

# **PROBABLE ECONOMIC EFFECTS OF PROVIDING DUTY-FREE TREATMENT FOR WATCHES UNDER THE GENERALIZED SYSTEM OF PREFERENCES**

Report to the President  
on Investigation Nos.  
TA-131(b)-13,  
TA-503(a)-17,  
and 332-266 of  
the Tariff Act  
of 1930

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Washington, DC 20436



UNITED STATES INTERNATIONAL TRADE COMMISSION

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NOTICE

The whole of the Commission's report to the President in April 1989 may not be made public since it contains information that has been classified by the United States Trade Representative or would result in the disclosure of the operations of individual concerns. This published report is the same as the report to the President, except that the above-mentioned information has been omitted. Such omissions are indicated by asterisks.





## Preface

The Commission instituted the investigation, Nos. TA-131(b)-13, TA-503(a)-17, and 332-266, under sections 131(b) and 503(a) of the Trade Act of 1974 (19 U.S.C. 2151(b) and 2463(a) and section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)), Probable Economic Effects of Providing Duty-Free Treatment for Watches under the Generalized System of Preferences, on Nov. 7, 1988, following receipt on Oct. 18, 1988, of a letter from the U.S. Trade Representative (USTR). The request was made following the acceptance for review by the Trade Policy Staff Committee of a petition from Timex Corporation for the addition of watches to the list of articles eligible for duty-free treatment under the Generalized System of Preferences (GSP). The information requested was further clarified in a letter from the USTR dated Jan. 31, 1989. Copies of the October and January letters are reproduced in appendix A, the 58 Harmonized Tariff Schedule of the United States subheadings pertaining to watches are listed in appendix B, and a copy of the Commission's notice of investigation is reproduced in appendix C. 1/

In his letter the USTR notified the Commission that watches provided for in headings 9101 and 9102 of the Harmonized Tariff Schedule of the United States (HTS) are being considered for designation as eligible articles for purposes of the GSP. He requested, pursuant to sections 131(a) and 503(a) of the Trade Act, that the Commission provide its advice, with respect to the watches provided for in each 8-digit subheading under HTS heading 9101 and 9102, as to the probable economic effect on U.S. industries producing or assembling watches and U.S. industries producing or assembling watch bands, straps or bracelets and on U.S. consumers. He asked that separate advice be provided for the watch manufacturing and assembly industry and the watch band, strap and bracelet manufacturing and assembly industry and for each geographic area (the United States and U.S. insular possessions). In providing its advice, the Commission was requested to assume that benefits of the GSP would not apply to imports that would be excluded from receiving such benefits by virtue of the "competitive need" limits specified in section 504(c) of the Trade Act.

With respect to the injury determination required by section 503(c)(1)(B) of the Trade Act (as amended by section 1903 of the Omnibus Trade and Competitiveness Act of 1988), the USTR requested (as amended by letter of Jan. 31, 1989) that the Commission provide data and/or information and analysis, to the extent possible, for the most recent 3-year period for each of such industries with regard to annual production, capacity, capacity utilization, domestic shipments, exports, inventories, employment, wages, and financial experience; the potential decline in output, market share, profits, productivity, and return on investment; the potential negative effects on cash flow, and ability to raise capital and investment; any rapid increases in import penetration and the likelihood that such penetration will rise to an injurious level; factors affecting

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1/ A copy of the list of participants in the Commission's hearing appears in appendix D.

domestic prices; and any other factors the Commission deems relevant. In addition, he requested that the Commission provide data, to the extent possible, for the most recent 3-year period for current and potential foreign producers, current and potential production capacity and capacity utilization, domestic shipments, and exports to the U.S. and other markets.

With respect to the finding required under section 504(d) of the Trade Act, the USTR requested, pursuant to the authority of section 332(g) of the Tariff Act of 1930, that the Commission provide advice with respect to whether articles like or directly competitive with the watches described in each 8-digit subheading of the headings, 9101 and 9102, of the HTS were being produced in the United States on Jan. 3, 1985.

The USTR requested that such advice be furnished as soon as possible, but not later than 6 months after receipt of the request (Apr. 18, 1989).

In the course of this investigation, the Commission collected data and information from questionnaires sent to assemblers, producers, and importers of watches and watch bands, straps, and bracelets in the United States and the U.S. insular possessions. In addition, information was gathered from various public and private sources; overseas posts of the U.S. Department of State; fieldwork in the United States and the U.S. Virgin Islands; and from Commission files.

## CONTENTS

	<u>Page</u>
Preface.....	i
Executive Summary.....	xi
Chapter 1. Introduction and review of legislation.....	1-1
The purpose of the study.....	1-1
Legislative background.....	1-2
Public Law 93-618; Jan. 3, 1975 (Trade Act of 1974).....	1-2
Public Law 94-88; Aug. 9, 1975.....	1-3
Public Law 97-446; Jan. 12, 1983.....	1-3
Public Law 100-418; Aug. 23, 1988, the Omnibus Trade and Competitiveness Act of 1988.....	1-3
Information sources.....	1-4
Formulation of questionnaire product categories.....	1-4
Chapter 2. Product description and uses.....	2-1
Description and uses.....	2-1
Watches.....	2-1
Watch bands, straps, and bracelets.....	2-4
Manufacturing process.....	2-4
Assembly.....	2-4
Precious metal in the manufacturing process.....	2-5
Solid gold.....	2-5
Mechanical cladding.....	2-5
Electroplating.....	2-5
Ion-deposition.....	2-6
Differences in manufacturing process by country.....	2-6
Substitute products.....	2-7
U.S. tariff treatment.....	2-8
Chapter 3. The U.S. market for watches.....	3-1
Marketing practices.....	3-1
Channels of distribution.....	3-1
Apparent U.S. consumption.....	3-2
U.S. capacity, assembly, and capacity utilization.....	3-2
Capacity.....	3-2
U.S. assembly.....	3-5
Capacity utilization.....	3-8
Domestic shipments.....	3-8
U.S. exports.....	3-8
U.S. assemblers' inventories.....	3-10
U.S. employment, wages, and productivity.....	3-11
U.S. imports of watches.....	3-15
U.S. importers' inventories of watches.....	3-20
Effects of imports on the U.S. industry.....	3-22

## CONTENTS

	<u>Page</u>
Chapter 4. The U.S. market for watch bands, straps, and bracelets...	4-1
Operations by firms producing watch bands, straps, and bracelets in the United States.....	4-1
Channels of distribution.....	4-1
U.S. capacity, production, and capacity utilization.....	4-2
Capacity.....	4-2
Production.....	4-2
Capacity utilization.....	4-4
Domestic shipments.....	4-4
U.S. exports.....	4-7
U.S. producers' inventories.....	4-7
U.S. employment, wages, and productivity.....	4-8
U.S. imports of watch bands, straps, and bracelets.....	4-9
Effects of imports on the U.S. industry.....	4-13
Chapter 5. The U.S. insular possessions assembly of watches.....	5-1
Assembly operations in the U.S. insular possessions.....	5-1
Channels of distribution.....	5-1
Capacity, assembly, and capacity utilization.....	5-1
Capacity.....	5-1
Assembly.....	5-2
Capacity utilization.....	5-4
Assemblers' shipments.....	5-5
Inventories.....	5-5
Purchases of U.S.-produced watch parts.....	5-7
U.S. insular possessions employment, wages, and productivity.....	5-8
Chapter 6. Financial experience of the watch industry in the United States and the U.S. insular possessions.....	6-1
Financial experience of U.S. producers and assemblers.....	6-1
U.S. domestic watch assembly operations.....	6-1
U.S. insular possessions watch assembly operations.....	6-4
U.S. watch band, strap, and bracelet producers.....	6-6
Investment in productive facilities.....	6-10
Return on investment.....	6-11
Capital expenditures.....	6-11
Research and development expenses.....	6-11
Capital and investment.....	6-13
Chapter 7. U.S. trade.....	7-1
Trade balance.....	7-1
U.S. imports of watches.....	7-1
U.S. imports of watches from GSP-eligible countries.....	7-1
Imports under TSUS item 807.00.....	7-5
U.S. exports of watches.....	7-6

## CONTENTS

	<u>Page</u>
Chapter 8. Profiles of foreign industries and the ability of foreign producers to generate exports.....	8-1
Overview.....	8-1
Asia.....	8-3
Hong Kong.....	8-4
Japan.....	8-6
Korea.....	8-6
Singapore.....	8-8
China.....	8-8
Philippines.....	8-9
Thailand.....	8-9
India.....	8-12
Europe.....	8-13
Switzerland.....	8-13
France.....	8-14
Germany.....	8-15
GSP-designated countries.....	8-15
Canada.....	8-16
Latin America.....	8-16
 Chapter 9. Economic trends.....	 9-1
Prices.....	9-1
Price trends for watches.....	9-3
Price trends for watchbands, straps, and bracelets.....	9-10
Exchange rates.....	9-13
 Chapter 10. Probable economic effects.....	 10-1
Probable economic effect on U.S. imports.....	10-4
Conditions of production.....	10-4
Price elasticity of import supply.....	10-4
Price elasticity of import demand.....	10-7
Probable economic effect on the U.S. insular possessions assemblers.....	10-8
Probable economic effect on the U.S. industry.....	10-10
Probable economic effect on U.S. watchband producers.....	10-12
Probable economic effect on U.S. consumers.....	10-13
 Appendixes	
A. Request letter from the United States Trade Representative.....	A-1
B. HTSUSA item numbers for watches and watch bands, straps, and bracelets.....	B-1
C. Notice of investigation.....	C-1
D. List of participants in the U.S. International Trade Commission hearing.....	D-1
E. Selected legislation and U.S. Department of Commerce notices pertaining to watches.....	E-1
F. Questionnaire product categories.....	F-1

## CONTENTS

	<u>Page</u>
Tables--Continued	
6-6. Income-and-loss experience of U.S. producers on their operations producing watch bands, straps, and bracelets, by producers, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988.....	6-10
6-7. Watches: Value of property, plant, and equipment of U.S. insular possession assemblers watch band, strap, and bracelet manufacturers, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988....	6-11
6-8. Watches: Return on investment of U.S. assemblers, U.S. insular possessions assemblers and watch band, strap, and bracelet manufacturers, accounting years 1985-87.....	6-12
6-9. Watches: Capital expenditures by U.S. assemblers, U.S. insular possessions assemblers and watch band, strap, and bracelet manufacturers, accounting years 1985-87 and interim periods ended Sept 30, 1987, and Sept. 30, 1988.....	6-12
6-10. Watches: Research and development expenses of U.S. assemblers, U.S. insular possessions assemblers and watch band, strap, and bracelet manufacturers, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988.....	6-13
7-1. Watches: U.S. watch imports for consumption, principal sources, 1984-88.....	7-2
7-2. Watches: U.S. watch imports for consumption from GSP-eligible countries, 1984-88.....	7-3
7-3. Watches: Share of 1986 U.S. watch imports accounted for by countries currently eligible for GSP, by selected HTSUS sub-headings.....	7-5
7-4. Watches: U.S. domestic watch exports, f.a.s. value 1984-88....	7-7
8-1. Watches: Production of top producer countries and the United States, 1986-88.....	8-2
8-2. Watches: Estimated production, capacity, and capacity utilization rates by GSP-designated countries, 1986-88.....	8-2
8-3. Watches and watch bands, straps, and bracelets: Total exports from Hong Kong and exports from Hong Kong to the United States, 1986-88.....	8-4
8-4. Watches and watch bands, straps, and bracelets: Exports from Japan by principal destinations, 1986-88.....	8-7
8-5. Watches: Exports of watches from Korea, by countries, 1985-87.....	8-7
8-6. Timex's, Philippines watch production and exports to the United States, by types, 1988.....	8-10
8-7. Watches and watch parts: Estimated production capacity of the watch industry in Thailand, by products and by ownership....	8-11
8-8. Wristwatches: Thai exports, by principal markets 1985-87.....	8-11
8-9. Watches: Exports of Swiss-produced watches to principal markets, 1986-88.....	8-14

## CONTENTS

	<u>Page</u>
Tables--Continued	
8-10. Imports and exports of watches and related articles in France, 1987.....	8-15
8-11. Watches: West Germany exports to Europe and the United States, 1986-88.....	8-16
9-1. F.o.b. prices reported by U.S. assemblers of watches for sales to mass merchandisers of product 1, by quarters, January 1986-December 1988.....	9-5
9-2. F.o.b. prices reported by U.S. assemblers and importers of watches for sales to catalog houses of product 1, by quarters, January 1986-December 1988.....	9-6
9-3. F.o.b. prices reported by U.S. assemblers of watches for sales to mass merchandisers and catalog houses of product 2, by quarters, January 1986-December 1988.....	9-8
9-4. F.o.b. prices reported by U.S. assemblers of watches for sales to mass merchandisers and catalog houses of product 3, by quarters, January 1986-December 1988.....	9-9
9-5. F.o.b. prices reported by U.S. assemblers and importers of watches for sales to mass merchandisers and catalog houses of product 4, by quarters, January 1986-December 1988.....	9-11
9-6. F.o.b. prices of products 1-4 as reported by U.S. watch band, strap, and bracelet manufacturers for sales to mass merchandisers, by quarters, January 1986-December 1988.....	9-12
9-7. Nominal exchange-rate equivalents of the Hong Kong dollar and the Japanese yen in U.S. dollars, real exchange-rate equivalents, and producer price indexes in Hong Kong and Japan, indexed by quarters, January 1986-December 1988.....	9-14
9-8. Exchange rates: Nominal exchange-rate equivalents of selected currencies in U.S. dollar, real exchange-rate equivalents, and producer price indicators in specified countries, indexed by quarters, January 1985-December 1988.....	9-15
10-1. Watch production in the United States and the U.S. insular possessions, by HTSUS subheading, 1985 and 1988.....	10-1
H-1. Watch parts: U.S. assemblers purchases, 1986-88.....	H-3
H-2. Watch parts: U.S. insular possessions assemblers purchases, 1986-88.....	H-3





EXECUTIVE SUMMARY

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Table A  
Profile of U.S. watch industry and market, U.S. insular possessions' watch industry, and U.S. watch band, strap, and bracelet industry, 1986-88

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## CHAPTER 1. INTRODUCTION AND REVIEW OF LEGISLATION

## The Purpose of the Study

The purpose of the study is to provide advice and information to the USTR that will assist the USTR and the President in making certain determinations under title V of the Trade Act of 1974, as amended by section 1903 of the Omnibus Trade and Competitiveness Act of 1988, with respect to whether watches provided for in headings 9101 and 9102 of the Harmonized Tariff Schedule of the United States (HTSUS) should be designated as eligible articles for purposes of the Generalized System of Preferences.

The USTR requested, pursuant to sections 131(a) and 503(a) of the Trade Act, that the Commission provide advice, with respect to the watches provided for in each 8-digit subheading under HTSUS headings 9101 and 9102, as to the probable economic effect on U.S. industries producing or assembling watches and on U.S. consumers. He asked that separate advice be provided for the watch manufacturing and assembly industry and the watch band, strap and bracelet manufacturing and assembly industry and for each geographic area (the United States and U.S. insular possessions). 1/ 2/ In providing its advice, the Commission was requested to assume that benefits of the GSP would not apply to imports that would be excluded from receiving such benefits by virtue of the "competitive need" limits specified in section 504(c) of the Trade Act.

With respect to the injury determination required by section 503(c)(1)(B) of the Trade Act (as amended by section 1903 of the Omnibus Trade and Competitiveness Act of 1988), the USTR requested (as amended by letter of January 31, 1989) that the Commission provide data and/or information and analysis to the extent possible for the most recent 3-year period for each of such industries with regard to annual production, capacity, capacity utilization, domestic shipments, exports, inventories, employment, wages, and financial experience; the potential decline in output, market share, profits, productivity, and return on investment; the potential negative effects on cash flow, and ability to raise capital and investment; any rapid increases in import penetration and the likelihood that such penetration will rise to an injurious level; factors affecting domestic prices; and any other factors the Commission deems relevant. In addition, he requested that the Commission provide data for the most recent 3-year period for current and potential foreign producers, current and potential production capacity and capacity utilization, domestic shipments, and exports to the U.S. and other markets.

