

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

**MEMORANDUM ON PROPOSED TARIFF LEGISLATION
of the 108th Congress¹**

[Date approved: April 7, 2004]²

Bill No. and sponsor: S. 1794, Sen. Santorum.

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

Other bills on product (108th Congress only): S. 1722, S. 1723, S. 1724, H.R. 3399.

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

Retroactive effect: None.

Section 1.

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

Electron guns for use in high-definition cathode-ray tubes (CRT's) (provided for in subheading 8540.91.50)

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:

An electron gun generates free electrons inside a cathode-ray tube (CRT), accelerates them to a very high speed, and aims them at the CRT screen. The beam of electrons passes through an aperture mask, or aperture grille, to strike dots of phosphor on the inside of the CRT screen, causing them to glow. The electron beam travels from side to side in rows, covering most of the screen. The combination of glowing dots is viewed as a video image. In a high-definition CRT, the electron beam must travel a greater angle from left to right than in a conventional CRT because the ratio of width-to-height, or aspect ratio, of a high-definition CRT is greater than the aspect ratio of a conventional CRT. It is not possible to distinguish an electron gun intended for a high-definition CRT from one intended for a conventional CRT at time of entry by simple inspection at time of entry. Most electron guns are imported from Japan or Mexico. There is no known U.S. production of electron guns for high-definition CRTs.

¹ Industry analyst preparing report: John Kitzmiller (202-205-3387); 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).

Section 2.

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

Plasma display panel assemblies for use in plasma flat panel screen televisions (provided for in subheading 8529.90.53)

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:

Plasma display panels (PDPs) are flat panels for video display in which tiny fluorescent lights are illuminated to form an image. Each panel is composed of hundreds of thousands of cells, each made up of three fluorescent lights - red, green, and blue. By varying the intensities of the separate lights within each cell, the plasma display can produce a full range of colors. The video display diagonal of plasma display devices currently range from approximately 30 inches to 60 inches.³ PDPs can be used to display video images for entertainment, military, or industrial purposes. PDPs can be used in the same fashion as cathode-ray tube-based displays, but they are lighter and thinner and consume less power. Plasma display panels are currently produced in commercial quantities only in Japan.

Section 3.

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 plastics, whether or not fitted with electrical connections. In the subject legislation, the panel assemblies are to be imported for use in liquid crystal display (LCD) projection televisions (TVs). The LCD panel assemblies are used to project images onto the TV screen by use of an internal 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 black and white. 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 panel assemblies for LCD projection type televisions.

³ <http://electronics.howstuffworks.com/plasma-display.htm/printable>, May 21, 2003.

Estimated effect on customs revenue:

HTS subheading: 8540.91.50					
	2004	2005	2006	2007	2008
Col. 1-General rate of duty (AVE) <u>1/</u>	5.4 percent	5.4 percent	5.4 percent	5.4 percent	5.4 percent
Estimated value <i>dutiable</i> imports	\$3.8 million	\$6.0 million	\$9.6 million	n/a	n/a
Customs revenue loss	\$205,200	\$324,000	\$518,400	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: Commission and industry estimates

HTS subheading: 8529.90.53					
	2004	2005	2006	2007	2008
Col. 1-General rate of duty (AVE) <u>1/</u>	2.9 percent	2.9 percent	2.9 percent	2.9 percent	2.9 percent
Estimated value <i>dutiable</i> imports	\$4.3 million	\$4.3 million	\$4.3 million	n/a	n/a
Customs revenue loss	\$124,700	\$124,700	\$124,700	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: Commission estimates.

HTS subheading: 9013.80.90					
	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: Industry estimates.

Contacts with domestic firms/organizations⁴ (including the proponent):

Name of firm/organization	Date contacted	US production of same or competitive product claimed?	Submission attached?	Opposition noted?
		(Yes/No)		
Sony U.S. (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, e-mail: 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
U.S. Display Consortium (Bob Pinnel, Tel. (408) 277-2400)	2/3/04	No	Yes	No

Technical comments:⁵

Electron guns (section 1):

In additional U.S. note 8 to chapter 85 of the HTS, “high definition” as it applies to television receivers and cathode-ray tubes is defined as referring to articles having a screen aspect ratio equal to or greater than 16:9. Therefore, a reference to a high definition aspect ratio of 16:9 in the new heading seems redundant, and we suggest dropping it because the referenced tariff provision will result in the proper scope for the new duty suspension. Also, we suggest deleting “actually used in” and instead using the expression “for use in”; the latter is more consistent with other tariff provisions and will be understood by Customs as requiring verification. 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.

