

## TARIFF TREATMENT OF WATCHES AND WATCH MOVEMENTS MANUFACTURED IN INSULAR POSSESSIONS OF THE UNITED STATES

JULY 9 (legislative day, JULY 7), 1975.—Ordered to be printed

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

### REPORT

[To accompany H.R. 7710]

The Committee on Finance, to which was referred the bill (H.R. 7710) to amend the Tariff Schedules of the United States to provide duty free treatment to watches and watch movements manufactured in any insular possession of the United States if foreign materials do not exceed 70 percent of the total value of such watches and movements, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

#### I. SUMMARY

The first section of the House bill would amend general headnote 3(a)(i) of the Tariff Schedules of the United States (TSUS) with respect to the duty-free treatment of watches and watch movements manufactured in any insular possession of the United States by increasing to 70 percent the value of foreign materials which such watches and watch movements may contain.

Section 2 of the House bill would apply the amended duty-free entry provision to articles entered, or withdrawn from warehouse, for consumption on or after the date of enactment.

#### II. GENERAL STATEMENT

The bill would amend general headnote 3(a) of the TSUS which currently provides that articles containing foreign materials shipped to the United States from its insular possessions may enter free of duty if the value of the foreign materials they contain is not more than

50 percent of their total value. Under this legislation, the permissible foreign material content of watches and watch movements entitled to duty-free treatment would be raised to 70 percent of the total value.

The current provision in the law was enacted in 1954 (Public Law 83-768) in order to stimulate the development of light industry in the Virgin Islands, Guam, and American Samoa. From a small beginning in 1959, the watch assembly industry in the possessions grew rapidly, particularly in the Virgin Islands, where it became the third largest industry in the territory. At its peak in 1973, the number of persons employed by the industry in all three territories was approximately 1,350, with a payroll of almost \$4.5 million.

More recently, however, the watch industry in the possessions has suffered setbacks in both production and employment. In Guam, one firm has ceased operations altogether and two others are currently shut down. In the Virgin Islands, seven firms have shut down completely or temporarily suspended operations; from about 1,000 employees in 1974, the industry has declined to an estimated 430 employees in 1975.

Under the law, there must be a 100 percent addition in value in the possessions in order to qualify for the duty exemption. Because of United States currency devaluations, as well as increases in labor costs abroad, the higher dollar cost of the foreign parts used in assembling watch movements has reduced considerably the competitiveness of watches manufactured in the possessions with those imported directly from abroad.

United States mainland production of watch movements and watches has been increasing each of the last several years, from 21.5 million units in 1971 to 23.7 million units in 1974. Shipments from the possessions increased from 3.8 million units in 1971 to 5.2 million units in 1973, then declined to 4.3 million units in 1974. During the same period United States imports of foreign watch movements and watches increased from 22.2 million units in 1971 to 23.0 million units in 1974. The jewel movement parts assembled in the possessions must be obtained from foreign sources; United States parts manufacture is limited to pin lever movements.

No unfavorable comment was received by the Committee from the general public on this bill. No objection to H.R. 7710 has been received from the executive departments or from any other source.

### III. COSTS OF CARRYING OUT THE BILL AND EFFECT ON THE REVENUES OF THE BILL

In compliance with section 252 (a) of the Legislative Reorganization Act of 1970, the following statement is made relative to the costs to be incurred in carrying out this bill and the effect on the revenues of the bill: Since only duty-free watches and watch movements are currently being shipped from the possessions, enactment of this legislation would not result in any additional loss of revenue or administrative costs.

### IV. VOTE OF COMMITTEE IN REPORTING THE BILL

In compliance with section 133 of the Legislative Reorganization Act, as amended, the following statement is made relative to the vote

of the committee on reporting the bill. This bill was ordered favorably reported by the committee without a roll call vote and without objection.

## V. CHANGES IN EXISTING LAW

In compliance with subsection (4) of Rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (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

### GENERAL HEADNOTES AND RULES OF INTERPRETATION

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3. *Rates of Duty.* The rates of duty in the "Rates of Duty" columns numbered 1 and 2 of the schedules apply to articles imported into the customs territory of the United States as hereinafter provided in this headnote:

(a) *Products of Insular Possessions.*

(i) Except as provided in headnote 6 of schedule 7, part 2, subpart E, [and] except as provided in headnote 4 of schedule 7, part 7, subpart A, articles imported from insular possessions of the United States which are outside the customs territory of the United States are subject to the rates of duty set forth in column numbered 1 of the schedules, except that all such articles the growth or product of any such possession, or manufactured or produced in any such possession from materials the growth, product, or manufacture of any such possession or of the customs territory of the United States, or of both, which do not contain foreign materials to the value of more than 50 percent of their total value (*or more than 70 percent of their total value with respect to watches and watch movements*), coming to the customs territory of the United States directly from any such possession, and all articles previously imported into the customs territory of the United States with payment of all applicable duties and taxes imposed upon or by reason of importation which were shipped from the United States, without remission, refund, or drawback of such duties or taxes, directly to the possession from which they are being returned by direct shipment, are exempt from duty.

(ii) In determining whether an article produced or manufactured in any such insular possession contains foreign materials to the value of more than 50 percent, no material shall be considered foreign which, at the time such article is entered, may be imported into the customs territory from a foreign country, other than Cuba or the Philippine Republic, and entered free of duty.

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