

LIMITATION ON DUTY-FREE ENTRY FROM THE INSULAR POSSESSIONS OF WATCH MOVEMENTS CONTAINING NON-MFN PARTS

OCTOBER 13 (legislative day, OCTOBER 11), 1978.—Ordered to be printed

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

REPORT

[To accompany H.R. 9268]

The Committee on Finance, to which was referred the bill (H.R. 9628) to suspend until the close of June 30, 1980, the duty on certain nitrocellulose, having considered the same, reports favorably thereon with an amendment to the text and an amendment to the title and recommends that the bill as amended do pass.

I. SUMMARY

The committee amended H.R. 9628, a bill to suspend until the close of June 30, 1980, the duty on certain nitrocellulose, by striking all after the enacting clause and adding an amendment in the nature of a substitute. The substance of H.R. 9628, as it passed the House of Representatives, passed the Senate on September 3, 1978, as an amendment to H.R. 9911.

H.R. 9628, as amended by the committee, would temporarily limit duty-free imports from the insular possessions under the existing quota of watches and watch movements containing parts produced in non-MFN countries. Duty-free entries of such watches and movements would be limited to 15 percent of the existing quota on duty-free entries of all watches and watch movements from the possessions. This limitation would apply for calendar years 1979, 1980, and 1981.

II. PURPOSE OF THE BILL

Information has come to the attention of the committee about the adverse effects of the use of certain foreign watch parts in the insular possessions' watch assembly industry, the possessions' economies, and the U.S. watch industry. The parts are produced in the Union of

Soviet Socialist Republics and the German Democratic Republic (East Germany). They are extremely low cost and require very little labor for assembly in the possessions.

While total duty-free imports of watch movements containing Russian and East German parts are now quite small, the committee is concerned about the significant increase in such imports during 1976 and 1977 and the potential effect of those imports on the domestic watch industry. The committee is also concerned that the purpose of the tariff preference granted the possessions may not be served by permitting duty-free entry to "low-labor" watch movements assembled in the possessions.

For these reasons, the committee has agreed to "freeze" duty-free imports of watch movements containing non-MFN parts for 3 years. During this period, the administration will be required to review the problem and to report its findings to the Congress. At that time, Congress can provide a reasonably remedy to the problem if one is required.

III. GENERAL EXPLANATION

The first section of the bill would temporarily limit duty-free imports from the insular possessions of watches and watch movements containing non-MFN parts. Under present law, general headnote 3(a)(i) of the tariff schedules of the United States (TSUS) permits duty-free entry to watches and watch movements manufactured or produced in the Virgin Islands, Guam, and American Samoa. To qualify for this preference, the watches or watch movements may not contain foreign materials to the value of more than 70 percent of the total value of the watch or watch movement. This preference is intended to apply to watches and watch movements assembled in the possessions without regard to the country of origin of the parts used in the watches or movements. Headnote 6, part 2, schedule 7 of the TSUS limits total annual duty-free watch and watch movement imports from the possessions to one-ninth of apparent U.S. consumption of watch movements during the preceding calendar year.

This tariff preference was intended to encourage, and has apparently resulted in, the development of light industry in the possessions. The largest industry to be established in the possessions is the watch assembly industry. It first appeared in the Virgin Islands in 1959.

Although the demand for watches has been growing during the last few years, the domestic watch industry has been in turmoil since the early 1970's. The principle causes of the disruption are the rapid growth in sales of electronic watches, increased imports of electronic and mechanical watches from the Far East, and devaluation of the dollar resulting in increased prices for imported watch parts which are not produced domestically.

As a result of these changes, many domestic watch companies have closed while others have moved part or all of their operations to foreign countries or the U.S. possessions. The number of domestic watch companies and workers has declined steadily during the 1970's. Currently there are about 16 domestic companies employing fewer than 10,000 people to produce finished watches.