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1/ Further use of the term, "United States," refers only to the 50 states, the District of Columbia, and Puerto Rico. The term "Insular possessions" refers only to the U.S. Virgin Islands and Guam.

2/ Section iv of Headnote 3(a) of the TSUS and the HTSUS describes special duty provisions that apply to products of insular possessions (app. E).

With respect to the finding required under section 504(d) of the Trade Act, the USTR requested, pursuant to the authority of section 332(g) of the Tariff Act of 1930, that the Commission provide advice with respect to whether articles like or directly competitive with the watches described in each 8-digit subheading of the headings 9101 and 9102 of the HTSUS were being produced in the United States on January 3, 1985.

The USTR requested that such advice be furnished as soon as possible, but not later than 6 months after receipt of the request (April 18, 1989). The following section reviews legislation pertaining to watches (See app. E for copies of headnote 3(a), the legislation as it appears in the United States Code, and the notices related to this legislation that appeared in the Federal Register).

#### Legislative Background

##### Public Law 93-618; Jan. 3, 1975 (Trade Act of 1974)

The Trade Act of 1974, which provided for the GSP program, specifically excluded watches from eligibility for duty-free treatment because watches were determined to be "import sensitive articles." (see section 503(c)(1) of the Trade Act of 1974, 19 U.S.C. 2463(c)(1)). The report of the Senate Committee on Finance on the bill that became the Trade Act of 1974 also notes that Congress was concerned with the effect that GSP would have on the economies of the U.S. insular possessions. 1/

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1/As the Senate report notes,

...General headnote 3(a) of the Tariff Schedules of the United States would be amended to assure that, subject to Sections 503(b)(2) (rules of origin) and 504(c) (competitive need limitations), insular possessions would receive duty treatment no less favorable than that afforded to any country designated a beneficiary in accordance with this title.

This provision is not intended to impair any benefits that these possessions are receiving by reason of headnote 3(a) to the Tariff Schedules of the United States. The Committee strongly believes that the products of U.S. insular possessions should under no circumstances be treated less advantageously than those of foreign countries. ...in determining eligibility of an article under this title, the President should take into account the extent to which duty-free treatment of such articles from the insular possessions are presently contributing to the economic well-being and development of the insular possessions, and the extent to which such trade would be adversely affected if such articles were to be made eligible for generalized tariff preferences.

Report of the Committee on Finance United States Senate, Together with Additional Views on H.R.10710, pp. 222-23.

Public Law 94-88; Aug. 9, 1975

This legislation amended the TSUS to provide duty-free treatment to watches and watch movements manufactured in any insular possession of the United States if foreign materials did not exceed 70 percent of the total value of such watches and watch movements. 1/

Public Law 97-446; Jan. 12, 1983

In response to changing market conditions that had had an adverse impact on the U.S. insular possessions watch industry, Congress passed legislation that was designed to "...spur production in the insular possessions and to encourage those producers who are there to stay and those producers who have left to potentially return." 2/ The legislation modified headnote 3(a) of the TSUS (e.g., the foreign-content limitations pertaining to watch components were relaxed) and provided production incentives in the form of a wage rebate program. 3/

Public Law 100-418; Aug. 23, 1988, The Omnibus Trade and Competitiveness Act of 1988

The Omnibus Trade and Competitiveness Act of 1988 amended section 503(c)(1) of the Trade Act of 1974 to permit the President to designate watches as eligible for duty-free treatment under the GSP if he determined, after public notice and comment, that such designation will not cause material injury to watch or watch band, strap or bracelet manufacturing and assembly operations in the United States or U.S. insular possessions. More specifically, section 503(c)(1) was amended as follows:

(B) watches, except those watches entered after June 30, 1989, that the President, through the United States Trade Representative, specifically determines, after public notice and comment, will not cause material injury to watch or watch band, strap or bracelet manufacturing and assembly operations in the United States or the United States insular possessions. 4/

The 1988 act did not alter the production incentives or general headnote changes made by Public Law 97-446.

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1/ Public Law 94-241, enacted on Mar. 24, 1976, entitled the Northern Mariana Islands to the same tariff privileges as Guam.

2/ United States Code: Congressional and Administrative News, 97th Congress--Second Session, 1982, vol. 4, p. 4091.

3/ The legislation specifies the requirements and limitations for the production incentive program (see app. E).

4/ Public Law 100-418--Aug. 23, 1988, 102 Stat. 1313.

### Information Sources

Information sources include questionnaires, fieldwork (domestic and U.S. Virgin Islands), government data (including the Department of Commerce and appropriate U.S. embassies and Commission files). In addition, the Commission collected information through its public hearing, written submissions from interested parties, and secondary, nongovernmental sources.

Questionnaires were sent to nine U.S. assemblers; eight U.S. insular possessions assemblers; seven U.S. watch strap, band, and bracelet producers; and nine U.S. importers of watches.

### Formulation of Questionnaire Product Categories

The large number of individual headings and subheadings for watches in the Harmonized Tariff Schedule of the United States and the manner in which these subheadings are organized make comparisons related to product value or style difficult. Therefore, Commission staff created product categories that reflect product value (in terms of precious-metal content) and product style in order to collect data that would be roughly comparable given the thousands of watch styles available in the United States. (See app. F for a description of the product categories).



## CHAPTER 2. PRODUCT DESCRIPTION AND USES

## Description and Uses

Watches

Watches are timepieces designed to be worn or carried on or about the person. The most common type of watch is the wristwatch, but watches may also be carried in the pocket, set in rings, or worn about the neck. Timepieces incorporating any type of stand are not classified as watches, nor are watches set in pens, or in other apparatus not specifically designed to be carried on or about the person. Watches may be mechanically or electrically powered, and the timekeeping function may be either mechanically or electronically regulated; they may have mechanical (analog) displays, opto-electronic (digital) displays, or both. Quartz analog watches make up the most significant portion of this group of products in terms of U.S. imports and domestic shipments. Quartz analog watches accounted for over 74 percent of the value of U.S. watch imports in 1988. 1/ Quartz analog watches constituted \*\*\* percent of total shipments of watches assembled in the United States in 1988. 2/

The major components of a watch are the movement; the watch case; the watch band, strap, or bracelet; and the battery. The watch movement performs the time regulating function. The term watch movement includes movements with a balance wheel and hairspring, quartz crystal, or any other system capable of determining intervals of time. The watch case includes the inner and outer cases, case backs, and containers and houses for movements, together with parts and pieces, such as, but not limited to, rings, posts, and frames.

Prior to the early 1970s, watches generally were used as timekeeping devices. The value of the watch was related to the cost of its movement as well as its case and bracelet. There was a wide range of prices for movements, based on their respective accuracy. Quartz technology allowed producers to make movements with a high degree of accuracy at a relatively

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1/ Based on official data of the U.S. Department of Commerce.

2/ Based on data submitted in response to questionnaires of the U.S. International Trade Commission.

low cost. 1/ With a quartz watch, the value of the watch is primarily a function of the cost of the case and bracelet.

Although the primary function of a watch remains one of timekeeping, a secondary use as jewelry, fashion accessories, or other articles of adornment has grown since quartz analog watches were introduced commercially. In response to this change in technology, watch manufacturers worldwide not only shifted a large percentage of their operations from mechanical to quartz analog or digital, but also focused their efforts on developing new styles for watches. By producing relatively low-cost accurate watches and by promoting watches as jewelry or fashion accessories, watch manufacturers were able to increase consumer demand for watches, because consumers were more likely to purchase more than one watch. Watch producers' marketing efforts focused on reinforcing brand-name recognition and highlighting new design lines in order to maintain or increase their respective shares of the growing market.

The watch case, and particularly the plating thickness of precious metal on most metal watch cases, is now the most important physical determinant of quality and price. Gold is most commonly used for cladding and plating watch cases. The better quality watches are plated with a greater thickness of gold or other precious metal to assure satisfactory wearability and low return rates. With nearly all quartz analog watches offering roughly equivalent timekeeping ability, differentiation among watch types is no longer highly dependent on the quality of the movement or the number of jewels. 2/

Differentiation, to a large extent, is a function of design, marketing, and outward appearance. The cost of gold on the case is a significant expense, and manufacturers attempt to match the quality of a watch movement with the thickness of gold plating on the case and band. The highest end watches are those that are actually made of precious metal. The next most expensive are generally watches clad with precious metal by

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1/ At the heart of quartz technology are two electronic devices, the integrated circuit, and the quartz crystal. A watch integrated circuit opens a switch and transfers electric energy from the battery to the motor. The integrated circuit is regulated by the quartz crystal, which vibrates at a very high frequency. The advantage to this high-frequency oscillation over mechanical, low-frequency oscillation is increased accuracy. A certified mechanical Swiss chronometer must run at an accuracy of 10 sec/day; a good-quality quartz watch may be accurate to within 0.2 sec/day, or 50 times as accurate as the best mechanical movement. Quartz analog watches are also much less affected by temperature fluctuations or the position they are worn in than are mechanical watches. 2/ According to industry sources, jewels in a quartz movement add little to its value, except that, in some instances, they aid in movement assembly operations. Quartz watches assembled in the United States, the U.S. insular possessions, and elsewhere differ little in terms of the number of jewels contained in their respective movements.

mechanical means. Finally, there are those watches that are plated with precious metal by electrochemical means. In general, for watches that are plated with precious metal, industry sources consider a watch plated to less than 1 micron to be of lesser quality because the plating is less durable. A "good" quality watch will usually be plated with 1 to 3 microns of precious metal, and its crown to not less than 2 microns because of the wear this part receives. "Better" quality watches are plated with 3 to 7 microns and the "best" are plated with more than 7 microns. Some makers plate to as great as 10 microns, but this is not common since electroplating to this thickness often results in a deterioration of the brilliance of the gold plating. Watches plated to a thickness of less than 1 micron generally retail for less than \$30. Watches plated to a thickness of between 1 and 3 microns usually retail from between \$30 and \$125, those plated between 3 and 7 microns generally retail from between \$125 and \$300, and those plated in excess of 7 microns generally retail at over \$250. Gold-clad watches retail from \$150 on up and solid gold watches at upwards of \$250. 1/

The cost added to a watch from goldplating is a function of the plating thickness; flash goldplating (less than 1 micron) may add as much as \$.70 to the cost of manufacturing a watch; gold plating of 2 microns may cost as much as \$7.00 and may increase the cost of a watch at the retail level by \$30.00 or more. The cost of the gold in an average man's watch (for the watchcase alone) is approximately \$2.10 to \$2.50. 2/ One manufacturer reported that it attempted to cut costs by plating to thicknesses of less than 0.5 micron. However, the firm's return rate increased as a result of defective finishes caused by the reduction in gold content; this increase forced the firm to resume plating to a thickness of 1 micron.

For the most part, there are few differences between watches assembled in the United States, the U.S. insular possessions, and other countries. The U.S. and U.S. insular possessions assemblers produce quartz analog watches primarily 3/, as do Japanese and European producers. Digital watches are produced primarily in low-wage-cost Asian countries. Mechanical watches continue to be produced (assembled) worldwide. As the demand for mechanical watches declines, production capacity and actual production also decline.

Watches and watch bracelets produced or assembled in the United States, the U.S. insular possessions, and elsewhere are plated with gold or

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1/ These price ranges may vary considerably depending on the type of watch bracelet attached to the watch. A watch with an integrated band that is clad with gold would be significantly more expensive than a similar watch with a leather band.

2/ This estimate assumes that the gold is valued at \$420 per oz.

3/ Because the U.S. insular possessions assemblers and the U.S. assemblers are marketing virtually all of their watches in the United States, the range of watch styles is similar for both industries.

other precious metals to the full range of thicknesses. The most common micron range in the United States and the U.S. insular possessions is between 1 and 3 microns. This is also the most common range for much of what is imported into the United States. A large percentage of U.S. imports from Japan and Europe (especially Switzerland) tend to be plated to over 3 microns or made of solid gold or other precious metal. Imports from Hong Kong generally are plated with precious metal to under 3 microns.

According to U.S. Government sources and industry sources in the respective countries, much of what is produced in various GSP countries also is plated with precious metal to less than 3 microns. Nonetheless, producers (or assemblers) in these countries have the capacity to produce all types of quartz analog watches. \* \* \*

#### Watch bands, straps, and bracelets

Watchbands are typically made of metal, leather, plastic, or textile. There are three general types of metal bands or bracelets--expansion, solid, or linked. Metal bands are often soldered or otherwise permanently attached to the watch case to form what is called an integrated bracelet. Metal bands or bracelets may be solid precious metal, clad or plated with precious metal to various thicknesses, or made of stainless steel or other base metal.

Leather bands or straps are used mostly with quartz analog or mechanical watches. Plastic bands are used on lower cost quartz analog watches and on many digital watches. Textile bands are used on lower cost watches of all types.

Because watches that are assembled in the U.S. insular possessions and the United States or are imported into the United States are targeted for the same markets, the watch assemblers generally use similar types of watch bands, straps, or bracelets. The type of watch case determines, more often than not, the type of band, strap, or bracelet attached to it.

### Manufacturing Process

#### Assembly

Watch movement assembly is the process of fitting together the various movement components. For mechanical watch movements, assembly includes that of a movement blank from the main plate, bridges, the train, and the winding and setting mechanisms. For electronic watch movements, the movement frame, integrated circuit, quartz crystal, coil and coil core, stepping motor, train, gears, and other parts are assembled.

Watch assembly entails five basic steps: 1) imprinting the dial (with a brand name, country of origin, etc.); 2) attaching crowns and stems and then dials and hands to the preassembled movement; 3) placing the resultant assembly into the watch case; 4) gluing or pressing the crystal in place; and 5) testing and adjusting for water resistance and accuracy. Completing the watch also entails attaching a watch band, strap, or bracelet; in some cases, the bracelet is permanently attached to the case when the case is manufactured. However, for the purpose of this investigation, operations that consist solely of attaching bands, testing for water resistance or accuracy, and/or other operations incidental to the creation of a substantially complete watch were not defined as assembly operations.

#### Precious metal in the manufacturing process

There are three ways to incorporate precious metal into watch cases and watchbands in addition to manufacturing the case and band entirely from precious metal. The first method, mechanical cladding, entails mechanically bonding a layer of precious metal to a base metal. The second, electroplating, includes flashplating and acidplating. Another technology, called ion-deposition gold plating--similar in quality to flashplating--is also being used.

Solid gold.--Solid gold cases and bands are produced primarily in Europe and the United States. The price of such products varies with the size, type, and the amount of gold in the case or bracelet. Most solid gold cases and bracelets manufactured in the United States use 14 kt gold, whereas European cases of this type are usually made of 18 kt gold.

Mechanical cladding.--Firms generally achieve a better quality product by using mechanical means (such as soldering or welding) rather than chemical means to bind the gold to the base metal. Typically, a sheet of base metal, such as brass, is plated with a layer of 14 kt or 18 kt gold, in a ratio of 1:20 by weight. The gold and brass are alternately heated and rolled until they are of the proper thickness. One micron is equivalent to approximately forty millionths of an inch, and the minimum thickness that the Federal Trade Commission permits for watches referred to as gold filled is three thousand millionths of an inch. This type of watch case is made less frequently today; for the most part, firms in the United States and elsewhere use electroplating rather than mechanical cladding to bind gold to the base metal. However, some firms manufacturing watch bands and bracelets in the United States continue to use the mechanical cladding method, particularly for non-expansion bracelets.

