

August 7, 2006

The Honorable Charles Grassley
Chairman
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

Re: S. 3254 - To suspend temporarily the duty on parts for use in the manufacture of certain high-performance loudspeakers.

Dear Senator Grassley:

Panasonic Electronic Devices Corporation of America ("PEDCA") wishes to express its strong support for S.3254, a bill, introduced by Senators Alexander and Frist from Tennessee, to renew the temporary duty suspension on loudspeaker parts, a Chapter 99 classification 9902.85.21 which expired in 2001, for use in certain high performance loudspeakers. A suspension of the 4.9% duty would save PEDCA over \$200,000 annually on the materials we import and would help our company be competitive in the production of high-end automotive and marine speakers.

Currently, PEDCA is using our Foreign Trade-Zone and the Chapter 99 provision for classification HTSUS 9902.85.20 to support its domestic speaker manufacturing. The current Chapter 99 option expires at the end of 2006, and if it is not renewed, we not only lose the advantage of manufacturing in a Foreign Trade-Zone, but we will have to pay duties on the imported components for these speakers, which we are unable to source in the United States.

PEDCA and our 400 employees design and build top performing premium speakers for top-rated automotive sound systems in our Knoxville, Tennessee plant. In fact, while other companies make loudspeakers for general audio use in the U.S., we believe we are the last company that fully designs, manufactures, and tests in the United States a high-end loudspeaker certified to meet the performance standard specified by HTSUS 9902.85.20 of "not more than 1.5 dB for the average level of 3 or more octave bands when tested in a reverberant chamber."

S. 3254 would temporarily eliminate the general rate of duty on parts (provided for in subheading 8518.90.80) for use in the manufacture of loudspeakers meeting the referenced performance standard. We understand that the bill was written in its current form, rather than identifying individual components, to make the bill easier for Customs and Border Protection to administer, since it was successfully administered by Customs field personnel without any known objection until its expiration in 2001.

The parts covered by the bill are specified by PEDCA as to material, dimension, and performance characteristics to collectively contribute to the acoustical qualities of the assembled loudspeaker classified under HTSUS 9902.85.20. The parts that are imported for these speakers have unique part numbers and are purchased only for speakers certified to meet the performance standard. They are not, therefore, readily interchangeable with any other part number.

On December 21, 2005, PEDCA received a binding ruling from CBP with a determination that speakers, manufactured by PEDCA and certified to meet the stated performance standard when tested under the conditions of PEDCA's documented testing standard, do qualify for classification as HTSUS 9902.85.20. PEDCA's testing certification for this qualification will continue in order to assure that the assembled loudspeakers into which the imported parts will be incorporated are indeed qualified even if the Chapter 99 speaker provision is not renewed but the "parts" provision is enacted. In order to meet Customs' request for certification of these parts, we intend to add another certification for "parts" which will link directly to the related "speaker" certification. In this way, traceability as to the proper importation and payment of duties can be maintained.

High-end loudspeaker manufacturers, like Panasonic, can meet the sophistication, technology, engineering, and production capabilities needed to produce loudspeakers meeting the stated performance standard, but we must have access to quality "parts" with competitive costing in order to be competitive with our own product.

The "loudspeaker parts" duty-suspension provision is the factory's and its employees' remaining hope to reduce costs. Without the provision, PEDCA will have to pay duties again on the imported components, which it is not able to source here in the United States for the high-end speaker models.

Our employees are proud to be making products in the United States that have received continuing recognition and awards for quality from the automotive industry. We hope, therefore, that the committee will appreciate that a major element of our Tennessee factory's continued competitiveness is using the duty-free benefit of its Foreign Trade-Zone. If that status expires, which currently appears likely, the only cost-relief option alternative would be a suspension of duties on our imported parts, as provided in S. 3254. If PEDCA loses the duty-free benefit of the Foreign Trade-Zone AND must pay 4.9% duties on imported components, it will be placed at a severe competitive disadvantage with specialty loudspeaker manufacturers from China and other Asian countries. We, therefore, urge the committee to include S. 3254 in its package of miscellaneous tariff and trade provisions and support its passage.

Sincerely,

A handwritten signature in black ink, appearing to read "Clark Brandon", with a long horizontal flourish extending to the right.

Clark Brandon
Assistant General Manager
General Affairs

cc: Senator Max Baucus
Senator Lamar Alexander
Senator Bill Frist
U.S. International Trade Commission