⁴ Other companies contacted that have not responded with views on the proposed legislation include: Brillian Corp., Epson America, Hitachi America, Thomson Consumer Electronics, OCLI, and Philips Research USA.

⁵ 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.

Liquid crystal display panel assemblies (section 3):

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...” rather than referring to “liquid crystal display panel assemblies” 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.

Sony U.S., 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
Senior Manager, Government Affairs
SONY US Office of External Affairs

1667 K Street, NW
Suite 200
Washington, DC 20006
(202) 429-3653
(202) 487-4449 mobile
(202) 429-3663 fax



Sony Electronics Inc.
123 Tice Boulevard, MD: T1-3 Woodcliff Lake, New Jersey 07677

Sent Via E-mail

March 9, 2004

John W. Kitzmiller
Electronics and Transportation Division
Office of Industries
United States International Trade Commission
Room 501-F
500 E Street, S.W.
Washington, D.C. 20436

Re: Key Components for United States Television Manufacturing
Temporary Duty Suspension Legislation, S. 1722, S. 1723, S. 1724
(Reintroduced as S. 2078, S. 2079 and S. 2080, 108th Congress, 2d Session)

Dear Mr. Kitzmiller,

On behalf of Sony Electronics Inc. ("SEL"), thank you for providing us with the opportunity to comment on the captioned temporary duty suspension legislation. SEL strongly advocates the passage of these bills as the means to preserve and promote advanced technology television manufacturing in the United States.

As you read this letter, the United States Trade Representative is reviewing Mexican proposals, purportedly agreed upon by the NAFTA parties, to liberalize the trade agreement's rules of origin for flat panel screen televisions such as plasma and microelectromechanical ("MEMS") displays. The other main flat panel technology, liquid crystal devices ("LCD's"), is already subject to a recently liberalized NAFTA rule interpretation. The proposed rule for plasma and MEMS and the current LCD rule allow duty free treatment for imports into the U.S. even when the key video image generating component, the flat panel display assembly, is manufactured outside of North America.

The United States television industry, already at a direct competitive disadvantage, will be further disadvantaged by these new rules unless the subject legislation is passed. The disadvantage exists because Mexico has already provided duty free treatment for the key flat panel display assemblies imported for use in the production of NAFTA qualifying TV's. The net result is that U.S. manufacturers pay duty on the key components while Mexican manufacturers do not. When a Mexican TV is both duty free under NAFTA and not encumbered with duty for non-North American components, its cost will be lower than the cost for the same TV produced in the United States. This is a completely untenable situation for the U.S. industry, of which SEL is a key member.

We understand that several companies have expressed opposition to the legislation, Panasonic (Matsushita), Texas Instruments and Advanced Digital Optics. In this submission we will explain why the opposition of those companies is not well founded. More particularly, we will detail the reasons why such opposition is not in the best interests of the U.S. TV industry. Rather, the opposition is more consistent with the interests of foreign manufacturers.

After briefly describing SEL's U.S. based CTV manufacturing operations and the challenges attendant thereto, three critical facts will be established:

1. The U.S. TV production promoted by the legislation does not threaten other U.S. producers.
2. Opposition to the proposed legislation actually promotes foreign television production to the detriment of the U.S. industry. The proposed legislation seeks only to create a tariff neutral, level playing field for all competitors.
3. SEL's effort to preserve and grow U.S. based TV production is not limited and exclusive. SEL would not oppose temporary duty suspension legislation that would provide other bona fide U.S. producers duty parity with foreign competition. The opposition to the current legislation is not in the best interest of U.S. based CTV manufacturing facilities; i.e. those with an investment in the U.S. TV industry.