Sixteen companies in the Virgin Islands and 2 in Guam employ about 1,000 people to assemble mechanical, 17 jewel movements from foreign parts. Five of the possessions companies are related to American

watch producers, three are Swiss owned, one is German, and the rest are independently owned by U.S. nationals.

Most of the movements produced in the possessions are for women's watches. Women's watches of this sort are generally subject to an MFN duty of \$2.25 and a non-MFN duty of between \$3.50 and \$3.75. The movements assembled in the possessions are exported duty-free to the United States where they are put in cases and sold as watches.

Parts for 17 jewel watches are not manufactured in the United States. In 1977, the principal suppliers of parts to the Virgin Islands, by value, were Switzerland (26 percent), Germany (24 percent), France (19 percent), and Taiwan (14 percent).

Soviet watch parts were first imported into the possessions in 1962. The Soviet and East German share of the possessions parts market jumped from around 3 percent in the early 1970's to 10 percent in 1976 and 12 percent in 1977. Soviet shipments in the first 6 months of 1978 were 18 percent less than over the same period in 1977.

The possessions watch industry has been suffering from the same problems as the mainland industry during recent years. Increased sales of electronic watches, which are not produced in the islands, have reduced demand for low priced mechanical watches. Devaluation has greatly increased the cost of Swiss and German parts. Finally, the minimum wage rate in the Virgin Islands increased from \$2.40 to \$2.65 per hour in 1978. For these reasons, the quota on watch shipments from the Virgin Islands has not been filled during the past 6 years. For example, the Virgin Islands could have shipped 6.3 million watches duty-free to the United States in 1977. They actually shipped 4.7 million or 75 percent of the amount allowed.

The mass market is for watches in the price range below \$25. The competitive watches in this price range are pin-lever mechanical watches produced largely by Timex, jeweled-lever mechanical watches produced in the possessions, Switzerland, and the Far East, and electronic watches produced principally by Texas Instruments. The lowest suggested retail price for a mechanical pin-lever watch is \$12.95 (Timex); and electronic watch, \$9.95 (TI); and a mechanical 17 jewel watch, \$16.88 (U.S. possessions company using Soviet parts). The least expensive Timex 17 jewel watch sells at a suggested price of \$29.95 (assembled from foreign parts in the possessions).

The factors which have held down total watch shipments from the possessions have also encouraged a significant increase in the use of low cost "low-labor" movements from the Soviet Union in the islands. Five independent U.S.-owned companies employ about 140 people to assemble Soviet parts in the Virgin Islands and Guam. In 1977, shipments from the Virgin Islands and Guam of watch movements containing Soviet or East German parts amounted to 1,226,000 units, 24 percent of total watch shipments from the islands and 16.5 percent of the quota for 1977. In 1976, 824,000 Soviet and East German units, 19 percent of total shipments and 14.4 percent of the quota for 1976, were imported from the islands. During the early 1970's, Soviet and East German watch movements were about 3 percent of shipments from the islands. In 1977, watch movements made from Soviet and East German parts accounted for about 1.8 percent of domestic watch consumption.

In light of the significant increase in duty free imports of watch movements containing low-cost parts from non-MFN countries, the

committee has decided to limit the number of such imports under the existing quota during calendar years 1979, 1980, and 1981 to 15 percent of the existing quota. This would be 15 percent of one-ninth of apparent domestic consumption of watch movements or 1.66 percent of apparent domestic consumption. In 1977, the quota under current law would have permitted up to 7.4 million watches or watch movements to enter the United States duty free. A subquota of 15 percent for non-MFN watch movements would have been equal to 1.11 million units. According to the Department of Commerce, actual non-MFN shipments in 1977 from the possessions were about 1.23 million units or 16.6 percent of the one-ninth quota.

