

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

**MEMORANDUM ON PROPOSED TARIFF LEGISLATION
of the 108th Congress ¹**

[Date approved: April 7, 2004]²

Bill No. and sponsor: S. 1724 (Sen. Santorum).

Proponent name, location: Sony Electronics Inc., Mount Pleasant, PA (Contact: Christina Tellalian, Wash. DC, Tel. (202) 429-3653).

Other bills on product (108th Congress only): S. 1794 and H.R. 3399.

Nature of bill: Temporary duty suspension through December 31, 2006.

Retroactive effect: None.

Suggested article description(s) for enactment (including appropriate HTS subheading(s)):

Liquid crystal device panel assemblies for use in liquid crystal display projection type televisions (provided for in subheading 9013.80.90)

Check one: Same as that in bill as introduced
 Different from that in bill as introduced (see technical comments section)

Product information, including uses/applications and source(s) of imports:

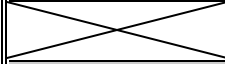
Liquid crystal device panel assemblies consist of a liquid crystal layer sandwiched between two sheets or plates of glass or plastic, whether or not fitted with electrical connections. In the subject legislation, the covered panel assemblies are to be those used in liquid crystal display (LCD) projection televisions (TVs). These panel assemblies are used to project images onto the TV screen by use of a separate system of lenses and mirrors. According to the proponent, the size of the panel assemblies to be imported measures less than 2" (50.8 mm) diagonally, and the display is monochrome. Although the panel assemblies contain electrical connections, they contain no control electronics. The use of LCDs rather than cathode ray tubes (CRTs), as has been traditional for projection TVs, significantly reduces the weight and improves the picture quality of rear projection TVs compared to CRT-based sets.

The panel assemblies are imported from Japan. There is no known U.S. production of these panel assemblies for LCD projection type televisions.

¹ Industry analyst preparing report: Christopher Johnson (202-205-3488); Tariff Affairs contact Jan Summers (202-205-2605).

² Access to an electronic copy of this memorandum is available at <http://www.usitc.gov/billrpts.htm> Access to a paper copy is available at the Commission's Law Library (202-205-3287) or at the Commission's Main Library (202-205-2630).

Estimated effect on customs revenue:

| HTS subheading: <u>9013.80.90</u> | | | | | |
|---|--------------|--------------|-------------|-------------|-------------|
|  | 2004 | 2005 | 2006 | 2007 | 2008 |
| Col. 1-General rate of duty (AVE) <u>1/</u> | 4.5 percent | 4.5 percent | 4.5 percent | 4.5 percent | 4.5 percent |
| Estimated value <i>dutiable</i> imports | \$15,000,000 | \$10,000,000 | \$4,000,000 | n/a | n/a |
| Customs revenue loss | \$675,000 | \$450,000 | \$180,000 | None | None |

1/ The AVE is the ad valorem equivalent of a specific or compound duty rate expressed as a percent, using the most recent import data available.

Source of estimated dutiable import data: Proponent estimates.

Contacts with domestic firms/organizations³ (including the proponent):

| Name of firm/organization | Date contacted | US production of same or competitive product claimed? | Submission attached? | Opposition noted? |
|---|----------------|---|----------------------|-------------------|
| | | (Yes/No) | | |
| Sony Electronics Inc. (Christina Tellalian, Tel. (202) 429-3653) | 2/12/04 | No | Yes | No |
| Advanced Digital Optics, Inc. (Milton Lee, Tel: (805) 497-1771, x 240) | 2/5/04 | No | Yes | Yes |
| MT Picture Display Corp. of America (John.Webster@tdda.panasonic.com) | 2/5/04 | No | Yes | Yes |
| Panasonic/Matsushita Corp. Of America (Mary Alexander, Tel. (202) 912-3800) | 2/23/04 | No | Yes | Yes |
| Texas Instruments (Cynthia Johnson, Tel. (202) 628-3133) | 2/24/04 | No | Yes | Yes |

³ Other companies contacted that have not responded with views on the proposed legislation include: Brillian Corp., Epson America, OCLI, and Philips Research USA.

| | | | | |
|--|--------|----|-----|----|
| U.S. Display Consortium (Bob Pinnel, Tel. (408) 277-2400) | 2/3/04 | No | Yes | No |
|--|--------|----|-----|----|

Technical comments:⁴

In the article description of the proposed new HTS heading, we suggest that the language read “Liquid crystal device panel assemblies for use in liquid crystal display...” to be consistent with common HTS usage.

