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**COMMENTS OF THE
AMERICAN WATCH ASSOCIATION
ON H.R. 4179**

**Before the House Ways and Means Committee
Subcommittee on Trade**

May 21, 2002

The American Watch Association (“AWA”) submits these comments on H.R. 4179 in response to Chairman Crane’s request for written comments dated May 3, 2002. AWA strongly supports enactment of H.R. 4179, a bill to amend the production incentive certificate program for watch and jewelry producers in the insular possessions.

AWA is an association of more than fifty companies organized and doing business within the United States that are engaged in the importation, manufacture, and assembly of watches, watch movements, and watch products listed under chapter 91 of the Harmonized Tariff Schedule of the United States. These watch products are sold in the United States and in markets throughout the world. The great majority of the principal U.S. watch companies are members of AWA.

AWA supports, as part of the Doha Round, the complete elimination of watch tariffs worldwide, a change that will provide far-reaching benefits to U.S. consumers, manufacturers, importers, and workers. Elimination of watch tariffs will benefit U.S. consumers by reducing prices, increasing choices and making higher quality watches more affordable. Tariff elimination will also benefit the U.S. economy by

creating more jobs in the U.S. While most watch manufacturing takes place abroad, there are approximately 26,000 watch-based jobs in the U.S. including design, research and development, assembly, manufacturing, quality control and service. Tariff cuts will also open foreign markets to U.S. exports that license popular U.S. brands.

Although the benefits of tariff elimination are clear, AWA believes that zero-for-zero tariff negotiations should go hand-in-hand with increased measures to safeguard the sensitive watch industry located in the United States Virgin Islands (“USVI”), an insular possession of the United States. H.R. 4179 would provide those safeguards and thus AWA views it as a necessary step toward greater global competition.

The need for such safeguards arises because watches assembled in the USVI enter the U.S. duty free, and USVI assemblers gain some competitive advantage from this duty free treatment because most other watch imports are subject to tariffs. Watch tariff elimination would neutralize this benefit, although there may be some offsetting benefit for USVI companies in the export market. Based on 1997 data, the amount of the benefit is less than \$1 million per year. Since 1997 the number of watches produced in the USVI has declined, so we estimate the amount of the benefit is now \$500,000 or less per year.

USVI companies also benefit from the production incentive certificate ("PIC") program established under U.S. law, under which they receive a benefit based on the amount of creditable wages paid to workers in the USVI. These benefits are paid by the Department of Commerce in the form of certificates which can be used as a credit against other watch tariffs. These certificates, or PICs, may be sold to other watch

importers who are subject to tariffs if the USVI assembler has no tariffs against which to apply their PICs.

AWA believes that the following adjustments to the PIC program that are contained in H.R. 4179 would provide full safeguards to the USVI companies in the event of tariff elimination.

First, an additional PIC credit should be awarded to USVI companies based on the difference between the duties that would have been due had the watches and watch parts entered into U.S. Customs territory under the rates in effect on January 1, 2001 (disregarding the USVI duty-free quota), and the tariff that would be applicable during the year the watches and watch parts actually entered into U.S. Customs territory (also without regard to the duty-free quota).

Second, the AWA supports giving USVI assemblers the option of exchanging PICs for cash at a slight discount, rather than as a credit against tariffs. This would increase the yield to USVI assemblers, who cannot now apply the credit against their own imports because of their duty-free status, but should not have an additional revenue effect.

Finally, H.R. 4179 extends the PIC expiration date from 2007 to 2016, to give USVI additional time to adjust.

H.R. 4179 should have little, if any, five-year revenue impact since the expansion of the PIC credit will have no impact unless and until the Doha trade round has concluded with a reduction or elimination of watch tariffs. Moreover, we estimate that

even if this expansion were to be fully implemented today, the revenue cost would be less than \$500,000.