Electroplating.--Typically, electroplating starts with a brass, nickel-steel, or other alloy metal watch case or a stainless-steel watchband. After preparation, the case or band is plated in a nickel sulfate bath that applies a nickel coating to which the gold can adhere. The article is then dipped in a gold cyanide salt solution, and an electric current is applied. The article, acting as the cathode, is plated with the

gold that is in the plating solution to a thickness of between less than 0.1 and 10 microns, depending on how long it remains in the bath. 1/

Flashplating and acid, or micron, plating are similar processes except that objects that are flash plated are left in the plating solution for less than one minute; objects that are acid plated are left in a plating solution for 20 minutes to 3 hours. Also, the respective acid-plating solutions are slightly different. Flashplating deposits a very thin layer, usually of gold, on a base-metal surface; the layer is less than 0.1 micron of gold, which is worn away quickly by friction. The process generally is used to apply a shiny finish to a watch or bracelet that has a brass or gold-colored base metal, mainly to enhance the appearance for retail sale of the item.

Ion-deposition.--Ion-deposition plating uses microwave radiation to stimulate gold ions in a vacuum chamber; the ions are then deposited in a thin layer on the surface of a base-metal watch case placed in the chamber. This method also applies a very thin layer of gold that rubs off quickly when worn. Although this method is used to plate watchbands, the process plates all of the expansion band, including the moving parts, and therefore must be applied very thinly; otherwise, the expansion springs bind, leading to problems with wear.

There are other types of precious metals available for plating, but they are uncommon. For example, women's watch cases and bracelets made of silver currently are in fashion; however, industry analysts expect demand for these watches to level off and even decline in the next few years as consumer preferences shift again.

#### Differences in Manufacturing Process by Country

Watches are made essentially the same way the world over; differences occur mainly in levels of automation. The Swiss reportedly have achieved a very high degree of automation in the production of the Swatch watch, using a closely held proprietary manufacturing method; Swatch watch assembly lines generally only require operators to set up and monitor the assembly equipment. Certain Japanese firms have developed similar methods. 2/ For movement assembly, the large Japanese and Swiss producers reportedly also have invested in and achieved a very high degree of automation in their

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1/ This process is the one most commonly used by watch and watch parts producers worldwide.

2/ Japanese firms, according to industry sources, have also developed highly automated assembly systems for certain types of watches. Seiko Instruments and Electronics, for example, has developed robots and image processing devices to assemble watches. T. Sigo, M. Takada, S. Yamazaki, and Y. Takahashi, "An Automated Assembly Line for Wrist Watches using Robots with Vision," The International Journal of Advanced Manufacturing Technology, 1(2) 57-67, 1986, p. 57.

domestic plants, using robotics and pneumatic tools to the extent possible. Movement manufacturers with sufficient investment capital generally use automation equipment for the assembly of their lower end production, preferring to use skilled hand labor for the higher value items for which the labor component makes up a smaller percentage of the total cost. For other watch producers, the manufacturing and assembly of watches remains a series of labor-intensive operations and the degree of automation is determined by the cost effectiveness of investment in automation equipment versus contracting out assembly work to lower wage areas. 1/

Watch assembly is labor intensive, generally requiring a minimum of capital, except for certain testing equipment and assembly benches. Watch assemblers can generally be trained in 3 months or less. With the predominance of electronics involved in quartz watch manufacturing, skilled technical labor has been reduced substantially from that required for making mechanical watches. Watch parts manufacturing is done by the larger watch firms in Japan, Switzerland, and in the United States, \* \* \*

and is substantially more capital intensive than is watch or watch movement assembly.

Watch operations in GSP countries generally are fairly labor intensive. This is particularly true of the watch assembly operations. For the most part, companies located in the GSP-eligible countries assemble movements as well as the watch itself. However, some companies \* \* \*

\* \* \*

Companies in GSP-beneficiary countries such as Thailand have shown that they are capable of manufacturing products such as watch cases and bracelets; the production processes for both of these products is somewhat capital intensive. The establishment of watch components production allows the Thai industry to develop a limited degree of vertical integration, reducing its watch assemblers' need for imported components.

#### Substitute Products

Watches used either as personal timekeeping devices or as articles of personal adornment are not readily substitutable for other types of jewelry or for other timekeeping devices. Despite the proliferation of electronic devices, such as microwaves, or other appliances incorporating a watch or clock movement, there are few portable products available to substitute for

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1/ Watch assemblers in the United States and the U.S. insular possessions generally use labor-intensive methods to assemble watch movements and watches. Some firms \* \* \* than others.

wrist or pocket watches. One exception might be products that are carried on or about the person, such as a pen or lighter containing a watch module.

#### U.S. Tariff Treatment

The current U.S. rates of duty for watches produced in countries receiving most-favored-nation status appear in table 2-1. Watches are covered under chapter 91 of the Harmonized Tariff Schedule of the United States (HTSUS) and include articles under headings 9101 and 9102. (See app. B.) For the most part, the conversion from the Tariff Schedules of the United States (TSUS) to the HTSUS maintained TSUS watch breakouts under the new classification system. The TSUS, which classified watches under item 715.05, reflected the tariff structure dating from 1930, which was based on mechanical watch technology. In a series of rulings culminated in a ruling of March 25, 1982, the U.S. Court of Customs and Patent Appeals decided that opto-electronic watches did not fit the TSUS customs classification for a watch, and reclassified them as "electrical articles and electrical parts of articles n.s.p.f." 1/ A separate item number, 688.36 was created in July 1982 for solid-state watches, clocks, and modules. Under the TSUS, the duty on a watch classified under schedule 7 was determined by viewing the case, module, and bracelet separately, whereas for solid-state watches, the duty was calculated on the article as an entirety. Products containing watch modules such as pens and lighters were classified under item 688.43.50 as an article incorporating a watch module.

The conversion to the HTSUS changed the classification of watches from a "constructive separation" method, whereby each component of a watch is assessed a separate duty, to a simplified method using a composite duty rate that enables the entire article to fall under one subheading. The conversion resulted in a more complex rate structure, but a simplified classification system. 2/

The duty rates for watches with cases of precious metal or clad with precious metal, classified under heading 9101, are combination rates, based on a standard 6.25 percent rate for the case, and the band, strap, or bracelet, and a specific duty on the movement that varies according to the type of watch. Batteries for watches of this type are also assessed an additional 5.3 percent duty. For duty rates for other watches, classified under heading 9102, one rate of duty is used for cases (4 cents each, plus 6 percent ad valorem), and two rates are used for the straps, bracelets or bands. One rate is used for both base-metal and textile (synthetic and manmade) bands (14 percent ad valorem). All other straps, including leather and rubber or plastic bands, are dutiable at 2.8 percent. Under the HTSUS, watch straps entered with wristwatches, attached or otherwise, are classified with the watch.

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1/ Executive Order No. 12371, effective July 13, 1982.

2/ See app. G for a concordance between the HTSUS and the TSUS.



Table 2-1  
 Watches: Harmonized Tariff Schedule item number; description; U.S. col. 1 rate of duty as of Jan. 1, 1988

HTS item No.	Product description	Col. 1 rate	
		of duty	As of
		Jan. 1, 1988	Percent ad valorem equivalent
9101	Wrist watches, pocket watches and other watches, including stop watches, with case of precious metal or of metal clad with precious metal:		
9101.11	Wrist watches, battery powered, with mechanical display only:		
.40	Having 0-1 jewels, with case of, or clad with precious metal.....	6	
.80	Having more than 1 jewel, with case of, or clad with precious metal...	6	
9101.12.00	Wrist watches, battery powered, w/ opto-electronic display only:		
	With case of, or clad with precious metal.....	4	
9101.19	Wrist watches, battery powered, with other than opto-electronic or mechanical display only (e.g., having dual displays):		
.40	Having 0-1 jewels, with case of, or clad with precious metal.....	6	
.80	Having over 1 jewel, with case of, or clad w/ precious metal.....	6	
9101.21	Wrist watches, with automatic winding:		
.40	Having over 17 jewels, case of, or clad w/ precious metal.....	6	
.80	Having 17 jewels or less, case of, or clad w/ precious metal.....	6	
9101.29	Wrist watches, not automatic winding and not battery powered:		
.10	Having 0-1 jewels, with case of, or clad with precious metal.....	6	
.20	Having 2-7 jewels, with case of, or clad with precious metal.....	6	
.30	Having, 8-17 jewels, movement n/o \$15 each, measuring not over 15.2 mm, with case of, or clad w/ precious metal.....	7	
.40	Having, 8-17 jewels, movement n/o \$15 each, measuring over 15.2 mm, with case of, or clad with precious metal.....	7	
.50	Having, 8-17 jewels, movement valued over \$15 each, with case of, or clad with precious metal.....	6	
.60	Having, over 17 jewels, case of, or clad w/ precious metal.....	7	

See footnotes at end of table.

Table 2-1--Continued  
 Watches: Harmonized Tariff Schedule item number; description; U.S. col. 1 rate of duty as of Jan. 1, 1988

HTS item No.	Product description	Col. 1 rate of duty As of Jan. 1, 1988	Percent ad valorem equivalent
9101.91	Pocket, stop and other watches, n.e.s.i., battery powered, case of, or clad with precious metal:		
.20	With opto-electronic display only.....	4	
.40	Having 0-1 jewel.....	5.5	
.80	Having more than 1 jewel.....	5.5	
9101.99	Pocket, stop and other watches, n.e.s.i., not battery powered, case of, or clad with precious metal:		
.20	Having 0-7 jewels.....	5.5	
.40	Having 8-17 jewels, movement n/o \$15 each.....	6	
.60	Having 8-17 jewels, movement over \$15 each.....	6	
.80	Having over 17 jewels.....	6.5	
9102	Wrist watches, pocket watches and other watches, including stop watches, other than those of heading 9101:		
9102.11	Wrist watches, battery powered, mechanical display only, case not of or, clad with precious metal:		
.10	Having 0-1 jewel, gold- or silver-plated-case, w/ band of textile material or base metal.....	8	
.25	Having 0-1 jewel, case n.e.s.i., w/ band of textile material or base metal.....	10	
.30	Having 0-1 jewel, gold- or silver-plated-case, band of material n.e.s.i.....	5.5	
.45	Having 0-1 jewel, case n.e.s.i., with band of material n.e.s.i.....	6	
.50	Having 2 or more jewels, gold- or silver-plated case, with band of textile or base metal.....	10	
.65	Having 2 or more jewels, case n.e.s.i., with band of textile or base metal.....	11	
.70	Having 2 or more jewels, gold- or silver-plated case, with band of material n.e.s.i.....	7.5	
.95	Having 2 or more jewels, case n.e.s.i., w/ band of material n.e.s.i....	8.5	

See footnotes at end of table.

Table 2-1--Continued  
 Watches: Harmonized Tariff Schedule item number; description; U.S. col. 1 rate of duty as of Jan. 1, 1988

HTS item No.	Product description	Col. 1 rate of duty As of Jan. 1, 1988
		Percent ad valorem equivalent
9102.12.00	Wrist watches, battery powered, w/ opto-electronic display only with case not of, or clad with precious metal.....	4
9102.19	Wrist watches, battery powered, with case not of, or clad with precious metal with other-than opto-electronic or mechanical display only, (e.g., having dual displays):	
.20	Having 0-1 jewel, band of textile or base metal.....	10
.40	Having 0-1 jewel, band not of textile or base metal.....	6
.60	Having over 1 jewel, band of textile or base metal.....	12.5
.80	Having over 1 jewel, band not of textile or base metal.....	10
9102.21	Wrist watches, not battery powered, with case not of, or clad with precious metal, automatic winding:	
.10	Having 0-1 jewel, band of textile or base metal.....	12
.25	Having 0-1 jewel, band not of textile or base metal.....	6.5
.30	Having 2-17 jewels, band of textile or base metal.....	12.5
.50	Having 2-17 jewels, band not of textile or base metal.....	10
.70	Having over 17 jewels, band of textile or base metal.....	9.5
.90	Having over 17 jewels, band not of textile or base metal.....	8
9102.29	Wrist watches, not battery powered, with case not of, or clad with precious metal, not automatic winding:	
.05	Having 0-1 jewel, band of textile or base metal.....	9
.10	Having 0-1 jewel, band not of textile or base metal.....	7.5
.15	Having 2-7 jewels, band of textile or base metal.....	7.5
.20	Having 2-7 jewels, band not of textile or base metal.....	6
.25	Having 8-17 jewels, movements n/o \$15 each and n/o 15.2 mm, band of textile or base metal.....	13
.30	Having 8-17 jewels, movements n/o \$15 each and n/o 15.2 mm, band not of textile or base metal.....	11

See footnotes at end of table.

Table 2-1--Continued  
 Watches: Harmonized Tariff Schedule item number; description; U.S. col. 1 rate of duty as of Jan. 1, 1988

HTS item No.	Product description	Col. 1 rate	
		of duty	As of
		Jan. 1, 1988	Percent
		ad valorem	equivalent
9102.29			
(Con.) .35	Having 8-17 jewels, movements n/o \$15 each but over 15.2 mm, band of textile or base metal.....	12	
.40	Having 8-17 jewels, movements n/o \$15 each but over 15.2 mm, band not of textile or base metal.....	10	
.45	Having 8-17 jewels, movements over \$15 each, band of textile or base metal.....	9	
.50	Having 8-17 jewels, movements over \$15 each, band not of textile or base metal.....	6.5	
.55	Having over 17 jewels, movements over \$15 each, band of textile or base metal.....	7.5	
.60	Having over 17 jewels, movements over \$15 each, band not of textile or base metal.....	5	
9102.91	Pocket, stop and other watches n.e.s.i., battery powered, with case not of, or clad with precious metal:		
.20	With opto-electronic display only.....	4	
.40	Having 0-1 jewel in the movement.....	9	
.80	Having over 1 jewel in the movement.....	8	

See footnotes at end of table.

Table 2-1--Continued  
 Watches: Harmonized Tariff Schedule item number; description; U.S. col. 1 rate of duty as of Jan. 1, 1988

HTS item No.	Product description	Col. 1 rate of duty	
		As of Jan. 1, 1988	Percent ad valorem equivalent
9102.99	Pocket, stop and other watches n.e.s.i., not battery powered, with case not of, or clad with precious metal:		
.20	Having 0-7 jewels in the movement.....	8	
.40	Having 8-17 jewels in the movement, not over \$15 each.....	12	
.60	Having 8-17 jewels in the movement, over \$15 each.....	8.5	
.80	Having over 17 jewels in the movement.....	7.5	
	Average.....	<u>1</u> / 6.1	

1/ Average duty rate weighted by value of 1987 imports.

Note.--Because of rounding, figures may not add to the totals shown.

Watches whose cases are wholly of precious metal or of metal clad with precious metal (those classified under heading 9101) include those of silver, gold, and platinum. The term "platinum" covers iridium, osmium, palladium, rhodium and ruthenium. Alloy watch cases containing precious metal are classified as such if they contain 2 percent or more by weight of gold, silver, or platinum. If not, watch cases are classified as base metal under heading 9102.

Metal clad with precious metal includes material made with a base metal, one or more surfaces of which have been covered to any thickness with precious metal by soldering, brazing, welding, hot-rolling, or similar mechanical means. Regarding the thickness of gold for watches considered to be clad with precious metal, the Federal Trade Commission in 1968 issued "Guides for the Watch Industry," which defines the legal requirements for the industry. The publication states, for example, that for a watch to be marked "Gold Filled," it must be plated to a thickness of not less than three one-thousandths inch (120 microns) with not less than 10 karat gold. Therefore, although the thickness of mechanically applied gold on watches under heading 9101 need not be 120 microns or greater to be entered as such, these watches generally must meet this criterion to be sold as such. It should be noted that if the back of a precious metal or precious-metal-clad watch is not at least clad with precious metal, then the watch is classified under heading 9102.

Imports of watches have never been eligible for duty-free treatment under the GSP. However, if imported separately, only watch straps, bands, and bracelets of base metal valued over \$5.00 per dozen or articles of textile material are ineligible for GSP treatment. Furthermore, under the TSUS, batteries were eligible for GSP treatment, regardless of whether or not they were entered with the watch. Under the HTSUS, batteries entered with the watch are not eligible.