While ordinarily an “actual use” criterion in a tariff article description is discouraged, because of the administrative burden enforcing them (given the requirement for verification within three years), at times such a standard is the only way to distinguish goods of interest in trade from those that are very similar. Thus, we note the existence of the proposed requirement and defer to Customs and others about whether it would present inordinate difficulties. We do not know of a physical characteristic that could reliably be used to differentiate among various assemblies of similar sizes in terms of their intended application.

⁴ The Commission may express an opinion on the HTS classification of a product to facilitate consideration of the bill. However, by law, only the U.S. Customs Service is authorized to issue a binding ruling on this matter. The Commission believes that the U.S. Customs Service should be consulted prior to enactment of the bill.

Sony Electronics Inc., E-mail, Feb. 12, 2004 (Proponent)

-----Original Message-----

From: Tellalian, Christina [mailto:Christina.Tellalian@am.sony.com]
Sent: Thursday, February 12, 2004 7:21 PM
To: Johnson, Christopher; Kitzmiller, John; Yinug, Falan
Cc: Lydon, Sean
Subject: Bill Reports Information

Chris,

Please find attached the following background information as requested in preparation of bill reports for H.R. 3399 and S. 1722-24 (S. 1794). Attached are the following:

- * Non-confidential import estimates, country of origin and assembly location information for LCD, plasma and DLP televisions;
- * Import data for television components and final products compiled by the Consumer Electronics Association; and
- * A US Customs ruling on LCD clarification.

The purpose of the temporary duty suspension legislation is to help bring parity between television manufacturing facilities in the US and Mexico. Under the PROSEC program and NAFTA, television manufacturers in Mexico benefit from a zero duty program on both component imports and final product exports. American manufacturers, however, must pay a duty "penalty" for manufacturing television sets in the United States that would otherwise be duty-free if manufactured in Mexico. Also, this duty "penalty" is in addition to higher labor costs required of US manufacturers, exacerbating the existing preferential duty treatment for Mexico. As Mexico faces greater market competition from China, they look to new manufacturing opportunities.

This existing unbalance threatens to shunt investment decisions in advanced television technology such as Plasma, LCD Projection Televisions, and High Definition Widescreen Direct-View Televisions.

This proposed legislation would temporarily suspend the duty in the United States on these key inputs for these new technologies. Each of these items is already duty free into Mexico.

Duty suspension for the electron guns, plasma and LCD panel assemblies will not harm any U.S. industries because these inputs are not produced in the U.S. Passage of this legislation will create an incentive to continue investing in TV production in the U.S., thereby creating a demand for locally-procured TV parts as well as American labor. The Sony Technology Center-Pittsburgh currently has 1,300 local suppliers.

This preferential treatment for manufacturers in Mexico threatens what little is left of a once proud American industry. As the existing CRT-technology is phased out, primarily by consumer demand for newer television technologies, it is critical that equity is granted for US and

Mexican television manufacturing.

Thank you for your assistance. Please do not hesitate to contact me should you have any additional questions.

Christina

<<ITCsubmission.doc>> <<CustomsLCDruling.pdf>> <<CTV_import_codes.xls>>
<<TV Imports 95-00.xls>>

Christina Tellalian
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SONY US Office of External Affairs

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[End of e-mail.]

Note: Attachments not included because they contain confidential information.

Advanced Digital Optics, Inc., E-mail, Feb. 4, 2004

From: Milton Lee [mailto:mlee@advopt.com]
Sent: Wednesday, February 04, 2004 3:01 PM
To: Johnson, Christopher
Cc: 'Michael Newell'
Subject: FW: Cong. Legislation related to duties on LCDs for use in LCD projection TVs

Chris,

Thank you for bringing this to our attention. First, ADO is not affiliated with Brillian or OCLI/JDS Uniphase. Brillian and OLCI are customers of our company. We are a private company developing projection displays using technologies such as the LCDs by Sony. The Bills that are being contemplated affect us greatly. We are in the business of developing display systems for OEM customers, many of which are in Japan. There are several competing technologies to the ones discussed in the Bills. These include Digital Light Processing (made by Texas Instruments), Liquid Crystal on Silicon (made by Brillian, eLCOS, Intel, DisplayTech, MicroDisplay Corp, etc. which are all US based companies), and Transmissive LCD technology (Radiant Images and Kopin, both US companies).

As I mentioned over the phone, there are two companies in this industry that make the types of LCDs discussed in the Bills; Sony and Seiko Epson. These devices are used in the majority of video projectors currently used in educational, business, and entertainment venues. There is a trend in the industry to move away from these LCDs toward LCOS and DLP. Sony recently announced to the OEM industry that they were discontinuing supply of this technology to OEMs and would only use these devices in Sony branded products. Epson continues to supply the OEM markets.

