

June 10, 1998

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

MEMORANDUM TO THE COMMITTEE ON FINANCE OF THE UNITED STATES
SENATE ON PROPOSED TARIFF LEGISLATION¹

Bill no., sponsor, and sponsor's state: S. 1853 (105th Congress), Senator Thurmond (SC).

Companion bill: H.R. 3403 (105th Congress), Representative Spence (SC).

Title as introduced: To suspend temporarily the duty on loudspeakers not mounted in their enclosures.

Summary of bill:²

The bill would suspend through December 31, 2002 the general rate of duty on imported unmounted loudspeakers of subheading 8518.29.80 of the Harmonized Tariff Schedule of the United States (HTS). A new subheading would be added to HTS chapter 99 to cover the subject goods.

Effective date: The 15th day after enactment.

Retroactive effect: None.

Statement of purpose:

Senator Thurmond made no statement in the *Congressional Record* about the bill. A representative of a major U.S. loudspeaker manufacturer maintains that suspending the duty on loudspeakers not mounted in their enclosures will assist U.S. manufacturers in selling to overseas markets.³

Product description and uses:

Loudspeakers not mounted in enclosures: Loudspeakers are devices that convert electrical signals transmitted from amplifiers into acoustical sound; the enclosures are nonvibrating, generally rigid elements (usually cabinets of various types and sizes, whether or not totally enclosing the other components) that control the divergence of the sound wave.⁴

¹ Industry analyst: James M. Brandon (205-3433); attorney: Jan Summers (205-2605).

² See appendix A for definitions of tariff and trade agreement terms.

³ Official of International Business-Government Counselors, Inc., on behalf of Bose Corporation.

⁴ See *McGraw-Hill Encyclopedia of Science and Technology*, 5th ed., vol. 7, pp. 813-818.

Loudspeakers not mounted in their enclosures are not generally recognized as finished products. They are instead seen as items to be used in the manufacture of a variety of consumer products, such as finished loudspeakers, home and car stereos, radios, televisions, electrical musical instruments, audible toys, and other products. As a finished product, loudspeakers are used in recording studios, concert halls, stadiums, theaters, and broadcast stations, and in many multimedia applications.

Tariff treatment:⁵

| <u>Product</u> | <u>HTS subheading</u> | <u>Col. 1-general rate of duty</u> |
|---|-----------------------|------------------------------------|
| Loudspeakers not mounted in their enclosures..... | 8518.29.80 | 4.9 % ⁶ |

Structure of domestic industry (including competing products):

Loudspeakers: There are approximately 250 to 300 domestic manufacturers of loudspeakers in the United States. The largest companies manufacture loudspeakers for both consumer and professional markets, while smaller companies generally supply the consumer market. Many of these manufacturers also import loudspeakers not mounted in their enclosures to supplement their product lines. In addition, there are numerous importers/distributors supplying loudspeakers not mounted in their enclosures as well as finished loudspeakers to the U.S. market.

Private-sector views:

The Commission contacted an international consulting group and four major domestic loudspeaker manufacturers.⁷ These entities had not submitted any written comments as of the date of preparation of this report.

⁵See appendix B for column 1-special and column 2 duty rates.

⁶This rate of duty was “bound” under the Uruguay Round of multilateral trade negotiations and is not scheduled for staged reductions.

⁷The Commission made telephone contacts with the International Business-Government Counselors, Inc., Carver Corporation, Bose Corporation, Klipsch, and Polk Audio Inc.

U.S. consumption:¹

| Loudspeakers not mounted in their enclosures: | <u>1995</u> | <u>1996</u> | <u>1997</u> |
|---|----------------------------|-------------|------------------|
| | ------(1,000 dollars)----- | | |
| U.S. shipments..... | 719,134 | 728,334 | (²) |
| U.S. imports..... | 521,900 | 561,700 | 569,400 |
| U.S. exports..... | 149,009 | 296,995 | 261,257 |
| Apparent U.S. consumption..... | 1,092,025 | 993,039 | (²) |

Principal import sources: China, Mexico, Taiwan, and Japan

Principal export markets: Mexico, Canada, Hong Kong, and Germany

¹Shipments compiled from Current Industrial Reports, U.S. Department of Commerce (DOC); U.S. imports and exports estimated by the staff of the Commission based on official statistics of the DOC.

²Not available.