The committee does not intend that the 15 percent subquota under the committee amendment be allocated among the three possessions according to the percentage allocations for the $\frac{1}{9}$ quota in existing law. As in the administration of the existing quota, the committee expects the Secretaries of Commerce and the Interior to allocate the temporary 15 percent subquota among the producers in the possessions in a manner calculated to reflect and preserve the established character of the industry in the possessions. Production experience should be an important factor in allocating production quotas under the committee amendment. However, the cost of direct labor involved in the assembly of a watch movement is a factor which well might be taken into account by the Secretaries. This factor is a measure of the economic contribution being made by the assembly process, and also is an indication of the degree of assembly work being performed in the islands.

The purpose of this temporary limitation is to provide time for further consideration of this issue without injuring either the domestic watch industry or that portion of the possessions' watch industry which is now using Soviet and East German parts. To this end, section 2 of H.R. 9628, as amended by the committee, would require a complete study of the use of Soviet and East German parts in the possessions. This study by the executive branch would be supplied to Congress 6 months before the termination of the temporary quota imposed under the first section of the act. This study should give Congress sufficient information to decide on permanent changes in the law, if any.

IV. VOTE ON THE COMMITTEE IN REPORTING THE BILL

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

V. BUDGETARY IMPACT OF THE BILL

In compliance with section 252(a) of the Legislative Reorganization Act of 1970 and sections 308 and 403 of the Congressional Budget Act, the following statements are made relative to the costs and budgetary impact of the bill.

The provisions of the bill do not provide new budget authority or tax expenditures. The committee estimates that the bill would have no effect on customs revenues. The committee had no budget

statement from the Congressional Budget Office at the time this bill was filed.

VI. REGULATORY IMPACT OF THE BILL

In compliance with paragraph 5 of rule XXIX of the Standing Rules of the Senate, the committee states that the provisions of the bill should not result in new major and continuing regulatory activity. A quota is imposed on imports of watches or watch movements from the insular possessions under existing law. This quota is allocated among companies. Statistics are now collected on the number of watches and watch movements entered into the United States from the U.S. insular possessions which contain parts from countries whose imports are subject to column numbered 2 duty treatment. The new subquota should not require any new administrative activities.

VII. CHANGES IN EXISTING LAW

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

TARIFF SCHEDULES OF THE UNITED STATES

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SCHEDULE 7.—SPECIFIED PRODUCTS; MISCELLANEOUS AND NONENUMERATED PRODUCTS

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PART 2.—OPTICAL GOODS, SCIENTIFIC AND PROFESSIONAL INSTRUMENTS; WATCHES, CLOCKS, AND TIMING DEVICES; . . .

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Subpart E.—Watches, Clocks and Timing Apparatus

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[(b) If the requirements for free entry set forth in general head-note 3(a) are complied with, watches (provided for in item 714.05) 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 entered free of duty during each calendar year shall not exceed a number equal to $\frac{1}{2}$ of the apparent United States consumption of watch movements during the preceding calendar year (as determined by the International Trade Commission), of which total quantity—

(i) not to exceed 87.5 percent shall be the product of the Virgin Islands,

(ii) not to exceed 8.33 percent shall be the product of Guam, and

(iii) not to exceed 47.1 percent shall be the product of American Samoa.]

(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. The total quantity of such articles entered free of duty under the preceding sentence during each calendar year shall not exceed a number equal to $\frac{1}{2}$ of the apparent United States consumption of watch movements during the preceding calendar year (as determined by the International Trade Commission), of which total quantity—

(i) not to exceed 87.5 percent shall be the product of the Virgin Islands,

(ii) not to exceed 8.33 percent shall be the product of Guam, and

(iii) not to exceed 4.17 percent shall be the product of American Samoa.

The total quantity of such articles which may enter free of duty during each calendar year under the preceding sentences and which contain any foreign component which is the product of any country the products of which are subject to the rates of duty in column numbered 2 shall not exceed a number equal to 15 percent of $\frac{1}{2}$ of the apparent United States consumption of watch movements during the preceding calendar year as determined under the preceding sentence.