I. Background – SEL's United States TV Manufacturing

Most consumers know Sony for its high quality televisions and other ~~display product~~ **display devices**. What is not as commonly known is that SEL has made tremendous investment in the local production of Sony ~~display product~~ **television products**. In fact, SEL is one of the few remaining producers of ~~display product~~ **television products** in the U.S. SEL's principal U.S. television and display device manufacturing facility is The Sony Technology Center outside of Pittsburgh ("STC-P"). STC-P includes cathode ray tube ("CRT") and television manufacturing, as well as the American Video Glass Company, a wholly-owned subsidiary which produces CRT glass. CRT's produced by STC-P are used in on-site production. They are also exported to Sony's Mexican Maquiladoras.

STC – P was established in 1991 to serve the North American Market for Televisions. It was originally designed only to produce Direct-View Color Televisions and the Cathode Ray Tubes (CRTs) which drive them. The plant concentrates on larger television sizes (now 36" and above) where the high cost of shipping from low-labor cost areas such as Mexico and China keeps the plant competitive. The plant still exists for no other reason than that it was able to establish itself as a world-class manufacturing facility with a total delivered cost to the consumer that could not be beat, notwithstanding labor costs in areas such as Mexico that are one tenth those of the Pittsburgh region.

STC-P has not only succeeded in satisfying its initial business plan, it has exceeded all expectations. Due to an enterprising staff, location to market and proximity to quality local parts suppliers, STC-P's scope of operations has grown markedly. STC-P is now the world's only vertically integrated TV manufacturing plant, producing the glass for CRT's and the CRT's for TV's. Those TV's include both Direct View and projection types. STC-P has also begun producing a new advanced display projection TV based on flat panel LCD technology. We would like to attract plasma TV production to the plant, however this depends upon cost considerations including the duties on flat panel plasma assemblies, the subject of one of the three proposed duty suspension bills.

The STC-P site employs 2,400 people, the vast majority of whom are involved in the production of TV's and the glass and CRT's for televisions. The annual payroll is in excess of 100 million dollars. In addition, peak temporary employment is 1000 people. The cumulative capital investment into STC-P is 760 million dollars. Recent capital improvements include the investment in January, 2004 of 10 million dollars in the conversion of the CRT manufacturing facility for the impending production of wide screen (digital format) CRT models. Coupled with that investment, the American Video Glass Company recently spent 3.5 million dollars to be able to produce the wide screen (16:9) glass panels for the digital

format CRT's. Last April, 1.4 million dollars was spent for the establishment of LCD projection TV assembly lines.

SEL continues to do everything possible to preserve its investment in STC-P and maintain U.S. production and employment. Thus, in 2001 we sought and obtained from the U.S. Foreign Trade Zone Board status as a foreign trade subzone ("FTZ"). This enables STC-P to utilize the inverted duty rates that apply to products in their condition as withdrawn from the zone. However, the tariff classification rules that apply to STC-P's TV products in their condition as withdrawn from the subzone ("unfinished," so as to garner a zero percent duty rate) force STC-P to constructively segregate, declare and pay duty on critical video components such as LCD display panel assemblies. Moreover, a finished television produced in STC-P and withdrawn from the zone for U.S. domestic consumption does not qualify for NAFTA duty free treatment under U.S. law (and is dutiable at 5% ad valorem), even though that same television would qualify for the NAFTA preference if exported to Canada or Mexico. These facts put STC-P at a current and future competitive disadvantage as follows.

As explained in our introductory comments, with respect to current competition from other NAFTA countries (e.g., Mexico), a finished NAFTA qualifying television enters the U.S. duty free while expensive critical components, such as the non-NAFTA produced LCD display panel assemblies, are subject to zero duties under the Mexican PROSEC duty suspension program. The PROSEC program is utilized as a means to compensate for the NAFTA Article 303 duty deferral provisions which would otherwise require payment of duty for the imported assemblies upon withdrawal of the complete TV from a Mexican duty deferral program, such as a Maquiladora, for export to the U.S. Cost savings due to the PROSEC program have already undermined the cost competitiveness of some of STC-P's production, forcing Sony to shift manufacturing so as to remain competitive with other foreign producers.