Imports of watches from Israel are eligible for duty-free entry under the United States-Israel Free Trade Area Implementation Act of 1985, and those from Canada are eligible for reduced duties under the first stage of reductions under the United States-Canada Free Trade Agreement Implementation Act of 1988. Furthermore, imports from designated beneficiary countries are eligible for duty-free treatment under the Caribbean Basin Economic Recovery Act, except for those watches containing any material that is the product of any column 2 rate country and certain textile watchbands.

Watches entering the United States from the U.S. insular possessions are not subject to the same regulations as watches imported from most-favored-nation countries. Under the regulations detailed in General Headnote 3(a) of the HTSUS (app. E) and in the headnote to chapter 91 of the HTSUS, a certain number of watches assembled in the U.S. insular possessions may enter the United States free of duty.

## CHAPTER 3. THE U.S. MARKET FOR WATCHES

This chapter examines the operations of firms with watch assembly facilities in the United States. Nine firms provided data in response to the Commission's producer questionnaire. Five of the respondents are primarily watch assemblers; \* \* \*

Two respondents are importers that also assemble watches in the United States. The remaining respondent is primarily a manufacturer of watchbands. Commission staff estimate that the responding firms accounted for about 85 percent of the 1988 assembly of watches in the United States. The nine firms are located in New York, New Jersey, Pennsylvania, Connecticut, Arkansas, Illinois, California, Rhode Island, and Puerto Rico. 1/

In addition, five other major U.S. importers of watches responded to the Commission's importer questionnaire. With the exception of the U.S. import data reported in table 3-2 (Apparent U.S. consumption), the information concerning U.S. imports and exports of watches reported in this chapter is limited to data provided by the questionnaire respondents. Chapter 7 provides an analysis of trends in total U.S. imports and exports of watches. The discussion in chapter 7 is based on official U.S. trade data reported by the U.S. Department of Commerce.

## Marketing Practices

Because consumers now consider watches to be fashion accessories as well as timepieces, watch assemblers and importers focus increasingly on marketing programs to reinforce and expand their respective shares of the market. Some companies concentrate on developing brand-name awareness (e.g., Timex, Bulova, and Seiko); others rely on designer names (Anne Klein, Bill Blass, etc.). Typically, a watch assembler will produce a number of different styles of watches that differ slightly in appearance but are essentially the same watch. The retail prices for these watches may vary greatly, depending on the packaging of the watches and the selection of distribution channels.

## Channels of Distribution

Both U.S.-assembled and imported watches are sold through the same channels of distribution. The majority are sold to distributors, mass merchandisers (e.g., K-Mart), department stores, catalogue houses, and jewelers. Distributors that purchase watches from U.S. assemblers and importers resell them to retail stores. Retail prices for the majority of

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1/ \* \* \*

watches sold in jewelry stores tend to be in the mid- to high-level range. 1/ Some U.S. assemblers, \* \* \* , sell watches to corporations; these watches are specifically designed with the company logo or other specific engravings and are generally sold on a special order basis.

Questionnaire responses indicate that the percentage sold by each watch company to each of the different channels of distribution varies from company to company. Table 3-1 presents the estimated percent of sales in 1988 made to each type of customer as reported by U.S. assemblers and importers.

#### Apparent U.S. Consumption

Estimated apparent U.S. consumption of mechanical watches increased from \*\*\*

during the 1986-88 period. During the same period, apparent U.S. consumption of quartz analog watches increased by 64 percent, from 85.7 million units in 1986 to 140.4 million units in 1988. Consumption of digital watches \* \* \*

\* \* \* over the preceding year and an overall \*\*\* for the 1986-88 period. The market share of quartz analog watches is increasing at the expense of mechanical watches, (because of greater accuracy) and digital watches, because of consumer preference for analog (hands) versus digital (optoelectronic display) (table 3-2).

#### U.S. Capacity, Assembly and Capacity Utilization

##### Capacity

Data were provided on U.S. capacity to assemble both mechanical and quartz watches. U.S. capacity available for the assembly of mechanical watches \* \* \* during 1986-88. U.S. capacity available for the assembly of quartz watches increased by 2 percent, from 4.2 million units in 1986 to 4.3 million units in 1987. Capacity continued to increase in 1988, rising 9 percent from capacity in 1987 to 4.7 million units (table 3-3). The increase in capacity reflects U.S. assemblers' responses to the shift in consumer demand from mechanical and digital to quartz analog watches. In addition, in 1988 \* \* \*

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1/ For example, Citizen Watch Co. reported that \*\*\* percent of its 1988 sales were made to jewelers. The majority of the watches sold by Citizen retail for between \*\*\*



Table 3-1

Watches: U.S. assemblers and importers customer distribution

(In percent)

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Company	Distri- butors	Mass merchan- disers	Depart- ment stores	Catalogue houses	Jewelers	Other 1/
---------	-------------------	----------------------------	---------------------------	---------------------	----------	----------

U.S. assemblers:

\*                    \*                    \*                    \*                    \*                    \*                    \*

U.S. importers:

\*                    \*                    \*                    \*                    \*                    \*                    \*

---

1/ Includes drug stores, direct mail, military, corporations, wholesale clubs, and other retail outlets.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table 3-2  
Watches: Apparent U.S. consumption, 1986-88

Item	1986	1987	1988
	Quantity (units)		
Mechanical watches:			
U.S. shipments of the product by U.S. firms...	***	***	***
U.S. imports <u>1</u> /.....	***	***	***
Apparent consumption.....	***	***	***
Quartz analog or dual display watches:			
U.S. shipments of the product by U.S. firms...	1,808,536	2,201,169	2,427,777
U.S. imports <u>1</u> /.....	83,891,200	104,783,800	137,978,300
Apparent consumption.....	85,699,736	106,984,969	140,406,077
Digital watches:			
U.S. shipments of the product by U.S. firms...	***	***	***
U.S. imports <u>1</u> /.....	***	***	***
Apparent consumption.....	***	***	***
Total apparent consumption..	***	***	***
	Value (1,000 dollars)		
Mechanical watches:			
U.S. shipments of the product by U.S. firms...	***	***	***
U.S. imports <u>1</u> /.....	***	***	***
Apparent consumption.....	***	***	***
Quartz analog or dual display watches:			
U.S. shipments of the product by U.S. firms...	57,715	69,185	74,499
U.S. imports <u>1</u> /.....	862,912	961,471	1,156,063
Apparent consumption.....	920,627	1,030,656	1,230,562
Digital watches:			
U.S. shipments of the product by U.S. firms...	***	***	***
U.S. imports <u>1</u> /.....	***	***	***
Apparent consumption.....	***	***	***
Total apparent consumption..	***	***	***

1/ Estimated by the staff of the U.S. International Trade Commission based on data submitted in response to questionnaires and official statistics of the U.S. Department of Commerce.

Source: Compiled from data submitted by 14 firms in response to questionnaires of the U.S. International Trade Commission, except as noted.

Table 3-3

Watches: U.S. assemblers capacity, assembly, and capacity utilization, 1986-88

Item	1986	1987	1988
End-of-period capacity:			
Mechanical watches (units)...	***	***	***
Quartz analog or dual display watches (units)...	4,213,224	4,301,533	4,685,677
Digital watches (units)....	***	***	***
Total.....	***	***	***
Assembly:			
Mechanical watches (units)...	***	***	***
Quartz analog or dual display watches (units)...	1,938,702	2,290,267	2,671,440
Digital watches (units)....	***	***	***
Total.....	***	***	***
Capacity utilization: 1/			
Mechanical watches (percent)...	***	***	***
Quartz analog or dual display watches (percent)...	46.0	53.2	57.0
Digital watches (percent)...	***	***	***
Average.....	***	***	***

1/ Computed from data of 9 firms providing both capacity and production information.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

#### U.S. assembly

The assembly of mechanical watches in the United States \* \* \*

Assembly of quartz watches in the United States increased annually during the 1986-88 period. In 1987 assembly of quartz watches increased by 18 percent, from 1.9 million units in 1986 to 2.3 million units. In 1988, U.S. assembly of quartz watches totaled 2.7 million units, representing an increase of 17 percent over 1987. Assembly of digital watches in the United States was \* \* \*

\* \* \* Digital watches assembled in the United States units  
in 1987 and 1988. Overall, the U.S. assembly of watches increased

\*\*\* percent, from \*\*\* units in 1986 to \*\*\* units in  
1988 (tables 3-4 and 3-5). 1/

Table 3-4  
Watches: U.S. assembly, by firms, 1986-88

(In units)			
Item	1986	1987	1988

\*            \*            \*            \*            \*            \*            \*

---

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

---

1/ \* \* \*

See app. H for a  
discussion of the production of watch parts in the United States.

Table 3-5  
Watches: U.S. assembly, by types, 1986-88

(In units)

---

Item	1986	1987	1988
------	------	------	------

---

\* \* \* \* \*

---

Source: Compiled from data submitted by 9 firms in response to questionnaires of the U.S. International Trade Commission.

Capacity utilization

Capacity utilization for mechanical watches \* \* \*  
in 1988, yielding a \* \* \* percent.  
Capacity utilization for the assembly of quartz watches increased  
throughout the period, rising from 46 percent in 1986 to 57 percent in  
1988, and resulting in an increase of 19 percent. Capacity data for  
digital watches were not reported.

## Domestic Shipments

U.S. producers' domestic shipments of digital watches assembled in the  
United States \* \* \*

in 1988. As stated  
earlier, the volume of digital watches produced in the United States was  
\* \* \* during 1986-88. Domestic shipments of quartz watches assembled in  
the United States increased by 22 percent, from 1.8 million units in 1986  
to 2.2 million units in 1987 and increased an additional 10 percent, to  
2.4 million units, in 1988. Shipments of mechanical watches \* \* \*

in 1988. On the basis of quantity, quartz watches  
accounted for \*\*\* percent of total domestic shipments of watches assembled  
in the United States in 1988.

The value of U.S. producers' domestic shipments of digital watches  
\* \* \*

in 1988. The value of producers'  
domestic shipments of quartz watches increased annually during 1986-88.  
Such shipments rose by 20 percent, from \$57.7 million in 1986 to  
\$69.2 million in 1987 and by an additional 8 percent, to \$74.5 million, in  
1988. The value of U.S. producers' domestic shipments of mechanical  
watches \* \* \*

## U.S. Exports

U.S. exports of quartz watches \* \* \* from \*\*\* units  
in 1986 to \*\*\* units in 1988, resulting in \* \* \* \*\*\*  
. Exports of mechanical watches \* \* \* by \*\*\* percent during the  
period, from \*\*\* units in 1986 and 1987 to \*\*\* units in 1988 (table  
3-6). 1/

The value of U.S. exports of quartz watches \* \* \* by \*\*\* percent,  
from \*\*\* in 1986 to \*\*\* in 1987. The value of exports of

---

1/ \* \* \*

Table 3-6  
Watches: U.S. assemblers shipments, 1986-88

Item	1986	1987	1988
	Quantity (units)		
Mechanical watches:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Total shipments.....	***	***	***
Quartz analog or dual display watches:			
Domestic shipments.....	1,808,536	2,201,169	2,427,777
Export shipments.....	***	***	***
Total shipments.....	***	***	***
Digital watches:			
Domestic shipments <u>1</u> /.....	***	***	***
Total, all types of watches:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Total shipments.....	***	***	***
	Value (1,000 dollars)		
Mechanical watches:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Total shipments.....	***	***	***
Quartz analog or dual display watches:			
Domestic shipments.....	57,715	69,185	74,499
Export shipments.....	***	***	***
Total shipments.....	***	***	***
Digital watches:			
Domestic shipments <u>1</u> /.....	***	***	***
Total, all types of watches:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Total shipments.....	***	***	***

See footnotes at end of table.

Table 3-6--Continued  
Watches: U.S. assemblers shipments, 1986-88

Item	1986	1987	1988
	Unit value (per unit) 2/		
Mechanical watches:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Total shipments.....	***	***	***
Quartz analog or dual display watches:			
Domestic shipments.....	31.91	31.43	30.69
Export shipments.....	***	***	***
Total shipments.....	***	***	***
Digital watches:			
Domestic shipments 1/.....	***	***	***
Total, all types of watches:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Total shipments.....	***	***	***

1/ \* \* \*

2/ Computed from data supplied by firms reporting both quantity and value data.

Source: Compiled from data submitted by 9 firms in response to questionnaires of the U.S. International Trade Commission.

quartz watches \* \* \* in 1988, \* \* \* to \*\*\*  
from the value of 1987 export shipments. The value of U.S.  
exports of mechanical watches \* \* \* by \*\*\* percent, from \*\*\*  
in 1988. Principal export markets for U.S.  
watches in recent years were Canada, Netherlands Antilles, and Mexico.  
U.S. exports consist primarily of specialty watches competing in niche  
markets. \* \* \* . In  
general, U.S. watches are not competitive on a price basis in the high  
volume markets worldwide.

#### U.S. Assemblers' Inventories

Yearend inventories of quartz watches assembled in the United States rose by 22 percent, from 596,000 units in 1986 to 729,000 units in 1988. Inventories as a share of U.S. shipments of quartz watches dropped from 33 percent in 1986 to 27 percent in 1987, then rose to 30 percent in 1988. Inventories of mechanical watches held by U.S. assemblers \* \* \* in 1988. As a share of U.S. shipments of mechanical watches, inventories \* \* \* in 1988 (table 3-7).



Table 3-7

Watches: End-of-period inventories 1/ held by U.S. assemblers, 1986-88

Item	1986	1987	1988
<u>End-of-period inventories (units)</u>			
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	596,152	598,250	729,163
<u>Share of U.S. shipments (percent) 2/</u>			
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	33.0	27.2	30.0
<u>Share of total shipments (percent) 2/</u>			
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	32.6	26.9	29.6

1/ There were no inventories of digital watches reported in questionnaire responses.

2/ Ratios are based on data supplied by firms that reported both inventory and shipments information.

Source: Compiled from data submitted by \*\*\* firms in response to questionnaires of the U.S. International Trade Commission.

#### U.S. Employment, Wages, and Productivity

The number of production workers assembling all types of watches at the reporting establishments increased by 4 percent, from 866 in 1986 to 902 in 1987, then declined slightly (by 1 percent) to 897 in 1988. The number assembling mechanical watches, \*\*\* and the number assembling digital watches, \*\*\*

\*\*\* the workers were employed in the assembly of quartz watches. Hours worked by those workers followed the same trend as employment, increasing by 6 percent in 1987 and then declining (by less than 4 percent) in 1988 (table 3-8).

Average hourly wages paid to workers assembling mechanical watches \*\*\* in 1988. Average hourly wages paid to workers assembling quartz watches declined by 1 percent, from \$6.95 in 1986 to \$6.88 in 1987, then rose by 5 percent, to \$7.22 in 1988. Average hourly wages paid to workers assembling digital watches \*\*\*

Table 3-8

Total U.S. establishment employment and average number of production and related workers assembling watches and watch parts, hours worked, 1/ wages and total compensation 2/ paid to such employees, and labor productivity, hourly compensation, and unit labor production costs, 1986-88 3/

Item	1986	1987	1988
	Number of workers		
Total establishment number of employment <u>4/</u> .....	3,272	2,990	2,945
Production and related workers:			
All products of establishments.....	866	904	897
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	502	544	550
Digital watches.....	***	***	***
	Hours worked (thousands)		
Production and related workers:			
All products of establishments.....	1,785	1,893	1,823
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	1,104	1,201	1,194
Digital watches.....	***	***	***
	Wages paid (thousands of dollars)		
Production and related workers:			
All products of establishments.....	13,167	14,101	14,333
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	7,671	8,266	8,615
Digital watches.....	***	***	***

See footnotes at end of table.

Table 3-8--Continued

Total U.S. establishment employment and average number of production and related workers assembling watches and watch parts, hours worked, 1/ wages and total compensation 2/ paid to such employees, and labor productivity, hourly compensation, and unit labor production costs; 1986-88 3/

Item	1986	1987	1988
<u>Total compensation paid (1,000 dollars)</u>			
Production and related workers:			
All products of establishments.....	18,252	19,343	19,691
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	9,997	10,609	11,234
Digital watches.....	***	***	***
<u>Hourly wages paid</u>			
Production and related workers:			
All products of establishments.....	\$7.38	\$7.45	\$7.86
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	6.95	6.88	7.22
Digital watches.....	***	***	***
<u>Hourly total compensation paid</u>			
Production and related workers:			
All products of establishments.....	\$10.23	\$10.22	\$10.80
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	9.06	8.83	9.41
Digital watches.....	***	***	***

See footnotes at end of table.