Effect on customs revenue:⁸

Future (1998-2000) effect: Customs revenue losses exceeding \$50 million (based on 6 months of duty suspension during 1998).

| | Estimated average annual <u>revenue loss</u> ⁹ | | |
|---|--|-------------|-------------|
| | <u>1998</u> | <u>1999</u> | <u>2000</u> |
| | ------(1,000 dollars)----- | | |
| Loudspeakers not mounted in their enclosures..... | 23,400 | 24,400 | 25,500 |

Retroactive effect: None.

Technical comments:

The subject goods are “more than” parts of speakers of subheading 8518.90.80, presumably because they have been joined together or are shipped in some combined form; they are considered “unfinished” loudspeakers because they are not presented in cabinets or furniture or mounted on frames or chassis. It is possible that matching transformers and amplifiers may also be mounted together with loudspeakers. Thus, a variety of goods may be considered by Customs to qualify for the duty suspension; we defer to that

⁸ Actual revenue loss may be understated if a significant increase in imports occurs during the duty suspension period.

⁹ Estimates of revenue loss based on data supplied to the Commission by industry sources and on official statistics of the U.S. Department of Commerce; data and estimates for 2001-2002 could be provided if needed.

agency to comment further on the proposed article description.

APPENDIX A

TARIFF AND TRADE AGREEMENT TERMS

In the **Harmonized Tariff Schedule of the United States** (HTS), chapters 1 through 97 cover all goods in trade and incorporate in the tariff nomenclature the internationally adopted Harmonized Commodity Description and Coding System through the 6-digit level of product description. Subordinate 8-digit product subdivisions, either enacted by Congress or proclaimed by the President, allow more narrowly applicable duty rates; 10-digit administrative statistical reporting numbers provide data of national interest. Chapters 98 and 99 contain special U.S. classifications and temporary rate provisions, respectively. The HTS replaced the **Tariff Schedules of the United States** (TSUS) effective January 1, 1989.

Duty rates in the **general** subcolumn of HTS column 1 are most-favored-nation (MFN) rates, many of which have been eliminated or are being reduced as concessions resulting from the Uruguay Round of Multilateral Trade Negotiations. Column 1-general duty rates apply to all countries except those enumerated in HTS general note 3(b) (Afghanistan, Cuba, Laos, North Korea, and Vietnam), which are subject to the statutory rates set forth in **column 2**. Specified goods from designated MFN-eligible countries may be eligible for reduced rates of duty or for duty-free entry under one or more preferential tariff programs. Such tariff treatment is set forth in the **special** subcolumn of HTS rate of duty column 1 or in the general notes. If eligibility for special tariff rates is not claimed or established, goods are dutiable at column 1-general rates. The HTS does not enumerate those countries as to which a total or partial embargo has been declared.

The **Generalized System of Preferences** (GSP) affords nonreciprocal tariff preferences to developing countries to aid their economic development and to diversify and expand their production and exports. The U.S. GSP, enacted in title V of the Trade Act of 1974 for 10 years and extended several times thereafter, applies to merchandise imported on or after January 1, 1976 and before the close of June 30, 1998. Indicated by the symbol "A", "A*", or "A+" in the special subcolumn, the GSP provides duty-free entry to eligible articles the product of and imported directly from designated beneficiary developing countries, as set forth in general note 4 to the HTS.

The **Caribbean Basin Economic Recovery Act** (CBERA) affords nonreciprocal tariff preferences to developing countries in the Caribbean Basin area to aid their economic development and to diversify and expand their production and exports. The CBERA, enacted in title II of Public Law 98-67, implemented by Presidential Proclamation 5133 of November 30, 1983, and amended by the Customs and Trade Act of 1990, applies to merchandise entered, or withdrawn from warehouse for consumption, on or after January 1, 1984. Indicated by the symbol "E" or "E*" in the special subcolumn, the CBERA provides duty-free entry to eligible articles, and reduced-duty treatment to certain other articles, which are the product of and imported directly from designated countries, as set forth in general note 7 to the HTS.

Free rates of duty in the special subcolumn followed by the symbol "IL" are applicable to products of Israel under the **United States-Israel Free Trade Area Implementation Act** of 1985 (IFTA), as provided in general note 8 to the HTS.