A more profound competitive disadvantage will be faced by STC-P if NAFTA origin rule amendments create the same disparate treatment described in the foregoing paragraph. For example, one of the newest display technologies for televisions is the gas plasma ("plasma") flat panel screen. The existing NAFTA rule of origin requires the plasma display panel assembly to be produced in North America in order for the finished plasma television to qualify for NAFTA duty free treatment. Currently, -no plasma televisions assembled in North America would qualify as NAFTA eligible because the plasma display panel assemblies are all manufactured outside of North America. If the NAFTA rules are amended to qualify these TV's, a plasma TV produced in Canada or Mexico with a [now] non-NAFTA display panel assembly would be eligible for duty free treatment. In addition, the NAFTA duty deferral rules would again be avoided because of the zero duty assessment on the plasma display panel assembly in Mexico under the recently amended PROSEC program. As a consequence, STC-P would pay duty on the plasma display panel assemblies imported into its FTZ, while competitors over the border would not. As plasma TV's are not large and heavy like traditional TV's, STC-P's difference in transportation costs due to proximity to market would not be enough to offset the lower costs (including duties) in Mexico.

II. The U.S. TV Production Promoted By The Legislation Does Not Threaten Other U.S. Producers.

A. Direct View CRT Televisions Versus Rear Projection Televisions

If the proposed temporary duty suspension is passed, it will help STC-P stave off threats from cheap, foreign produced TV's, but it will not harm the U.S. TV industry. The duty cost savings will not be a threat because the TV industry is segmented into several distinct markets. This market differentiation

insures that the benefits of duty suspension will not have a detrimental effect. A deep understanding of the TV industry and its various markets proves the point.

A year after the STC-P began installing its CRT production equipment, a new business opportunity arose. Sony added Rear Projection Televisions (also referred to as "PJ TV's") to the Pittsburgh product mix. PJ TV's are large bulky sets which are costly to ship long distances because freight cost formulas contain a size variable. Sony (as well as its competitors) has always distinguished between these two different markets and competes in both of them. Were these products indeed substitutes or competitors it would make no sense for Sony or any other company to produce, under the same roof, products which competed against one another. The consumer clearly differentiates these two products and Sony cannot expect to serve customers in both markets by competing in only one.

The Rear Projection television market has been a major growth driver for the Pittsburgh facility since the business began. Recently, a number of new technologies have begun to replace the CRT in Rear Projection televisions. The most popular are Liquid Crystal Devices and MEMS Devices such as Texas Instrument's Digital Light Processing ("DLP") display. Sony expects that within a short period of time, these new technologies will completely replace Cathode Ray Tubes in *Rear Projection Televisions*, due to their smaller size and weight. To keep up with this trend, STC-P began producing Rear Projection Televisions based on LCD technology in 2002. At the same time, CRT Rear Projection televisions are being phased out.

Direct View color televisions have also gotten a makeover of late. Sony recently invested \$10M to convert one of our CRT lines to produce Cathode Ray Tubes in the widescreen (16:9) format, which has become popular with the advent of DVDs and High-Definition television broadcasts.

As the cost of producing the mature CRT technology continues to drop, the sets have become more accessible and the market continues to be strong. The technology has also become more accessible, bringing more competitors, especially from offshore into the market, accelerating price erosion. It is hard to find a better value in television today than a CRT Direct-View color television.

As mentioned above, Direct View and PJ TV's are clearly distinguishable. Why do consumers differentiate between Direct View CRT TV's and PJ TV's? The Direct View TV's have several distinct advantages. They offer contrast, black level and viewing angle superiority. Direct View TV's also have the best record of long term reliability. On the other hand, CRT's are not made in sizes greater than 40 inches because TV glass is incredibly heavy. Sony's 40 inch Direct View TV weighs over 300 pounds and requires three people to deliver to a customer. Even a 36 inch Sony TV weighs in at well over 200 pounds. Therefore, consumers who want very large screen televisions opt for PJ TV's. Sony's CRT PJ TV's are now only being produced in sizes 46 inches and higher, up to 65 inches. Sony's LCD PJ TV's start at 42 inches and go up to 70 inches. Added screen size comes at a cost, as PJ televisions have commanded a higher price point. Few if any consumers will substitute or confuse a Direct View CRT TV for a PJ TV.

A cyber visit to the Sony Style website at sonystyle.com or a physical visit to a consumer electronics retailer illustrates that Direct View and PJ TV's are in completely separate categories. In sonystyle.com their prices and features are not listed or compared on the same web pages. At stores like Circuit City, Best Buy and others each type of TV is in its own floor area. Such visits also show that HDTV's are in yet another distinct category, as a consumer who wants to view HD broadcasts or DVD's will not settle for anything less than high definition. High definition is so much clearer and sharper than any other TV image that the viewer is entertained with almost film like clarity and depth.