Table 3-8--Continued

Total U.S. establishment employment and average number of production and related workers assembling watches and watch parts, hours worked, 1/ wages and total compensation 2/ paid to such employees, and labor productivity, hourly compensation, and unit labor production costs, 1986-88 3/

Item	1986	1987	1988
<u>Productivity (units per 1,000 hours)</u>			
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	1,756	1,907	2,237
Digital watches.....	***	***	***
<u>Unit labor costs (per unit) <sup>4/</sup></u>			
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	5.16	4.63	4.21
Digital watches.....	***	***	***

1/ Includes hours worked plus hours of paid leave time.

2/ Includes wages and contributions to Social Security and other employee benefits.

3/ Firms providing employment data accounted for 100 percent of reported total shipments in 1988.

4/ On the basis of total compensation paid.

Source: Compiled from data submitted by 9 firms in response to questionnaires of the U.S. International Trade Commission.

in 1988, or by \*\*\* percent. Average hourly total compensation received by production workers for the assembly of quartz watches (including wages, contributions to social security, and other employee benefits) declined by 3 percent, from \$9.06 in 1986 to \$8.83 in 1987, then rose by 7 percent, to \$9.41 in 1988. Total hourly compensation paid to workers assembling mechanical watches \* \* \*

in 1988. Total compensation paid to workers for the assembly of digital watches \* \* \*

. The U.S. industry's productivity for mechanical, quartz, and digital watches \* \* \* somewhat over the three-year period. The number of mechanical watches produced per 1,000 hours \* \* \*

\* \* \* . Quartz watch assemblers realized in productivity with a 27 percent increase to 2,237 units per 1,000 hours. The production of digital watches \* \* \*

. Employees at four of the reporting firms were represented by unions.

## U.S. Imports of Watches

Data in response to the Commission questionnaires accounted for \*\*\* percent of total U.S. imports of watches (in terms of value) in 1988. In terms of units, the Commission questionnaire responses accounted for \*\*\* percent of total U.S. imports of watches in 1988. This lower percentage is the result of the large number of low-value watches entering the United States for use as give-aways and other promotional purposes. The following information was provided by the questionnaire respondents. 1/

U.S. imports of mechanical watches by the responding firms \* \* \*

in 1988. In 1988,  
mechanical watches \* \* \*  
of total imports of mechanical watches; those  
plated with \*\*\*  
and mechanical watches \* \* \* (tables  
3-9 and 3-10).

U.S. imports of quartz watches increased annually during 1986-88. Imports increased by 18 percent, from 26.1 million units in 1986 to 30.8 million units in 1987. Imports in 1988 increased to 33.2 million units, representing an increase of 8 percent over imports in 1987. Watches with plastic cases accounted for \*\*\* percent of the quantity of imported quartz watches in 1988; those plated with over 1 to 3 microns of precious metal accounted for \*\*\* percent; those with 1 micron or less of precious metal accounted for \*\*\* percent; and those of metal other than precious accounted for \*\*\* percent.

U.S. imports of digital watches \* \* \*

units in 1988. Watches with plastic cases accounted for \*\*\* percent of the total imports of digital watches imported by the responding firms in 1988, and digital watches of metal other than precious metal accounted for \*\*\* percent.

The value of U.S. imports of mechanical watches \* \* \*

in 1988. The value of U.S. imports of quartz analog watches increased annually during 1986-88. The value of imports increased by 18 percent, rising from \$490.1 million in 1986 to \$577.4 million in 1987. In 1988, the value of imports of quartz watches increased to \$601 million, representing an increase of 4 percent over the value of imports in 1987. The value of imports of digital watches \* \* \*

in 1988.

---

1/ Questionnaire data are used in lieu of official import statistics for this section because official data are not available in the appropriate product detail.

Table 3-9  
 Watches: U.S. imports for consumption, by types, 1986-88

Item	1986	1987	1988
	Quantity (units)		
Mechanical.....	***	***	***
Quartz analog .....	26,089,239	30,801,956	33,224,770
Digital.....	***	***	***
Total.....	***	***	***
	Value (1,000 dollars)		
Mechanical.....	***	***	***
Quartz analog .....	490,057	577,408	601,028
Digital.....	***	***	***
Total.....	***	***	***
	Unit value (per unit) 1/		
Mechanical.....	***	***	***
Quartz analog .....	18.78	18.75	18.09
Digital.....	***	***	***
Average.....	***	***	***

1/ Computed from data supplied by firms reporting both quantity and value information.

Source: Compiled from data submitted by 14 firms in response to questionnaires of the U.S. International Trade Commission.

Table 3-10

Watches: U.S. imports for consumption, by types and subtypes, 1986-88

Item	1986	1987	1988
	Quantity (units)		
Mechanical watches:			
With plastic cases.....	***	***	***
Wholly of, or clad with, precious metal and with a back made of steel or other materials.....	***	***	***
Plated with no less than 16 kt gold or other precious metal:			
From over 1 to 3 microns..	***	***	***
1 micron or less.....	***	***	***
Other metal.....	***	***	***
Total.....	***	***	***
Quartz analog or dual display watches:			
With plastic cases.....	***	***	***
Wholly of, or clad with, precious metal:			
With back made wholly of, or clad with, precious metal.....	***	***	***
With back made of steel or other materials.....	***	***	***
Plated with no less than 16 kt gold or other precious metal:			
Over 7 microns.....	***	***	***
From over 3 to 7 microns..	***	***	***
From over 1 to 3 microns..	***	***	***
1 micron or less.....	***	***	***
Other metal.....	***	***	***
Total.....	26,089,239	30,801,956	33,224,770

See footnote at end of table.

Table 3-10--Continued  
 Watches: U.S. imports for consumption, by types and subtypes, 1986-88

	Quantity (units)--Continued		
Digital watches:			
With plastic cases.....	***	***	***
Wholly of, or clad with, precious metal and with a back made of steel or other materials.....	***	***	***
Plated with no less than 16 kt gold or other precious metal:			
From over 3 to 7 microns..	***	***	***
From over 1 to 3 microns..	***	***	***
1 micron or less.....	***	***	***
Other metal.....	***	***	***
Total.....	***	***	***
	Value (1,000 dollars)		
Mechanical watches:			
With plastic cases.....	***	***	***
Wholly of, or clad with, precious metal and with a back made of steel or other materials.....	***	***	***
Plated with no less than 16 kt gold or other precious metal:			
From over 1 to 3 microns..	***	***	***
1 micron or less.....	***	***	***
Other metal.....	***	***	***
Total.....	***	***	***
Quartz analog or dual display watches:			
With plastic cases.....	***	***	***
Wholly of, or clad with, precious metal:			
With back made wholly of, or clad with, precious metal.....	***	***	***
With back made of steel or other materials.....	***	***	***

See footnotes at end of table.



Table 3-10--Continued

Watches: U.S. imports for consumption, by types and subtypes, 1986-88

	Value (1,000 dollars)--Continued		
Quartz analog or dual display watches--Con.			
Plated with no less than 16 kt gold or other precious metal:			
Over 7 microns.....	***	***	***
From over 3 to 7 microns..	***	***	***
From over 1 to 3 microns..	***	***	***
1 micron or less.....	***	***	***
Other metal.....	***	***	***
Total.....	490,057	577,408	601,028
Digital watches:			
With plastic cases.....	***	***	***
Wholly of, or clad with, precious metal and with a back made of steel or other materials.....	***	***	***
Plated with no less than 16 kt gold or other precious metal:			
From over 3 to 7 microns..	***	***	***
From over 1 to 3 microns..	***	***	***
1 micron or less.....	***	***	***
Other metal.....	***	***	***
Total.....	***	***	***
	Unit value (per unit) 1/		
Mechanical watches:			
With plastic cases.....	***	***	***
Wholly of, or clad with, precious metal and with a back made of steel or other materials.....	***	***	***
Plated with no less than 16 kt gold or other precious metal:			
From over 1 to 3 microns..	***	***	***
1 micron or less.....	***	***	***
Other metal.....	***	***	***
Average.....	***	***	***

See footnote at end of table.

Table 3-10--Continued

Watches: U.S. imports for consumption, by types and subtypes, 1986-88

	Unit value (per unit) 1/--Continued		
Quartz analog or dual display watches:			
With plastic cases.....	***	***	***
Wholly of, or clad with, precious metal:			
With back made wholly of, or clad with, precious metal.....	***	***	***
With back made of steel or other materials.....	***	***	***
Plated with no less than 16 kt gold or other precious metal:			
Over 7 microns.....	***	***	***
From over 3 to 7 microns..	***	***	***
From over 1 to 3 microns..	***	***	***
1 micron or less.....	***	***	***
Other metal.....	***	***	***
Average.....	18.78	18.75	18.09
Digital watches:			
With plastic cases.....	***	***	***
Wholly of, or clad with, precious metal and with a back made of steel or other materials.....	***	***	***
Digital watches:			
Plated with no less than 16 kt gold or other precious metal:			
From over 3 to 7 microns..	***	***	***
From over 1 to 3 microns..	***	***	***
1 micron or less.....	***	***	***
Other metal.....	***	***	***
Average.....	***	***	***

1/ Computed from data supplied by firms reporting both quantity and value data.

Source: Compiled from data submitted by 14 firms in response to questionnaires of the U.S. International Trade Commission.

#### U.S. Importers' Inventories of Watches

Yearend inventories of mechanical watches held by U.S. importing firms that do not assemble watches \* \* \*

in 1988. As a share of imports of

mechanical watches, yearend inventories \* \* \*  
 in 1988 (table 3-11). Yearend inventories of imported  
 quartz watches \* \* \* annually during 1986-88. Such inventories \* \* \*  
 units in 1987. Inventories of quartz watches \* \* \* in  
 1988, \* \* \* units and representing an \* \* \*  
 the inventory level in 1987. As a share of imports of  
 quartz watches, yearend inventories \* \* \*  
 in 1988. Yearend inventories held by importers of  
 digital watches \* \* \*  
 . These inventories then \* \* \*  
 units in 1988. As a share  
 of imports of digital watches, yearend inventories \* \* \*  
 in 1988.

Table 3-11  
 Watches: End-of-period inventories of imported watches held by U.S. importing  
 firms that do not also assemble, 1986-88

Item	1986	1987	1988
End-of-period inventories (units)			
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	***	***	***
Digital watches.....	***	***	***
Share of imports (percent) 1/			
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	***	***	***
Digital watches.....	***	***	***

1/ Ratios are based on data supplied by \*\*\* firms that reported both inventory and imports information.

2/ Not applicable.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

### Effects of Imports on the U.S. Industry

U.S. assemblers \* \* \* of the  
 market between 1986 and 1988. In all three years the import to apparent  
 consumption ratio for all types of watches was \*\*\* percent. The import to  
 consumption ratio of quartz analog watches \* \* \* during this  
 period \*\*\* percent. The substantial share of the U.S. market accounted  
 for by imports makes it difficult for U.S. assemblers to remain competitive 3-21  
 in many segments of the market in which volume sales allow foreign  
 suppliers to achieve economies of scale.



## CHAPTER 4. THE U.S. MARKET FOR WATCH BANDS, STRAPS, AND BRACELETS

Operations by Firms Producing Watch Bands, Straps, and Bracelets  
in the United States

Two firms, \* \* \* provided data with respect to their  
operations producing \* \* \* two firms,  
\* \* \* provided data for \* \* \*  
and three firms, \* \* \*  
provided data for those products \* \* \*

. The  
firms are located in Rhode Island, New York, New Jersey, and Florida. They  
tend to import items such as \* \* \* that are  
produced more competitively in the Far East (e.g., Hong Kong). In  
addition, these firms often \* \* \*  
by the respective firms.

## Channels of Distribution

Watch bands, straps, and bracelets are generally sold in two markets:  
replacement and original equipment. In the replacement market, watch band,  
strap, and bracelet manufacturers sell their products to jewelry stores,  
department stores, mass merchandisers, and drug and variety stores. The  
products sold in the replacement market are sold mainly to replace bands,  
straps, and bracelets that are worn out or broken. The replacement market  
has been an important market for \* \* \*

\* \* \*

In the original equipment market, U.S. watch bands, straps, and  
bracelets are sold to watch assemblers; these bands, straps, and bracelets  
are attached to watches and sold along with the watch. \* \* \*

. 1/ Some of the  
watch bands, straps, and bracelets sold in the original equipment market  
are for attaching to watches produced overseas. In these cases, the watch  
head is generally imported and the band is attached in the United States.  
\* \* \*

---

1/ Posthearing brief of \* \* \*

strap, and bracelet manufacturers, \* \* \* . 1/ Two other watch band, reported that approximately \*\*\* percent of their sales in 1988 were made to watch assemblers.

U.S. Capacity, Production and Capacity Utilization

Capacity

U.S. capacity to produce bands and bracelets of metal \* \* \* units annually during 1986-88. U.S. capacity to produce bands, straps, and bracelets of materials of other than metal \* \* \* in 1988 (table 4-1). The \* \* \*

Production

U.S. production of bands, and bracelets of metal \* \* \* from 1986 to 1988. Production \* \* \*

Production of bands, straps, and bracelets of materials other than metal \* \* \*

in 1988. U.S. production of watch bands, straps, and bracelets by firms is presented in table 4-2 and U.S. production by types is presented in table 4-3.

A number of factors contributed to the \* \* \* in U.S. production of watch attachments during 1986-88 and \* \* \*

\* \* \*

\* \* \*

---

1/ \* \* \*

Table 4-1  
 Watch bands, straps, and bracelets: U.S. end-of-period capacity, production,  
 and capacity utilization, 1986-88

Item	1986	1987	1988
	Quantity (units)		
End-of-period capacity:			
Metal.....	***	***	***
Other materials.....	***	***	***
Total.....	***	***	***
Production:			
Metal.....	***	***	***
Other materials.....	***	***	***
Total.....	***	***	***
	Capacity utilization (percent) 1/		
Metal.....	***	***	***
Other materials.....	***	***	***
Average.....	***	***	***

1/ Computed from data of \*\*\* firms providing data on both capacity and production.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table 4-2  
 Watch bands, straps, and bracelets: U.S. production, by firms, 1986-88

(In units)			
Item	1986	1987	1988

\* \* \* \* \*

Source: Compiled from data submitted by \*\*\* firms in response to questionnaires of the U.S. International Trade Commission.

Table 4-3  
 Watch bands, straps, and bracelets: U.S. production, by types, 1986-88

(In units)			
Item	1986	1987	1988
Metal expansion:			
*	*	*	*
Subtotal.....	***	***	***
Metal nonexpansion:			
*	*	*	*
Subtotal.....	***	***	***
Other materials.....	***	***	***
Total, all types of bands, straps, and bracelets.....	***	***	***

Source: Compiled from data submitted by \*\*\* firms in response to questionnaires of the U.S. International Trade Commission.

#### Capacity utilization

Capacity utilization for bands and bracelets of metal \* \* \*  
 in 1988, \* \* \* percent. Capacity  
 utilization for bands and straps of other materials \* \* \*  
 in 1988. \* \* \*

#### Domestic Shipments

Domestic shipments of metal expansion watch bands and bracelets  
 produced in the United States \* \* \*

in 1988, a \* \* \* in 1987 (table  
 4-4). Domestic shipments of domestically produced metal nonexpansion watch  
 bands and bracelets \* \* \*



Table 4-4  
 Watch bands, straps, and bracelets: U.S. producers' shipments, by types,  
 1986-88

Item	1986	1987	1988
	Quantity (units)		
Metal expansion:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Total shipments.....	***	***	***
Metal nonexpansion:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Total shipments.....	***	***	***
Other materials:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Total shipments.....	***	***	***
Total, all types of watch bands, straps, and bracelets:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Total shipments.....	***	***	***
	Value (1,000 dollars)		
Metal expansion:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Total shipments.....	***	***	***
Metal nonexpansion:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Total shipments.....	***	***	***
Other materials:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Total shipments.....	***	***	***

See footnotes at end of table.