Preferential nonreciprocal duty-free or reduced-duty treatment in the special subcolumn followed by the symbol "J" or "J*" in parentheses is afforded to eligible articles the product of designated beneficiary countries under the **Andean Trade Preference Act** (ATPA), enacted as title II of Public Law 102-182 and implemented by Presidential Proclamation 6455 of July 2, 1992 (effective July 22, 1992), as set forth in general note 11 to the HTS.

Preferential or free rates of duty in the special subcolumn followed by the symbol "CA" are applicable to eligible goods of Canada, and rates followed by the symbol "MX" are applicable to eligible goods of Mexico, under the **North American Free Trade Agreement**, as provided in general note 12 to the HTS and implemented effective January 1, 1994 by Presidential Proclamation 6641 of December 15, 1993. Goods must originate in the NAFTA region under rules set forth

in general note 12(t) and meet other requirements of the note and applicable regulations.

Other special tariff treatment applies to particular **products of insular possessions** (general note 3(a)(iv)), **products of the West Bank and Gaza Strip** (general note 3(a)(v)), goods covered by the **Automotive Products Trade Act** (APTA) (general note 5) and the **Agreement on Trade in Civil Aircraft** (ATCA) (general note 6), **articles imported from freely associated states** (general note 10), **pharmaceutical products** (general note 13), and **intermediate chemicals for dyes** (general note 14).

The **General Agreement on Tariffs and Trade 1994** (GATT 1994), pursuant to the Agreement Establishing the World Trade Organization, is based upon the earlier GATT 1947 (61 Stat. (pt. 5) A58; 8 UST (pt. 2) 1786) as the primary multilateral system of disciplines and principles governing international trade. Signatories' obligations under both the 1994 and 1947 agreements focus upon most-favored-nation treatment, the maintenance of scheduled concession rates of duty, and national treatment for imported products; the GATT also provides the legal framework for customs valuation standards, "escape clause" (emergency) actions, antidumping and countervailing duties, dispute settlement, and other measures. The results of the Uruguay Round of multilateral tariff negotiations are set forth by way of separate schedules of concessions for each participating contracting party, with the U.S. schedule designated as Schedule XX.

Pursuant to the **Agreement on Textiles and Clothing** (ATC) of the GATT 1994, member countries are phasing out restrictions on imports under the prior "Arrangement Regarding International Trade in Textiles" (known as the **Multifiber Arrangement** (MFA)). Under the MFA, which was a departure from GATT 1947 provisions, importing and exporting countries negotiated bilateral agreements limiting textile and apparel shipments, and importing countries could take unilateral action in the absence or violation of an agreement. Quantitative limits had been established on imported textiles and apparel of cotton, other vegetable fibers, wool, man-made fibers or silk blends in an effort to prevent or limit market disruption in the importing countries. The ATC establishes notification and safeguard procedures, along with other rules concerning the customs treatment of textile and apparel shipments, and calls for the eventual complete integration of this sector into the GATT 1994 over a ten-year period, or by Jan. 1, 2005.

Rev. 8/12/97

APPENDIX B

**SELECTED PORTIONS OF THE
HARMONIZED TARIFF SCHEDULE OF THE UNITED STATES**

(Appendix not included in the electronic version of this report.)

105TH CONGRESS
2D SESSION

S. 1853

To suspend temporarily the duty on loudspeakers not mounted in their enclosures.

IN THE SENATE OF THE UNITED STATES

MARCH 24, 1998

Mr. THURMOND introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To suspend temporarily the duty on loudspeakers not mounted in their enclosures.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SUSPENSION OF DUTY ON LOUDSPEAKERS NOT**
4 **MOUNTED IN THEIR ENCLOSURES.**

5 (a) IN GENERAL.—Subchapter II of chapter 99 of
6 the Harmonized Tariff Schedule of the United States is
7 amended by inserting in numerical sequence the following
8 new subheading:

| | | | | | | | |
|---|------------|---|------|-----------|-----------|-------------------------|----|
| “ | 9902.85.19 | Loudspeakers not mounted in their enclosures (provided for in sub-heading 8518.29.80) | Free | No change | No change | On or before 12/31/2002 | ”. |
|---|------------|---|------|-----------|-----------|-------------------------|----|

1 (b) **EFFECTIVE DATE.**—The amendment made by
2 subsection (a) applies with respect to goods entered, or
3 withdrawn from warehouse for consumption, on or after
4 the 15th day after the date of enactment of this Act.

○