In summary, Direct View TV's comprise a different market than PJ TV's. What Texas Instruments produces is a DLP Digital Micro Mirror semiconductor chip for use in Rear Projection TV television systems. Advanced Digital Optics is a Texas Instrument customer that manufactures the chip into a subsystem for the DLP PJ TV's. **Therefore, the duty suspension legislation (S. 1722, reintroduced at S. 2079) covering electron guns actually used for HD CRT's (which are used only for Direct View TV's) has no impact on either company's U.S. production operations. They produce products that compete in a completely different market.**

Furthermore, for the first full year STC-P's estimated duty suspension savings for HD CRT electron guns would be only \$210,000. This amount is not significant on an allocated per television basis, less than one dollar per TV. However, every dollar saved by STC-P is significant to the viability and preservation of its U.S. plant and manufacturing jobs. Quite bluntly, Sony has had to implement numerous cost saving initiatives during the past few years. Fierce foreign competition has forced the closing and scaling back of numerous facilities and manufacturing lines. STC-P is fighting to hold its own and needs every available dollar to keep the plant in production.

As for the other opponent of the legislation, Matsushita Electric Corporation of America, it does not produce TV's in the United States, much less HD TV's. To the best of our knowledge and information, it only produces TV/VCR combination units in the U.S. We know of no indication that it has any plans to produce TV's, traditional or HD, in the U.S. in the foreseeable future.

S. 1724 (reintroduced as S. 2078) covers LCD panel assemblies for use in LCD PJ TV's. STC-P is the only U.S. manufacturer of this type of television. We acknowledge that LCD PJ TV's do compete in the same market as DLP PJ TV's. However, the projected duty savings total \$675,000 in 2004 and \$450,000 in 2005, after which we expect severely diminished production of these models in the U.S. **Again, in the aggregate or on a per unit basis, these savings will not create a competitive cost advantage for SEL.** The savings may contribute a small margin to STC-P, providing an incentive to maintain production in the United States. More importantly and by extension, the retention of this line allows fixed cost allocation across a wider range of products. If STC-P loses individual lines, like LCD PJ TV production, the plant's fixed cost burden falls on fewer products. This is how cost competitiveness and ultimately production is lost to foreign competitors.

As was the case for Direct View TV's, **Matsushita does not produce a competing product in the United States.** Nor are we aware of any plans to commence any type of domestic PJ TV production, though it does produce PJ TV's in Mexico.

B. Direct View Flat Panel Screen Versus Rear Projection Screen Televisions

A new market category has emerged for Direct-View Color television. This is the flat panel television market. There are two flat-panel technologies that serve this market, LCD and Plasma. The video engine for these technologies, is the flat panel assembly that contains the image-generating glass sandwich (containing liquid crystals or gas plasma) including row and column drivers, associated electronic circuitry and the mechanical package that holds the assembly together. Neither the LCD nor the plasma flat panel display assembly is produced in North America due to the huge, almost one billion dollar investment that would be required.

The cost of a finished flat panel screen TV is roughly 5 times the cost of a similar-sized CRT set. Because of this significant difference in price point, they appeal to a completely different customer base. While Plasma and LCD panels are competitors to each other in this high-end section of the market, they

do not compete with the bulkier but far less expensive CRT and Rear Projection televisions. For this reason, Sony and most major consumer electronics manufacturers compete in this market as well, without fear that plasma and LCD products will cannibalize CRT sales, for instance. However, Sony does not produce LCD and Plasma sets that are the same size. This is the appropriate response you would expect from a singular manufacturer who recognizes that its products might compete with one another. For example, this year Sony will produce a 32" LCD television, and drop the corresponding Plasma model of the same size. Sony will continue to make 32" Direct-View CRT televisions, as it is clear that they do not compete with the new flat panel technologies even at the same screen size. As discussed above, Rear Projection TV's are in a different market. Thus, the Sony PJ TV lineup will be unaffected by flat panel TV's.