Table 4-4--Continued  
 Watch bands, straps, and bracelets: U.S. producers' shipments, by types,  
 1986-88

Item	1986	1987	1988
	Value (1,000 dollars)--Continued		
Total, all types of watch bands, straps, and bracelets:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Total shipments.....	***	***	***
	Unit value (per unit) 1/		
Metal expansion:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Average shipments.....	***	***	***
Metal nonexpansion:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Average shipments.....	***	***	***
Other materials:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Average shipments.....	***	***	***
Total, all types of watch bands, straps, and bracelets:			
Domestic shipments.....	***	***	***
Export shipments.....	***	***	***
Average shipments.....	***	***	***

1/ Computed from data supplied by \*\*\* firms reporting both quantity and value information.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

in 1988. Domestic shipments of watch bands and straps of material other than metal \* \* \* during 1986-88 as demand for "fashion" and casual watches \* \* \* . Such shipments \* \* \*

in 1988.

The value of U.S. shipments of domestically produced metal expansion bands and bracelets \* \* \* during 1986-88, \* \* \*

in 1988. The value of U.S. shipments of metal nonexpansion bands and bracelets also \* \* \*

in 1988. The value of domestic shipments of bands and straps of materials other than metal \* \* \*

in 1988.

#### U.S. Exports

U.S. exports of metal expansion bands and bracelets \* \* \*

in 1988 (table 4-4). There were

\* \* \*

those products totaled \*\*\*

. Exports of

in 1988. Exports of bands and straps of material other than metal \* \* \*

in 1988.

The value of U.S. exports of metal expansion bands and bracelets

\* \* \*

in 1988. As previously stated,

there were \* \* \*

The value of exports of those products \* \* \*

in 1988. The value of exports of watch bands and straps of material other than metal \* \* \*

#### U.S. Producers' Inventories

Yearend inventories of domestically produced metal expansion bands held by U.S. producers \* \* \*

in 1988. As a share of U.S. shipments, inventories of metal expansion bands \* \* \*

in 1988 (table 4-5).

Yearend inventories of nonexpansion metal bands and bracelets \* \* \*

As a share of U.S. shipments, inventories of nonexpansion metal bands and bracelets \* \* \*

in 1988. Yearend inventories of bands of materials other than metal

\* \* \* from 1986 to 1988. Inventories \* \* \*

in 1988. As a share of U.S. shipments of bands and straps of material other than metal, yearend inventories \* \* \*

in 1988.

Table 4-5

Watch bands, straps, and bracelets: End-of-period inventories held by U.S. producers, 1986-88

Item	1986	1987	1988
	End-of-period inventories (units)		
Metal expansion.....	***	***	***
Metal nonexpansion.....	***	***	***
Other materials.....	***	***	***
	Share of U.S. shipments (percent) 1/		
Metal expansion.....	***	***	***
Metal nonexpansion.....	***	***	***
Other materials.....	***	***	***
	Share of total shipments (percent) 1/		
Metal expansion.....	***	***	***
Metal nonexpansion.....	***	***	***
Other materials.....	***	***	***

1/ Ratios are based on data supplied by \*\*\* firms that reported both inventory and shipments information.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

#### U.S. Employment, Wages, and Productivity

The number of production and related workers producing bands, straps, and bracelets at the reporting establishments \* \* \*

in 1988

(table 4-6). Hours worked by production workers \* \* \*

in

1988. Average hourly wages received by production workers \* \* \*

in 1988. Average hourly total

compensation, including wages, contributions to social security, and other employee benefits, also \* \* \*

in 1988. Productivity for production and related workers \* \* \*

percent). Workers at five of the seven firms are represented by unions.

Table 4-6

Total establishment employment and average number of production and related workers producing watch bands, straps, and bracelets, hours worked, 1/ wages and total compensation 2/ paid to such employees, and labor productivity, hourly compensation, and unit labor production costs, 1986-88 3/

Item	1986	1987	1988
Total establishment employment.....	***	***	***
Production and related workers (PRW's) producing watch bands, straps, and bracelets.....	***	***	***
Hours worked by PRW's (1,000 hours).....	***	***	***
Wages paid to PRW's (1,000 dollars).....	***	***	***
Total compensation paid to PRW's (1,000 dollars).....	***	***	***
Hourly wages paid to PRW's.....	***	***	***
Hourly total compensation paid to PRW's.....	***	***	***
Labor productivity for PRW's (units per 1,000 hours).....	***	***	***
Unit labor costs <u>4/</u> .....	***	***	***

1/ Includes hours worked plus hours of paid leave time.

2/ Includes wages and contributions to Social Security and other employee benefits.

3/ Firms providing employment data accounted for 80 percent of reported total shipments in 1988.

4/ On the basis of total compensation paid.

Source: Compiled from data submitted by \*\*\* firms in response to questionnaires of the U.S. International Trade Commission.

#### U.S. Imports of Watch Bands, Straps, and Bracelets

U.S. imports of watch bands, straps, and bracelets by responding importers \* \* \*

In 1988, metal expansion bands accounted for \*\*\* percent of the total quantity of imports, metal nonexpansion bands and bracelets accounted for \*\*\* percent, and bands and straps of materials other than metal or textiles accounted for \*\*\* percent (table 4-7 and 4-8).

Table 4-7  
 Watch bands, straps, and bracelets: U.S. imports for consumption, by types,  
 1986-88

Item	1986	1987	1988
	Quantity (units)		
Metal expansion.....	***	***	***
Metal nonexpansion.....	***	***	***
Textile.....	***	***	***
Other materials.....	***	***	***
Total.....	***	***	***
	Value (1,000 dollars)		
Metal expansion.....	***	***	***
Metal nonexpansion.....	***	***	***
Textile.....	***	***	***
Other materials.....	***	***	***
Total.....	***	***	***
	Unit value (per unit) 1/		
Metal expansion.....	***	***	***
Metal nonexpansion.....	***	***	***
Textile.....	***	***	***
Other materials.....	***	***	***
Average.....	***	***	***

1/ Computed from data supplied by \*\*\* firms reporting both quantity and value information.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table 4-8

Watch bands, straps, and bracelets: U.S. imports for consumption, by types and by subtypes, 1986-88

Item	1986	1987	1988
	Quantity (units)		
Metal expansion:			
Clad with gold or precious metal.....	***	***	***
Plated with no less than 16 kt gold or other precious metal:			
From over 3 to 7 microns...	***	***	***
From over 1 to 3 microns...	***	***	***
1 micron or less.....	***	***	***
Other metal.....	***	***	***
Subtotal.....	***	***	***
Metal nonexpansion:			
Of solid gold or other precious metal.....	***	***	***
Plated with no less than 16 kt gold or other precious metal:			
From over 3 to 7 microns...	***	***	***
From over 1 to 3 microns...	***	***	***
1 micron or less.....	***	***	***
Other metal.....	***	***	***
Subtotal.....	***	***	***
Textile.....	***	***	***
Other materials.....	***	***	***
Total.....	***	***	***
	Value (1,000 dollars)		
Metal expansion:			
Clad with gold or precious metal.....	***	***	***
Plated with no less than 16 kt gold or other precious metal:			
From over 3 to 7 microns...	***	***	***
From over 1 to 3 microns...	***	***	***
1 micron or less.....	***	***	***
Other metal.....	***	***	***
Subtotal.....	***	***	***
Metal nonexpansion:			
Of solid gold or precious metal.....	***	***	***

See footnote at end of table.

Table 4-8--Continued  
 Watch bands, straps, and bracelets: U.S. imports for consumption, by types  
 and by subtypes, 1986-88

Item	1986	1987	1988
<u>Value (1,000 dollars)--Continued</u>			
Metal nonexpansion--Con.			
Plated with no less than 16 kt gold or other precious metal:			
From over 3 to 7 microns...	***	***	***
From over 1 to 3 microns...	***	***	***
1 micron or less.....	***	***	***
Other metal.....	***	***	***
Subtotal.....	***	***	***
Textile.....	***	***	***
Other materials.....	***	***	***
Total.....	***	***	***
<u>Unit value (per unit) 1/</u>			
Metal expansion:			
Clad with gold or precious metal.....	***	***	***
Plated with no less than 16 kt gold or other precious metal:			
From over 3 to 7 microns...	***	***	***
From over 1 to 3 microns...	***	***	***
1 micron or less.....	***	***	***
Other metal.....	***	***	***
Average.....	***	***	***
Metal nonexpansion:			
Of solid gold or precious metal.....	***	***	***
Plated with no less than 16 kt gold or of precious metal:			
From over 3 to 7 microns...	***	***	***
From over 1 to 3 microns...	***	***	***
1 micron or less.....	***	***	***
Other metal.....	***	***	***
Average.....	***	***	***
Textile.....	***	***	***
Other materials.....	***	***	***
Average.....	***	***	***

1/ Computed from data supplied by \*\*\* firms reporting both quantity and value data.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.



The value of total U.S. imports of watch bands, straps, and bracelets  
 \* \* \* in 1988.

#### Effects of Imports on the U.S. Industry

The share of the U.S. market accounted for by U.S.-produced watch bands, straps, and bracelets \* \* \* during the 1986-88 period. In 1986 imported watch bands accounted for \*\*\* percent of U.S. apparent consumption of watch bands; in 1988, such imports accounted for \*\*\* percent of U.S. consumption. The \* \* \* in U.S. production and shipments of metal expansion bands was responsible for the \* \* \* in the U.S. industry's market share. Firms producing metal nonexpansion watch bands and bracelets and watchbands made of materials other than metal or textile \* \* \* share of the U.S. market.



CHAPTER 5. THE U.S. INSULAR POSSESSIONS ASSEMBLY OF WATCHES

Assembly Operations in the U.S. Insular Possessions

In order to gather data on watch and watch movement assembly in the U.S. insular possessions, the Commission sent questionnaires to the eight firms that provided all such operations during 1986-88. Seven of the firms are located in the U.S. Virgin Islands (St. Croix). The remaining firm is located in Guam. All eight firms responded to the Commission's questionnaire. Accordingly, data presented in this section of the report represent 100 percent of the assembly operations in the U.S. insular possessions.

Channels of Distribution

Watches assembled by Virgin Island companies are sold by U.S. watch companies through the same channels of distribution as U.S.-assembled and imported watches. Some Virgin Island watch companies,

\* \* \* \* \*

Capacity, Assembly and Capacity Utilization

Capacity

End-of-period capacity data were provided for the assembly of mechanical watches and for the assembly of quartz analog or dual-display watches. Capacity to assemble mechanical watches \* \* \* during 1986-88. Capacity to assemble quartz analog or dual display watches \* \* \*

(table 5-1).

Table 5-1

Watches: U.S. insular possessions assemblers end-of-period capacity, assembly, and capacity utilization, 1986-88

Item	1986	1987	1988
	Quantity (units)		
End-of-period capacity:			
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	***	***	***
Total, all types.....	***	***	***
Assembly:			
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	***	***	***
Total, all types.....	***	***	***
	Capacity utilization (percent) 1/		
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	***	***	***
Average, all types.....	***	***	***

1/ Computed from data of \*\*\* firms providing information on both capacity and production.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Assembly

The assembly of mechanical watches \* \* \* annually during the 1986-88 period. Assembly of those products \* \* \*

in 1988. \* \* \*

movements also \* \* \*

from 1987. Assembly of watch during this period, from \*\*\* in 1988 (tables 5-2 and 5-3).

Table 5-2  
 Watches and watch movements: U.S. insular possessions assembly, by firms,  
 1986-88 <sup>1/</sup>

Item	1986	1987	1988
Mechanical watches:			
* * *	*	*	*
Total.....	***	***	***
Quartz analog or dual display watches:			
* * *	*	*	*
Total.....	***	***	***
Watch movements:			
* * *	*	*	*
Total.....	***	***	***

<sup>1/</sup> \* \* \*

Source: Compiled from data submitted in response to questionnaires of the  
 U.S. International Trade Commission.

Table 5-3

Watches and watch movements: U.S. insular possessions assembly, by types,  
1986-88

(In units)			
Item	1986	1987	1988

\*                    \*                    \*                    \*                    \*                    \*                    \*

---

Source: Compiled from data submitted by \*\*\* firms in response to questionnaires of the U.S. International Trade Commission.

Capacity utilization

Capacity utilization for mechanical watches \* \* \*  
over the 1986-88 period. 1/ Capacity utilization  
for quartz analog watches \* \* \*

---

1/ This \* \* \*  
watches.

for mechanical

Assemblers' Shipments

Assemblers' shipments of mechanical watches to the United States and the U.S. insular possessions \* \* \*

Based on quantity, the shipments of mechanical watches \* \* \*

were reported (table 5-4).

Assemblers' shipments of quartz analog or dual-display watches to the United States and the U.S. insular possessions \* \* \*

in 1987. Such shipments \* \* \*

shipments in 1987. Most of the \* \* \* in 1987 reflects the fact that \* \* \*

In 1988, \*\*\* percent of the quantity of shipments consisted of watches plated with precious metal to a thickness of over 1 to 3 microns, \*\*\* percent were of 1 micron or less, and \*\*\* percent were of other metal. Company transfers by assemblers of quartz analog or dual-display watches \* \* \*

percent. As a share of total shipments of the quartz analog or dual-display watches, company transfers accounted for \*\*\* percent in 1986, \*\*\* percent in 1987, and \*\*\* percent in 1988. \* \* \*

The value of shipments of watch movements assembled in the U.S. insular possessions \* \* \*

in 1987. The value of shipments \* \* \* in 1988, \* \* \* 1987 shipments. \* \* \*

Inventories

\* \* \* were held in inventory by U.S. insular possessions assemblers during 1986-88. End-of-period inventories of quartz analog or dual-display watches held by the assemblers \* \* \*

in 1988. As a share of total shipments, inventories \* \* \*

in 1988, as presented in the following tabulation:

Year	Quartz analog or dual display watches	
	Year-end inventories (1,000 units)	Share of total shipments (percent)
1986.....	***	***
1987.....	***	***
1988.....	***	***

Table 5-4  
 Watches and watch movements: U.S. insular possessions assemblers shipments,  
 1986-88 1/

Item	1986	1987	1988
	Quantity (units)		
Mechanical watches:			
Company transfers.....	***	***	***
Shipments to the United States and the U.S. insular possessions.....	***	***	***
Total.....	***	***	***
Quartz analog or dual display watches:			
Company transfers.....	***	***	***
Shipments to the United States and the U.S. insular possessions.....	***	***	***
Total.....	***	***	***
Watch movements:			
Company transfers.....	***	***	***
Shipments to the United States and the U.S. insular possessions.....	***	***	***
Total.....	***	***	***
	Value (1,000 dollars)		
Mechanical watches:			
Company transfers.....	***	***	***
Shipments to the United States and the U.S. insular possessions.....	***	***	***
Total.....	***	***	***
Quartz analog or dual display watches:			
Company transfers.....	***	***	***
Shipments to the United States and the U.S. insular possessions.....	***	***	***
Total.....	***	***	***
Watch movements:			
Company transfers.....	***	***	***
Shipments to the United States and the U.S. insular possessions.....	***	***	***
Total.....	***	***	***

See footnotes at end of table.



Table 5-4--Continued

Watches and watch movements: U.S. insular possessions assemblers shipments, 1986-88 1/

Item	1986	1987	1988
	Unit value (per unit) <u>2/</u>		
Mechanical watches:			
Company transfers.....	***	***	***
Shipments to the United States and the U.S. insular possessions.....	***	***	***
Average.....	***	***	***
Quartz analog or dual display watches:			
Company transfers.....	***	***	***
Shipments to the United States and the U.S. insular possessions.....	***	***	***
Average.....	***	***	***
Watch movements			
Company transfers.....	***	***	***
Shipments to the United States and the U.S. insular possessions.....	***	***	***
Total.....	***	***	***

1/ Export shipments were not reported by firms responding to the questionnaire.