To allow Sony a suspension of tariffs on these devices would give Sony a competitive edge against the technologies, a competitive edge that would be enacted by legislation and unduly unfair to the companies competing in an open environment. In fact, I believe there would be an advantage provided to Sony at the expense of US companies paving the way for newer technologies. I believe Sony is losing marketshare to its competitors due to its inability to manufacture its devices cost competitively. This burden should not be placed on domestic and foreign device manufacturers who are operating without legislative advantages.

Sincerely,

Milton Lee
Advanced Digital Optics, Inc.
822 Hampshire Road
Unit E
Westlake Village, CA 91361
Tel: (805) 497 1771 Ext. 240

Fax: (805) 497 0551

MT Picture Display Corp. Of America, E-mail, Feb. 5, 2004

From: John Webster [mailto:John.Webster@tdda.panasonic.com]
Sent: Thursday, February 05, 2004 2:43 PM
To: Kitzmiller, John
Cc: Mike Lenzner; Steve Lammers; Shigekazu Shibata
Subject: Re: duty suspension bills on electron guns, plasma displays, LCD assemblies

John,

I have discussed these proposed tariff changes internally in MTPDA, both in New York and Ohio, and we are in opposition to making these changes.

While the reduction in tariffs on HDTV electron guns would provide a small cost advantage to CRT makers engaged in making 16x9 tube types, the negative impact of removing tariffs on the competing display technologies far outweighs any advantage to the tube maker.

While there is no domestic production of either plasma displays or projection TV LCD's, these two technologies compete directly with either direct view CRT's or projection CRT's, both of which do have domestic US production. When the consumer makes a buying decision, it is an either/or decision between a CRT-based TV or a solid state display TV. Therefore, plasma and LCD are direct competitors for the venerable CRT.

One of the main selling points that we hope will keep the tube business in this country alive for years to come is the superior price/performance ratio of CRT television, with the strongest emphasis on the price side of that ratio. These tariff adjustments provide 10's of pennies in benefits to the CRT maker by reducing imported gun costs, but 10's of dollars of advantage to the competing technologies.

We are opposed to any reduction in duties on either LCD or plasma displays for use in color TV applications.

John D. Webster
Vice President - Operations
MT Picture Display Corporation of America (New York)

Panasonic/Matsushita Electric Corp. of America, E-mail, Feb. 23, 2004

-----Original Message-----

From: Alexander, Mary [mailto:AlexanderMa@us.panasonic.com]

Sent: Monday, February 23, 2004 2:51 PM

To: Johnson, Christopher

Cc: Kuflik, Madeline; Lammers, Steve (MTPDC); Webster, John (TDDA); Kitzmiller, John; Fannon, Peter

Subject: RE: Proposed Cong. legislation: S. 1724, 1794, H.R. 3399, LCDs, plasma, projection TVs, etc.

Chris,

Thank you for giving us the opportunity to comment on three proposed duty suspension bills for certain (1) electron guns, (2) plasma display panel assemblies and (3) LCD panel assemblies. Panasonic would not favor legislation to drop tariffs on LCD panel displays and plasma panel displays. In the buying choices of U.S. consumers, these two types of displays directly compete with direct view CRTs and projection CRTs, which Panasonic produces in the United States. As a result CRT-based televisions would have less of a cost advantage to solid-state displays. In addition, to temporarily suspend duties on LCD and plasma display technologies would accelerate the market penetration of these display types and discourage their future manufacture in the United States or in the NAFTA region.

The temporary reduction of tariffs on HDTV electron guns, however, would provide a small cost advantage to CRT makers engaged in making 16x9 tube types.

If you have any questions regarding Panasonic's position, please let me know.
Mary Alexander

PS: The Panasonic-Toshiba CRT joint venture in New York already has sent similar comments to your colleague John Kitzmiller at the ITC.

(PLEASE NOTE NEW ADDRESS & PHONE NUMBER)

Mary K. Alexander

Group Manager

Panasonic/Matsushita Electric Corp. of America

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Washington, D.C. 20036

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E-Mail: AlexanderMa@us.panasonic.com

Texas Instruments, Letter, Feb. 24, 2004

February 24, 2004

Christopher Johnson
Senior International Trade Analyst
Office of Industries
U.S. International Trade Commission
500 E. St., SW
Washington, D.C. 20436

RE: S. 1724, S. 1794 and H.R. 3399

Dear Mr. Johnson:

I am writing in response to your letter of February 6, 2004 addressed to Ms. Mulloy and Mr. McMurray of Texas Instruments. TI has reviewed the legislation S. 1724, S. 1794 and H.R. 3399 and opposes the legislation.