Price point is not the only factor that differentiates flat panel screen TV's from CRT based Direct View and PJ TV's. Flat panel screen TV's are sought by consumers for reasons of interior space and design. For example, these slim, lightweight flat panel units can be hung from walls or easily recessed. In other words, they do not require a large floor space. Buyers who want to conserve floor space or who are trying to achieve the most streamlined look will not purchase a CRT or PJ TV.

Because there is no Direct View flat panel TV production in the U.S., S. 1723 (reintroduced as S. 2080) represents a duty savings expectancy only. If the legislation is passed, it will create an inducement to produce plasma TV's domestically. However, such production does not compete with Texas instruments or Advanced Digital Optics because DLP technology is used for projection TV's only. **Therefore, the legislation will not create adverse consequences to the U.S. MEMS industry.**

The relationship of Texas Instruments and Advanced Digital Optics to STC-P is even more attenuated than that of companies in different TV markets. The companies operate at different ends of the supply chain. Texas Instruments manufactures a semiconductor utilized by Advanced Digital Optics, a subsystem maker. STC-P contemplates performing TV assembly. Although, we do not have cost data for the DLP chip or the Advanced Digital Optics subsystem, we do know that STP will add significant local value through its own processing operations and the parts sourced from regional vendors. Moreover, the consistent history of STC-P's TV production is that after a new product line is introduced, STC-P's value added and total local parts procurement increases drastically over time. We have no information that DLP TV's will be produced in the U.S. Currently, all DLP TV production about which we are aware occurs outside of the U.S.

III. If The Temporary Duty Suspension Bill For Plasma Televisions Is Defeated, A Trade Distorting Duty Advantage For Mexican Production Will Be Created

Given the absence of North American flat panel assembly production, the issue is whether TV companies will assemble the finished flat panel TV's in North America, or seek a lower cost region. As noted earlier, a North American production inducement is looming near. In response to a Mexican government proposal, the NAFTA parties are poised to grant a zero duty preference to TV's assembled in North America with a [now] non-North American flat panel screen assembly. To qualify the TV, the glass sandwich assembly could be imported separately from the drive or control electronics and subsequent assembly in North America would qualify the resulting assembly as NAFTA originating, thereby conferring NAFTA origin on the finished TV itself. The current rules do not allow this. Rather, the glass sandwich, which is the video engine of the TV, must be North American.

The Direct View flat panel TV market is growing rapidly and STC-P would like to bring this manufacturing to the U.S. However, the combination of NAFTA duty free status and the Mexican

PROSEC program will provide a significant cost advantage to Mexican producers, including Sony Maquiladoras. While a potential U.S. producer like STC-P would have to pay duty on the foreign flat panel assembly, Mexican producers would pay zero duty. Matsushita has gone on record with the U.S. Trade Representative as supporting this proposal. Philips proposed an even more clear cut approach to accomplish the same exact purpose. In both cases, the direct result would be duty reductions to promote Mexican television production. The Philips submission stated, "The rules of origin change proposed above would serve as a powerful incentive to consumer electronics manufacturers to shift assembly of flat panel televisions to Mexico, with positive employment and other economic effects."

The proposed flat panel assembly duty suspension bill aims to level the playing field by creating tariff neutral parity with Mexican producers for U.S. manufacturers like STC-P. The end result will be that producers on both sides of the border will be able to import the flat panel assemblies without a duty consequence. Consequently, a plasma television produced and sold by STC-P in the U.S. will carry no more of a material duty burden than a flat panel screen TV produced in Mexico and imported into the U.S.

Of course, we cannot presume to know Matsushita's exact motives for opposing the current legislation. However, we do know that Mexican producers would gain a comparative advantage next to STC-P. This would hold for producers of DLP technology TV's in Mexico as well. Advanced Digital Optics is not the only purchaser of the Texas Instrument chip. According to our industry information sources, a company called Amkor operating in Taiwan also purchases the DLP chip for significant value added production into the subsystem assembly. Samsung, RCA, Mistubishi and, upon information and belief, Hitachi are companies that import the Taiwanese assembly into Mexico for final TV assembly. Under PROSEC, no duty would ever be paid upon the Amkor Taiwan origin assembly and further, under the new NAFTA rules, the TV would enter the U.S. duty free. To the extent that anyone disagrees with our assessment that DLP PJ TV's do not compete with plasma TV's, one cannot escape the conclusion that DLP TV's produced in Mexico would have an unfair duty advantage over STC-P's TV's. STC-P's televisions would be burdened with duty on the key video component, while the Mexican DLP TV's would not suffer such a burden.

