

June 5, 2002

Honorable Philip M. Crane, Chair  
Subcommittee on International Trade  
House Ways and Means Committee  
Washington, DC 20515

RE: H.R. 4280, Duty Suspension Bill on Aluminum Etched Foil

Dear Mr. Crane:

On behalf of Matsushita Electronic Components Corporation of America (ACOM) located in Knoxville, Tennessee, I am writing in opposition to H.R. 4280, a bill to suspend temporarily the duty on aluminum etched foil. Major parts of our manufacturing in Knoxville are aluminum electrolytic capacitors and the aluminum "etched and formed" foil which is a key component of these capacitors.

ACOM has been a major employer in Knoxville since 1982. The current facility represents continuing investment in the community and a consistent expansion of manufacturing capability. Currently, we employ over 600 workers.

H.R. 4280 would suspend temporarily the duty for products classified under HTS 7607.19.1000, including aluminum etched foil used in the manufacture of aluminum capacitors. There are at least two subcategories of this HTS classification which, while not distinguished within the classification itself, are distinctive in relation to their stage of readiness to be used as the key material in the manufacture of aluminum capacitors:

1 - the high purity aluminum which is etched, or pitted, to remove a portion of the raw aluminum foil in order to create a larger functional surface area by establishing a microscopic three-dimensional surface area as opposed to the raw foil's two-dimensional surface area. This is achieved through an electrochemical process. Foil cannot be used in the manufacture of aluminum capacitors in the "etched only" state.

2 - the same foil after its subsequent processing to form an aluminum oxide onto the 3-D surface area. This oxide layer acts as the dielectric in the aluminum capacitor and is the sole insulator between the anode foil and the true cathode in the capacitor's electrical circuit. With the completion of the aluminum oxide formation, the foil is suitable for the manufacture of capacitors and may be referred to as "etched and formed" foil.

The distinction of the two categories of foil included in the HTS classification is important. The 5.3% duty is significant in the cost of the foil to U.S. processors of aluminum foil and ultimately to U.S. capacitor manufacturers.

Matsushita Electronic Components Corporation of America (ACOM) has invested heavily in our Aluminum Foil Formation Plant in Knoxville, Tennessee, since its establishment in 1991. We import "etched only" foil from multiple sources and use a

relatively small amount of domestic "etched only" foil in our formation process. There are extremely limited domestic sources for etched foil in the United States.

Formation processes in the U.S. are not limited, however, ACOM being one of three substantial domestic facilities. Investment is significant for establishing a formation facility with a typical processing line costing in excess of one million dollars. ACOM has invested in over 20 processing lines. Due to this investment, ACOM has been able to reduce the effective cost of duty content to our domestic customers by approximately half, because we are subject to duties on the "etched only" value of the aluminum foil we import (which is about 50% of the "etched and formed" foil value.)

In order to improve further our cost competitiveness with foreign foil processing competitors, ACOM made a significant investment to gain approval and activation of a foreign-trade manufacturing subzone. FTZ 148B was established in 2001 in order to utilize an "inverted tariff" provision of the Foreign-Trade Zone Act wherein the zone operator is allowed to determine the classification of the imported materials subject to U.S. Customs Service duties between the actual merchandise admitted to the zone and the product into which the merchandise is manufactured while in the FTZ. In our case, this choice is between aluminum capacitor foil (5.3% rate) and aluminum capacitors (HTS 8532.22) at 0% duty rate. The capacitors are manufactured in another plant in our Knoxville facility which, like the Foil Plant, is within the activated FTZ subzone area.

By making the investment in our foil formation process and by establishing an FTZ manufacturing subzone, we are able to regain some of the cost competitiveness lost to foreign capacitor manufacturers who have no U.S. tariff duties included in the material or other foreign value-added content for the 0% duty rate capacitors they import into the United States.

The net effect of reducing the 5.3% duty on the HTS 7607.19.10 etched aluminum foil for capacitors classification to 0% would be to subsidize the sale of foreign-processed foil in the U.S. by reducing the effective selling price of such foreign foil by 5.3% while reducing the cost of U.S. foil processors' "etched and formed" foil by only half that percentage. Further, for U.S. foil processors operating in an FTZ and selling to capacitor manufacturers operating in an FTZ, no benefit at all would be gained, allowing the foreign-based competitors to realize the full 5.3% cost advantage over American processors. To favor foreign entities that create no American manufacturing jobs and make no investment in U.S. industry is not reasonable and does not make good economic sense in the long term for either the American foil processing or the American capacitor industry. Therefore, we oppose the enactment of H.R. 4280.

Sincerely,

Clark E. Brandon  
Assistant General Manager  
General Affairs  
cc: U.S. International Trade Commission