Bulova jointly, was as follows:

"There is beyond doubt a difference, a very real difference, in the construction and material and quality of workmanship of the pin-lever and jeweled-lever movements. This has always been recognized by the Commission. There are many jeweled-lever watch movements that are of a quality and durability



which is not generally achieved in the pin-lever movement, but there is some competition between the two, and that competition is greater today than it was in 1954." [Tr., No. TEA-I-A-2, pp. 289-90.]

The Commission itself has repeatedly noted that competition between pin lever and jeweled lever watches of all types, whether domestic or imported, is becoming more intense. As early as 1958, the Commission said:

"Domestic manufacturers of jeweled-lever watches receive competition from virtually all watches containing imported jeweled-lever movements, irrespective of the prices at which they are sold. *These manufacturers receive competition from some categories of pin-lever watches.* These consist almost wholly of small, women's watches incorporating, imported movements and *the thinner models of men's watches containing either domestic or imported movements.* Many pin-lever watches, both imported and domestic, so closely resemble high-priced, jeweled-lever watches that few laymen can readily distinguish between them." (Emphasis added.) (1958 Report on Watches & Watch Movements, p. 12.)

In short, the improvements in size, quality and styling of pin lever movements over the past 20 years and the reduction in price on jeweled lever movements have made competition between the two direct and intense.

You may recall also that Senator Gore questioned the witness for Waltham about an advertisement of Waltham watches with Virgin Islands movements retailing for \$75 and \$92.50. This is explainable by the fact that inexpensive movements are often placed in medium priced or expensive cases and sell in price brackets which are directly competitive with watches sold by Hamilton, Elgin and Bulova.

3. A witness for General Time Corporation made the statement that none of the three U.S. jeweled watch companies has the capacity to produce all parts of jeweled watch movements in the U.S. This is complete misinformation. Bulova and Hamilton have the capacity to produce every part of a watch movement in the U.S. including jewels. Bulova testified that it does in fact make all of its parts except jewels. Hamilton makes all of the parts for a very substantial portion of its production, except jewels. While it imports some parts for some watches, it also makes these identical parts for other watches in the U.S. Elgin has the capacity to make all of its parts in the U.S. except for jewel bearings, although it presently imports some parts.

4. The uncontradicted evidence showed that the amount of direct labor expended in the Virgin Islands is small. For Standard Time Corporation it is 48 cents per watch. The difference between 48 cents and the duty saved, less a small amount for overhead and supervisory costs, is profit. Thus, what would otherwise be duty entering the U.S. Treasury is to a large extent converted to profit by the "producers" in the Virgin Islands and Guam.

5. On the basis of firm quoted prices, movements can be obtained from Japan completely assembled at exactly the same price that the same movement can be purchased for the Virgin Islands in a partly assembled condition. Thus, the producers in the Virgin Islands who claim they have no other source for watch movements are not furnishing accurate information. They can import directly from Japan. The difference is that the direct imports must pay regular U.S. duty, which simply removes a competitive advantage equal to the Virgin Islands profit.

6. The Hearing disclosed that all four U.S. producers and the vast majority of importers favored *complete* withdrawal of the duty-free privilege from the insular possessions as to watches (Tr. 115, 194). It showed that the Virgin Islands economy is no longer in need of a watch industry. It showed that watch production was at the 1.5 million level when H.R. 11223, the predecessor of H.R. 8436, was first introduced in 1964. Under these circumstances a 1.5 million limit seems entirely reasonable.

We sincerely appreciate the Committee's interest in this problem.

Sincerely,

PAUL F. MICKEY.