2/ Computed from data supplied by \*\*\* firms reporting both quantity and value data.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

#### Purchases of U.S.-produced Watch Parts

The amount of U.S.-produced watch parts purchased by U.S. insular possessions assemblers \* \* \* during the 3-year period, to \*\*\* in 1988, as shown in the following tabulation:

<u>Year</u>	<u>Quantity</u> (1,000 dollars)
1986.....	***
1987.....	***
1988.....	***

Firms indicated in questionnaire responses that the purchases consisted primarily of \* \* \*

#### U.S. Insular Possessions Employment, Wages, and Productivity

The number of production and related workers assembling complete quartz analog or dual-display watches in the U.S. insular possessions \* \* \* in 1988. The number of workers assembling watch parts \* \* \* in 1988. 1/ The number of production workers assembling \* \* \* (table 5-5).

Hours worked by production and related workers assembling quartz analog or dual-display watches \* \* \* during 1986-88. Hours worked by such workers assembling watch parts \* \* \* hours in 1988. Hours worked by production workers assembling mechanical watches \* \* \* during the period, to \*\*\* hours in 1988.

Average hourly wages paid for the assembly of quartz analog or dual-display watches \* \* \* in 1988. Total compensation paid to those workers, which includes wages and contributions to social security and other employee benefits, \* \* \* in 1988. Average hourly wages paid to workers assembling watch parts \* \* \* in 1988. Total compensation paid to workers for the assembly of watch parts \* \* \* in 1988.

Productivity rates for mechanical watch assembly \* \* \* in 1988. Productivity for watch parts assembly \* \* \* . 2/ Productivity for quartz analog watch assembly \* \* \* per 1,000 hours in 1988. Workers at \*\*\* reporting establishments are represented by unions.

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1/ Many watch assemblers also assemble movements. Thus, the separately reported data for workers assembling watch parts (a category that primarily consists of movements) are understated.

2/ \* \* \*

Table 5-5

Total U.S. insular possessions establishment employment and average number of production and related workers assembling watches and watch parts, hours worked, 1/ wages and total compensation 2/ paid to such employees, and labor productivity, hourly compensation, and unit labor production costs, 1986-88 3/

Item	1986	1987	1988
	Number of workers		
Total establishment number of employment.....	***	***	***
Production and related workers:			
All products of establishments.....	***	***	***
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	***	***	***
Watch parts (except straps, bands, and bracelets).....	***	***	***
	Hours worked (thousands)		
Production and related workers:			
All products of establishments.....	***	***	***
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	***	***	***
Watch parts (except straps, bands, and bracelets).....	***	***	***
	Wages paid (thousands of dollars)		
Production and related workers:			
All products of establishments.....	***	***	***
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	***	***	***
Watch parts (except straps, bands, and bracelets).....	***	***	***

See footnotes at end of table.

Table 5-5--Continued

Total U.S. insular possessions establishment employment and average number of production and related workers assembling watches and watch parts, hours worked, 1/ wages and total compensation 2/ paid to such employees, and labor productivity, hourly compensation, and unit labor production costs, 1986-88 3/

Item	1986	1987	1988
	<u>Total compensation paid (1,000 dollars)</u>		
Production and related workers:			
All products of establishments.....	***	***	***
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	***	***	***
Watch parts (except straps, bands, and bracelets).....	***	***	***
	<u>Hourly wages paid</u>		
Production and related workers:			
All products of establishments.....	***	***	***
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	***	***	***
Watch parts (except straps, bands, and bracelets).....	***	***	***
	<u>Hourly total compensation</u>		
Production and related workers:			
All products of establishments.....	***	***	***
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	***	***	***
Watch parts (except straps, bands, and bracelets).....	***	***	***

See footnotes at end of table.

Table 5-5--Continued

Total U.S. insular possessions establishment employment and average number of production and related workers assembling watches and watch parts, hours worked, 1/ wages and total compensation 2/ paid to such employees, and labor productivity, hourly compensation, and unit labor production costs, 1986-88 3/

Item	1986	1987	1988
	<u>Productivity (units per 1,000 hours)</u>		
Production and related workers:			
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	***	***	***
Watch parts (except straps, bands, and bracelets).....	***	***	***
	<u>Unit labor costs (per unit) <u>4/</u></u>		
Production and related workers:			
Mechanical watches.....	***	***	***
Quartz analog or dual display watches.....	***	***	***
Watch parts (except straps, bands, and bracelets).....	***	***	***

1/ Includes hours worked plus hours of paid leave time.

2/ Includes wages and contributions to Social Security and other employee benefits.

3/ Firms providing employment data accounted for 100 percent of reported total shipments in 1988.

4/ On the basis of total compensation paid.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.



CHAPTER 6. FINANCIAL EXPERIENCE OF THE WATCH INDUSTRY IN THE  
UNITED STATES AND THE U.S. INSULAR POSSESSIONS

Financial Experience of U.S. Producers and Assemblers

Income-and-loss data were supplied by five U.S. domestic and eight U.S. Insular Possessions (seven Virgin Island and one Guam) watch assemblers and by five U.S. watchband manufacturers.

U.S. domestic watch assembly operations

\* \* \* \* \*

\* \* \* \* \*

Aggregate net sales in 1986 were \$128.8 million, representing a decline of 8 percent from 1985 sales of \$140.1 million (table 6-1). Sales in 1987 rose to \$146.9 million, representing an increase of 14 percent. Operating income was \$10.9 million in 1985, \$7.6 million in 1986, and \$15.8 million in 1987. Operating income margins, as a percent of sales, were 7.8 in 1985, 5.9 in 1986 and 10.8 in 1987. No operating losses were reported in 1985 and 1987, but \*\*\*

The operating income margins compare favorably with those margins reported for nondurable companies with assets under \$25 million. In its quarterly financial reports for this category for 1985, 1986, and 1987, the Department of Commerce reported operating income margins of 3.6, 2.7, and 3.8 in 1985, 1986, and 1987, respectively. 1/

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1/ Quarterly Financial Reports, Bureau of the Census, Department of Commerce, 1985 through 1987, p. 27.

Table 6-1

Income-and-loss experience of U.S. companies on their operations assembling quartz analog and mechanical watches, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988

Item	1985	1986	1987	Interim period ended Sept. 30--	
				1987	1988
Value (1,000 dollars)					
Net sales.....	140,064	128,811	146,888	55,035	59,057
Cost of goods sold.....	102,058	91,873	103,354	38,869	41,045
Gross profit.....	38,006	36,938	43,534	16,166	18,012
General, selling, and administrative expenses.....	27,071	29,315	27,695	10,338	12,310
Operating income.....	10,935	7,623	15,839	5,828	5,702
Interest expense.....	3,100	2,652	3,118	1,592	1,191
Other income or (expense), net.....	(142)	(181)	(2,775)	(67)	58
Net income before income taxes.....	7,693	4,790	9,946	4,169	4,569
Depreciation and amorti- zation included above.....	500	701	753	377	329
Cash-flow <u>1/</u> .....	8,193	5,491	10,699	4,546	4,898
Share of net sales (percent)					
Cost of goods sold.....	72.9	71.3	70.4	70.6	69.5
Gross profit.....	27.1	28.7	29.6	29.4	30.5
General, selling, and administrative expenses.....	19.3	22.8	18.9	18.8	20.8
Operating income.....	7.8	5.9	10.8	10.6	9.7
Net income before income taxes.....	5.5	3.7	6.8	7.6	7.7
Number of firms reporting					
Operating losses.....	0	1	0	0	0
Net losses.....	0	1	0	1	0
Data.....	5	5	5	4	4

1/ Cash-flow is defined as net income or loss plus depreciation and amortization.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.



Interim 1988 sales \* \* \* were \$59.1 million, representing an increase of 7.3 percent over interim 1987 sales of 9.7 in the interim periods of 1987 and 1988, respectively. None of the firms reported operating losses in either of the two interim periods. An income-and-loss summary by company is presented in table 6-2.

Table 6-2

Income-and-loss experience of U.S. companies on their operations assembling quartz analog and mechanical watches, by producers, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988

Producer/item	1985	1986	1987	Interim period ended Sept. 30-		
				1987	1988	
Value (1,000 dollars)						
Net sales:	*	*	*	*	*	*
Operating income or (loss):	*	*	*	*	*	*
Share of net sales (percent)						
Operating income or (loss):	*	*	*	*	*	*

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

The raw material purchases (movements and parts) accounted for most of the cost of goods sold. These purchases by the U.S. assemblers were generally \* \* \*

assembly, \* \* \* . After

U.S. insular possessions watch assembly operations

These companies are either owned or affiliated with larger organizations in the United States and other parts of the world. All are located in the Virgin Islands except for Timewise, which is located in Guam. Each U.S. insular possession assembler and its related organization are shown in the following tabulation:

<u>Insular Possession</u>	<u>Parent or Affiliate</u>	<u>Country</u>
Belair	* * *	* * *
Hampden	* * *	* * *
Timex V.I.	* * *	* * *
Timewise (Guam)	* * *	* * *
Mastertime	* * *	* * *
Tropex	* * *	* * *
Unitime	* * *	* * *
Progress	* * *	* * *

\* \* \* \* \* \* \*

. 1/ All of these insular possessions companies receive a PIC (production incentive credit). These PICs entitle the certificate holder to secure refunds of duties equal to the face value of watches and watch movements imported into the customs territory of the United States.

\* \* \*

(table 6-3). 2/ \* \* \*

---

1/ \* \* \*

\* \* \*

2/ \* \* \*

Table 6-3

Income-and-loss experience of U.S. insular possessions companies on their operations assembling quartz analog watches, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988

Item	1985	1986	1987	Interim period ended Sept. 30--	
				1987	1988
<u>Value (1,000 dollars)</u>					
Net sales.....	***	***	***	***	***
Cost of goods sold.....	***	***	***	***	***
Gross profit or (loss).....	***	***	***	***	***
General, selling, and administrative expenses.....	***	***	***	***	***
Operating income or (loss)....	***	***	***	***	***
Startup expense <u>1</u> /.....	***	***	***	***	***
Interest expense.....	***	***	***	***	***
Other income, net. <u>2</u> /.....	***	***	***	***	***
Net income or (loss) before income taxes.....	***	***	***	***	***
Depreciation and amorti- zation included above.....	***	***	***	***	***
Cash-flow <u>3</u> /.....	***	***	***	***	***
<u>Share of net sales (percent)</u>					
Cost of goods sold.....	***	***	***	***	***
Gross profit or (loss).....	***	***	***	***	***
General, selling, and administrative expenses.....	***	***	***	***	***
Operating income or (loss)....	***	***	***	***	***
Net income or (loss) before income taxes.....	***	***	***	***	***
<u>Number of firms reporting</u>					
Operating losses.....	***	***	***	***	***
Net losses.....	***	***	***	***	***
Data.....	***	***	***	***	***

1/ \* \* \*

2/ Companies vary in their treatment of recording the PIC for accounting purposes. Some accrue the amount and others record the cash upon receipt.

3/ Cash-flow is defined as net income or (loss) plus depreciation and amortization.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

1985. Operating losses of \*\*\* and \*\*\* were sustained in 1986 and 1987, respectively. Operating income (loss) margins, as a percent of sales, were \*\*\* in 1985, \*\*\* in 1986, and \*\*\* in 1987. \* \* \* incurred operating losses in 1985 and 1986 and \* \* \* in 1987. The category of "other income, net," in the table represents the PIC for the producers. These refunds \* \* \*

. 1/ Thus, net income was \*\*\* in 1985, \*\*\* in 1986, and \*\*\* in 1987. Net income, as a percent of sales, was \*\*\* in 1985, \*\*\* in 1986, and \*\*\* in 1987. \* \* \* incurred net losses in 1985 and 1987, and \* \* \* did so in 1986.

Interim 1988 sales, for four companies, were \*\*\* million, representing \* \* \* interim 1987 sales of \*\*\* million. Operating losses were \*\*\* in interim 1987 and \*\*\* in interim 1988. Operating losses, as a percent of sales, were \*\*\* in interim 1987 and \*\*\* in interim 1988. Net income was \*\*\* in interim 1987, but a loss of \*\*\* was incurred in interim 1988. Net income (loss) margins were \*\*\* in interim 1987 and \*\*\* in interim 1988. \* \* \*

. An income-and-loss summary by company is presented in table 6-4.

U.S. watch band, strap, and bracelet producers

\* \* \* \* \*

Aggregate net sales of watch attachments were \*\*\* in 1986, representing a \* \* \* 1985 sales of \*\*\* (table 6-5). In 1987 sales were \*\*\* 1986 sales.

Operating income was \*\*\* in 1985, \*\*\* in 1986 and \*\*\* in 1987. Operating income margins, as a percent of sales, were \*\*\* in 1985, 1986, and 1987, respectively. Operating losses were incurred \* \* \* in each of the three accounting periods.

---

1/ The difference between operating income and net income also includes interest expense and startup costs (table 6-3).

Table 6-4

Income-and-loss experience of U.S. insular possessions companies on their operations assembling quartz analog watches, by producers, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988

Item and producer	1985	1986	1987	Interim period ended Sept. 30--	
				1987	1988
Value (1,000 dollars)					
Net sales:					
Belair.....	***	***	***	***	***
Hampden.....	***	***	***	***	***
Mastertime.....	***	***	***	***	***
Progress.....	***	***	***	***	***
Timewise (Guam).....	***	***	***	***	***
Timex V.I.....	***	***	***	***	***
Tropex.....	***	***	***	***	***
Unitime.....	***	***	***	***	***
Total.....	***	***	***	***	***
Operating income or (loss):					
Belair.....	***	***	***	***	***
Hampden.....	***	***	***	***	***
Mastertime.....	***	***	***	***	***
Progress.....	***	***	***	***	***
Timewise (Guam).....	***	***	***	***	***
Timex V.I.....	***	***	***	***	***
Tropex.....	***	***	***	***	***
Unitime.....	***	***	***	***	***
Total.....	***	***	***	***	***
Share of net sales (percent)					
Operating income or (loss):					
Belair.....	***	***	***	***	***
Hampden.....	***	***	***	***	***
Mastertime.....	***	***	***	***	***
Progress.....	***	***	***	***	***
Timewise (Guam).....	***	***	***	***	***
Timex V.I.....	***	***	***	***	***
Tropex.....	***	***	***	***	***
Unitime.....	***	***	***	***	***
Total.....	***	***	***	***	***

See footnotes at end of table.