The legislation would suspend duties on various components used in displays for digital TVs. TI designs and manufactures a competing display technology which could be competitively disadvantaged if other competing display components enjoy duty free treatment as currently proposed.

Texas Instruments and its DLP™ Products business unit has been one of the industry's key innovators to revolutionize the home entertainment television market through introduction of its digital micromirror device ("DMD") optical semiconductor chip. A typical home entertainment DMD contains nearly one million individually hinged, digitally controlled microscopic mirrors which act as optical switches to create a high resolution, full color image. Since entering the projection display market in 1996, TI has supplied more than 2,500,000 DLP™ technology based components and subsystems to almost all of the world's top projection display manufacturers.

As you may be aware, digital TVs are experiencing greater than 20% industry-wide annual growth, projected to continue over the next several years. Vastly improved picture quality, thinner form factors and the increasing availability of digital broadcasts are all driving the market for DTVs. Various display technologies competing for DTV marketshare include liquid crystal displays, plasma, cathode electron guns and TI's DMD. In a very short period since TI entered the television market in May of 2002, DMD based televisions have grown to seven percent of the US market for large screen systems measured 40" and greater. We believe this market will sharply increase, but TI's ability to remain competitive will be significantly reduced if the applicable duty rate for competing technologies is reduced to zero. We also feel that failure to include our technology in such legislation could place US television manufacturers that use our technology at a competitive disadvantage against those manufacturers utilizing other competing television display technologies.

Thank you for this opportunity to comment on the legislation. Please feel free to contact me with any questions.

Sincerely,

Dale Zimmerman
Manager, Home entertainment
Texas Instruments, DLP™ Products

United States Display Consortium, E-mail, Feb. 3, 2004

From: Bob Pinnel [mailto:mrpinnel@usdc.org]
Sent: Tuesday, February 03, 2004 2:34 PM
To: Johnson, Christopher
Subject: Re: Proposed Congressional LCD duty legislation

Chris:

USDC does not take a position on tariff issues since we are not a manufacturer whereby such laws might impact our competitive position with respect to integrating such assemblies into commercial products or to producing competitive alternatives to these assemblies. I will just cite a few facts related to the display industry to guide your analysis and to be sure you have contacted a number of potentially interested parties.

There are no significant manufacturers of CRT electron guns or plasma display panel assemblies in the US. So there is no US industry that may be seeking protection via a tariff. One can only assume that removing the tariff will lower the cost of integrating these components into projection TVs sold (and possibly assembled) in the US. Most still come to market with Far East or European names on them like Sharp, Sony, Samsung, LG Philips, Mitsubishi, etc, however. So I don't understand the full implications or rationale for a tariff in this case.

The LCD panel assemblies are just a little different and may have an issue that you should consider. There are also no significant manufacturers of LCD panel assemblies in the US with respect to the poly-silicon LCD panels used in projection TVs. However, there are competing technology options that are US company manufactured for this digital projection TV market. These include the Digital Micromirror Device (DMD) manufactured by Texas Instruments and the Liquid Crystal on Silicon (LCoS) imaging engines manufactured by Brillian, Intel, and Philips among others. So one should be certain whether these companies feel that removing the tariff on a competing technology will do them harm. However, I would suppose that the assemblers of the projection TV would prefer to have the lowest acquisition costs on all their options. So there are probably differing opinions on this one.

These LCD assemblies are also used in the front projection application (for example the In-Focus digital projectors commonly found in meeting rooms) and these LCD assemblies may not be distinguishable between the front and rear projection (TV) applications.

Finally, I am not clear why there are two Senate bills. S1724 seems to be redundant to section 3 of S1794??

Hope this helps you a bit.

Bob Pinnel

Bob Pinnel

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108TH CONGRESS
1ST SESSION

S. 1724

To suspend temporarily the duty on Liquid Crystal Display (LCD) panel assemblies for use in LCD projection type televisions.

IN THE SENATE OF THE UNITED STATES

OCTOBER 14, 2003

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

A BILL

To suspend temporarily the duty on Liquid Crystal Display (LCD) panel assemblies for use in LCD projection type televisions.

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. LCD PANEL ASSEMBLIES.**

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

| | | | | | | | |
|---|------------|---|------|-----------|-----------|-------------------------|----|
| “ | 9902.85.24 | LCD panel assemblies for use in LCD projection type televisions (provided for in subheading 9013.80.90) | Free | No change | No change | On or before 12/31/2006 | ”. |
|---|------------|---|------|-----------|-----------|-------------------------|----|

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

○