IV. Government Policy Should Put All U.S. Television Producers On A Level Playing Field With Their Foreign Competitors

The purpose of plasma and LCD panel assembly duty suspension bills is to create tariff parity with producers in Mexico. The legislation does not cover all key video components for all TV technologies. Instead, the bills provide relief for a bona fide TV producer that has invested heavily in United States manufacturing and job growth. However, SEL does not shy away from fair competition. It would not oppose or otherwise obstruct the efforts of any other companies committed to U.S. TV manufacturing to pass similar field-leveling duty suspension legislation. Any other producer seeking to suspend duty on imported flat panel screen assemblies (e.g., MEMS assemblies) for use in domestic TV manufacturing should have an equal opportunity to compete against producers in Mexico.

The production of a semiconductor (by Texas Instruments) does not by itself constitute a U.S. television industry. The chips are sold to foreign television makers that add the majority of value outside the U.S. Therefore, the effect of opposition to the pending legislation should be tempered by the knowledge that the opposition does not represent the U.S. TV industry. Let those who oppose the legislation work with us instead to promote the expansion of our domestic industry.

V. Conclusion

Clearly the elimination of duties in Mexico coupled with NAFTA eligibility was a significant driver in moving the American CRT television industry to Mexico. Now, PROSEC and new NAFTA rules will create pressure for a similar movement of flat panel screen television production to Mexico. It is not too late to correct this situation and help preserve one of the last television set manufacturers in the United States. The passage of the pending temporary duty legislation will go a long way to accomplishing this goal. It will also help support numerous domestic suppliers of materials and services, everything ranging from plastics and packaging to employment services.

We appreciate the opportunity to provide these comments. If you have any questions please contact me at 201-930-7222 or Richard Haroian at 858-942-3061.

Respectfully submitted,

David Newman
Senior Counsel
Sony Electronics Inc.
201-930-7222

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

MP 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)

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
United States Display Consortium
60 S. Market Street, Suite 480
San Jose, CA 95113
Tel. 408-277-2400, Fax 408-277-2490
mrpinnel@usdc.org

108TH CONGRESS
1ST SESSION

S. 1794

To suspend temporarily the duty on electron guns for cathode ray tubes (CRT's) with a high definition television screen aspect ratio of 16:9 and other parts used in plasma and LCD televisions.

IN THE SENATE OF THE UNITED STATES

OCTOBER 29, 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 electron guns for cathode ray tubes (CRT's) with a high definition television screen aspect ratio of 16:9 and other parts used in plasma and LCD 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. ELECTRON GUNS FOR CATHODE RAY TUBES.**

4 Subchapter II of chapter 99 of the Harmonized Tar-
5 iff Schedule of the United States is amended by inserting
6 in numerical sequence the following new heading:

“	9902.85.25	Electron guns actually used for cathode ray tubes (CRT's) with a high definition television screen aspect ratio of 16:9 (provided for in sub-heading 8540.91.50)	Free	No change	No change	On or before 12/31/2006	”.
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1 **SEC. 2. PLASMA DISPLAY PANEL ASSEMBLIES.**

2 (a) Subchapter II of chapter 99 of the Harmonized
3 Tariff Schedule of the United States is amended by insert-
4 ing in numerical sequence the following new heading:

“	9902.85.23	Plasma display panel assemblies for use in plasma flat screen televisions (provided for in subheading 8529.90.53)	Free	No change	No change	On or before 12/31/2006	”.
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5 **SEC. 3. LCD PANEL ASSEMBLIES.**

6 Subchapter II of chapter 99 of the Harmonized Tar-
7 iff Schedule of the United States is amended by inserting
8 in numerical sequence the following new heading:

“	9902.85.24	Liquid Crystal Display panel assemblies for use in Liquid Crystal Display projection type televisions (provided for in subheading 9013.80.90)	Free	No change	No change	On or before 12/31/2006	”.
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9 **SEC. 4. EFFECTIVE DATE.**

10 The amendments made by this Act applies with re-
11 spect to goods entered, or withdrawn from warehouse for
12 consumption, on or after the 15th day after the date of
13 the enactment of this Act.

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