Table 6-4--Continued

Income-and-loss experience of U.S. insular possessions companies on their operations assembling quartz analog watches, by producers, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988

Item and producer	1985	1986	1987	Interim period ended Sept. 30--	
				1987	1988
Value (1,000 dollars)					
All other income, net (production incentive credit): <sup>3/</sup>					
Belair.....	***	***	***	***	***
Hampden.....	***	***	***	***	***
Mastertime.....	***	***	***	***	***
Progress.....	***	***	***	***	***
Timewise (Guam).....	***	***	***	***	***
Timex V.I.....	***	***	***	***	***
Tropex.....	***	***	***	***	***
Unitime.....	***	***	***	***	***
Total.....	***	***	***	***	***
Net income or (loss):					
Belair.....	***	***	***	***	***
Hampden.....	***	***	***	***	***
Mastertime.....	***	***	***	***	***
Progress.....	***	***	***	***	***
Timewise (Guam).....	***	***	***	***	***
Timex V.I.....	***	***	***	***	***
Tropex.....	***	***	***	***	***
Unitime.....	***	***	***	***	***
Total.....	***	***	***	***	***
Share of net sales (percent)					
Net income or (loss):					
Belair.....	***	***	***	***	***
Hampden.....	***	***	***	***	***
Mastertime.....	***	***	***	***	***
Progress.....	***	***	***	***	***
Timewise (Guam).....	***	***	***	***	***
Timex V.I.....	***	***	***	***	***
Tropex.....	***	***	***	***	***
Unitime.....	***	***	***	***	***
Total.....	***	***	***	***	***

<sup>1/</sup> Companies vary in their treatment of recording the PIC for accounting purposes. Some accrue the amount and others record the cash upon receipt.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table 6-5

Income-and-loss experience of U.S. producers on their operations producing watch bands, straps, and bracelets, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988

Item	1985	1986	1987	Interim period ended Sept. 30--	
				1987	1988
Value (1,000 dollars)					
Net sales.....	***	***	***	***	***
Cost of goods sold.....	***	***	***	***	***
Gross profit.....	***	***	***	***	***
General, selling, and administrative expenses...	***	***	***	***	***
Operating income.....	***	***	***	***	***
Interest expense.....	***	***	***	***	***
Other income, net.....	***	***	***	***	***
Net income before income taxes.....	***	***	***	***	***
Depreciation and amorti- zation included above.....	***	***	***	***	***
Cash-flow <u>1/</u> .....	***	***	***	***	***
Share of net sales (percent)					
Cost of goods sold.....	***	***	***	***	***
Gross profit.....	***	***	***	***	***
General, selling, and administrative expenses...	***	***	***	***	***
Operating income.....	***	***	***	***	***
Net income before income taxes.....	***	***	***	***	***
Number of firms reporting					
Operating losses.....	***	***	***	***	***
Net losses.....	***	***	***	***	***
Data.....	***	***	***	***	***

1/ Cash-flow is defined as net income or (loss) plus depreciation and amortization.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

\* \* \* \* \*

An income-and-loss summary by company is presented in table 6-6. 6-9

Table 6-6

Income-and-loss experience of U.S. producers on their operations producing watch bands, straps, and bracelets, by producers, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988

Item and producer	1985	1986	1987	Interim period ended Sept. 30--	
				1987	1988
<u>Value (1,000 dollars)</u>					
Net sales:					
*	*	*	*	*	*
Total.....	***	***	***	***	***
Operating income or (loss):					
*	*	*	*	*	*
Total.....	***	***	***	***	***
<u>Share of net sales (percent)</u>					
Operating income or (loss):					
*	*	*	*	*	*
Average.....	***	***	***	***	***

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

#### Investment in productive facilities

The value of property, plant, and equipment for the assemblers and watch band, strap, and bracelet producers is shown in table 6-7.



Table 6-7

Watches: Value of property, plant, and equipment of U.S. assemblers, U.S. insular possessions assemblers and watch band, strap, and bracelet manufacturers, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988

Item	(In thousands of dollars)				
	As of end of accounting year--			Interim period ended Sept. 30--	
	1985	1986	1987	1987	1988
U.S. assemblers:					
Original cost.....	4,538	4,336	4,001	4,385	4,022
Book value.....	2,879	2,344	1,698	2,310	1,632
U.S. insular possessions:					
Original cost.....	***	***	***	***	***
Book value.....	***	***	***	***	***
Watch bands, straps, and bracelets:					
Original cost.....	***	***	***	***	***
Book value.....	***	***	***	***	***

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

#### Return on investment

The return on investment for the assemblers and watch band, strap, and bracelet producers is shown in table 6-8. The ratios for U.S. assemblers compare \* \* \* with the return on investment data reported for nondurable goods companies with assets under \$25 million. In its quarterly financial reports for this category, the U.S. Department of Commerce reported returns of 7.4, 6.1, and 8.4 in 1985, 1986, and 1987, respectively. <sup>1/</sup>

#### Capital expenditures

The capital expenditures for the assemblers and watch band, strap, and bracelet producers are shown in table 6-9.

#### Research and development expenses

The research and expenditures for the assemblers and watch band, strap, and bracelet producers are shown in table 6-10.

<sup>1/</sup> Quarterly Financial Reports, Bureau of the Census, U.S. Department of

Table 6-8

Watches: Return on investment of U.S. assemblers, U.S. insular possessions assemblers and watch band, strap, and bracelet manufacturers, accounting years 1985-87 1/

(In percent)			
Item	1985	1986	1987
U.S. assemblers.....	14.1	24.3	28.5
U.S. insular possessions.....	<u>2/</u>	<u>2/</u>	<u>2/</u>
Watch bands, straps, and bracelets.....	***	***	***

1/ Defined as operating income divided by total assets.

2/ Because of the predetermined sales transfer prices and their effect on income, \* \* \* it is not feasible to compute return on investment ratios.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table 6-9

Watches: Capital expenditures by U.S. assemblers, U.S. insular possessions assemblers and watch band, strap, and bracelet manufacturers, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988

(In thousands of dollars)					
Item	1985	1986	1987	Interim period ended Sept. 30--	
				1987	1988
U.S. assemblers.....	774	336	56	25	195
U.S. insular possessions.....	***	***	***	***	***
Watch bands, straps, and bracelets.....	***	***	***	***	***

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table 6-10

Watches: Research and development expenses of U.S. assemblers, U.S. insular possessions assemblers and watch band, strap, and bracelet manufacturers, accounting years 1985-87 and interim periods ended Sept. 30, 1987, and Sept. 30, 1988

(In thousands of dollars)

Item	1985	1986	1987	Interim period ended Sept. 30--	
				1987	1988
U.S. assemblers.....	402	415	482	35	40
U.S. insular possessions.....	***	***	***	***	***
Watch bands, straps, and bracelets.....	***	***	***	***	***

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

#### Capital and investment

The Commission requested the watch assemblers and watchband manufacturers to describe any actual or potential negative effects that may result if watches become eligible for duty-free treatment under the Generalized System of Preferences. Six U.S. assemblers responded to this question; \* \* \*

. \* \* \*

eight U.S. insular possession assemblers responding, \* \* \* . Of the

. \* \* \*

detailed accounting of their responses is shown in appendix I. . A more



## CHAPTER 7. U.S. TRADE

## Trade Balance

The trade deficit for U.S. trade in watches grew at an average annual rate of 13 percent, from \$853 million in 1984 to \$1.4 billion in 1988. The deficit is the result of a steady increase in the number of units of watches imported into the United States. Moreover, the deficit reflects a change in the type of watches entering the United States from Hong Kong, the second-largest supplier to the U.S. market. Unit values for U.S. imports of watches from Hong Kong increased by 71 percent, from \$2.57 in 1984 to \$4.40 in 1988.

## U.S. Imports of Watches

Between 1984 and 1988, U.S. imports of watches increased by 42 percent, to 198.5 million units in 1988 (table 7-1). The leading suppliers to the U.S. market in 1988 were Hong Kong, China, Japan, and the Philippines. Hong Kong remained the top supplier in 1988 (101.7 million units), despite the 8-percent decline in U.S. imports over the previous year. According to industry sources, the decline in trade with Hong Kong and the 260-percent increase in U.S. imports of watches from China (from 11.5 million units in 1987 to 41.5 million units in 1988) reflect the shift in Hong Kong companies' assembly operations from Hong Kong to China. <sup>1/</sup> Although Japan slipped from being the second-largest to third-largest supplier in 1988, U.S. imports Japan grew steadily during the 1984-87 period, at an average annual rate of 20.6 percent, and then declined slightly in 1988, to 27.4 million units.

On a value basis, U.S. imports increased by 65 percent during the 5-year period, to \$1.4 billion in 1988. Japan, Hong Kong, and Switzerland remain the top three suppliers to the U.S. market. However, while the average unit value of watches imported from Hong Kong increased, unit values for watches imported from Japan declined by 14 percent, to \$16.60 in 1988. The unit value of Swiss watches remained essentially unchanged during the 1984-88 period.

U.S. imports of watches from GSP-eligible countries

U.S. imports of watches from Generalized System of Preferences (GSP)-eligible countries increased by 129 percent during the 1984-88 period, from 6.4 million units in 1984 to 14.6 million units in 1988 (table 7-2). The top three country suppliers in 1988 were the Philippines (11.8 million units), Thailand (2.2 million units), and Mexico (536,000 units). U.S. imports from the Philippines grew rapidly between 1984 and 1986 (reaching a

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<sup>1/</sup> See ch. 8 for a complete discussion of this trend.

Table 7-1

Watches: U.S. watch imports for consumption, principal sources, 1984-88

Source	1984	1985	1986	1987	1988
<u>Quantity (1,000 units)</u>					
Japan.....	16,716	24,501	26,687	29,311	27,421
Hong Kong.....	100,971	78,110	86,027	110,257	101,659
Switzerland.....	3,496	7,426	11,158	8,389	7,108
Philippines.....	6,343	11,127	9,554	10,817	11,847
South Korea.....	4,105	4,750	5,249	5,804	4,041
China.....	0	61	3,188	11,546	41,523
Thailand.....	5	11	1/	171	2,197
West Germany.....	159	710	523	249	495
France.....	207	359	303	230	209
Taiwan.....	7,813	3,231	3,148	2,625	999
Italy.....	39	73	77	97	130
Mexico.....	17	166	53	351	536
All other.....	106	201	183	194	365
Total.....	139,976	130,725	146,152	180,041	198,530
<u>Value (1,000 dollars)</u>					
Japan.....	324,382	361,466	355,409	428,480	455,215
Hong Kong.....	259,651	278,370	272,599	325,000	447,410
Switzerland.....	145,548	202,621	309,317	323,438	304,135
Philippines.....	35,569	64,457	54,186	63,197	71,066
South Korea.....	27,289	31,397	41,201	51,092	39,033
China.....	2/	88	3,368	9,614	29,404
Thailand.....	9	25	32	870	14,273
West Germany.....	3,436	11,230	9,394	9,966	12,070
France.....	5,295	9,134	10,426	1,086	7,750
Taiwan.....	40,919	8,222	7,476	8,451	5,496
Italy.....	1,195	3,092	4,111	3,669	4,973
Mexico.....	81	899	256	975	1,761
All other.....	2,010	3,515	7,865	4,169	5,314
Total.....	845,421	974,516	1,071,940	1,239,009	1,397,900

1/ Less than 500 units.

2/ Not applicable.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 7-2

Watches: U.S. watch imports for consumption from GSP-eligible countries, 1984-88

Source	1984	1985	1986	1987	1988
Quantity (1,000 units)					
Philippines.....	6,343	11,127	19,554	10,817	11,847
Thailand.....	3	11	1/	171	2,197
Mexico.....	17	166	53	351	536
Uruguay.....	1/	1/	1/	1/	1/
Venezuela.....	1/	0	1/	0	4
Israel.....	1	7	1/	1/	1
Panama.....	1	11	7	2	2
Brazil.....	1/	2	0	1/	1
Malaysia.....	1/	4	73	20	0
Mauritius.....	0	0	0	4	0
Macao.....	10	31	0	0	0
Bahamas.....	1/	1	0	0	0
Argentina.....	0	1/	0	0	0
Cayman Islands...	0	1/	0	0	0
Rep. Saf.....	1/	0	0	0	0
Total.....	6,375	11,360	19,687	11,365	14,588
Value (1,000 dollars)					
Philippines.....	35,569	64,457	54,186	63,197	71,066
Thailand.....	9	25	32	870	14,273
Mexico.....	81	899	256	975	1,761
Uruguay.....	43	63	208	387	1,136
Venezuela.....	4	2/	28	2/	201
Israel.....	46	3	4	6	98
Panama.....	52	363	259	60	56
Brazil.....	39	224	2/	1	11
Malaysia.....	2	16	639	202	2/
Mauritius.....	2/	2/	2/	8	2/
Macao.....	10	37	2/	2/	2/
Bahamas.....	1	10	2/	2/	2/
Argentina.....	8/	5	2/	2/	2/
Cayman Islands...	8/	3	2/	2/	2/
Rep. Saf.....	1/	2/	2/	2/	2/
Total.....	35,815	66,165	55,612	65,707	88,602

1/ Less than \$500.

2/ Not applicable.

Source: Compiled from official statistics of the U.S. Department of Commerce.

peak of 19.6 million units), declined abruptly in 1987 (to 10.8 million units), and then increased slightly, to 11.8 million units in 1988. \* \* \*

. U.S. imports from Thailand, which were relatively insignificant until 1987, increased over 1,000 percent, to 2.2 million units from 1987 to 1988. \* \* \*

The Philippines, Thailand, and Mexico also were the top three GSP-eligible suppliers to the U.S. market in terms of value. Average unit values of watches supplied to the United States by these countries were significantly higher than those of China. In addition, the Philippine and Thai suppliers shipped watches that tended to be of higher value than those supplied by producers in Hong Kong as the following tabulation illustrates:

<u>Country</u>	<u>Average unit value in 1988</u>
Switzerland.....	\$42.00
Japan.....	16.60
Hong Kong.....	4.40
China.....	.70
Thailand.....	6.49
Philippine.....	5.99
Mexico.....	3.28

The unit values provide an indication of the difference in type and quality of watches supplied by the various countries. Industry sources indicate that most of the watches shipped from China to the United States are low-cost digital watches and quartz analog watches with cases that contain little, if any, precious metal. Watches supplied by companies located in the three GSP-eligible countries shown above are, for the most part, \* \* \*

according to industry sources.

Table 7-3 shows the share of 1986 U.S. watch imports accounted for by countries currently eligible for duty-free treatment under the GSP. For each of the HTSUS subheadings shown below, GSP-eligible countries accounted for more than 5 percent of total imports. Although the bulk of these imports was supplied by the Philippines, countries such as Thailand, Mexico, India, and Brazil are expected to become more significant suppliers during the next few years. 1/

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1/ See ch. 8 for a complete discussion of the international market. App. B provides a list of HTSUS numbers with product description.



Table 7-3

Watches: Share of 1986 U.S. watch imports accounted for by countries currently eligible for the GSP, by selected HTSUS subheadings

HTSUS item 1/	Percent of total U.S. imports
9101.11.40.....	7
9101.19.40.....	7
9101.21.80.....	14
9101.29.10.....	33
9101.29.20.....	10
9101.91.40.....	8
9101.99.20.....	13
9102.11.10.....	7
9102.11.25.....	7
9102.11.30.....	7
9102.11.45.....	8
9102.19.20.....	5
9102.19.40.....	7
9102.21.10.....	75 2/
9102.21.30.....	11
9102.21.50.....	9
9102.29.05.....	22
9102.29.10.....	24
9102.91.20.....	6
9102.91.40.....	8
9102.99.20.....	22

1/ HTSUS item numbers for which total U.S. imports from GSP-eligible countries amounted to less than 5 percent of total trade for the respective item numbers were not included in this table.

2/ Estimated to exceed the competitive need limit for the Philippines.

Source: Compiled from official statistics of the U.S. Department of Commerce.

#### Imports under TSUS item 807.00

Watch imports entering under item 807.00 totaled \$71 million in 1987, approximately 1 percent of total imports of these goods. The duty-free content of these imports totaled \$20 million in 1987. Item 807.00 imports from the Philippines amounted to \$50 million, or 69 percent of total 807.00 watch imports. The duty-free U.S.-origin content of 807.00 watch imports from the Philippines in 1987 was \$16 million.

Item 807.00 watch imports entering from the Philippines in 1987 amounted to 25 percent of the value of all watch imports from that country.

These imports may also have been eligible for duty-free treatment under the GSP had watches been removed from the list of excluded articles.

Watch imports from South Korea, the second-largest supplier of watches under item 807.00 provisions, amounted to \$19 million in 1987, with 807.00 imports totaling \$4 million.

#### U.S. Exports of Watches

U.S. exports of watches increased by 168 percent, from 437,000 units in 1984 to 1.2 million units in 1988. The growth in exports occurred mainly between 1985 and 1986, when U.S. exports increased by 121 percent, to around 1.2 million units. Canada, Hong Kong, and Mexico were the top three markets for U.S. watches in 1988. In terms of value, U.S. exports of watches rose at a significantly higher rate (299 percent) to \$29 million in 1988 (table 7-4).

Table 7-4

Watches: U.S. domestic watch exports, f.a.s. value, 1984-88

Source	1984	1985	1986	1987	1988
	Quantity (1,000 units)				
Canada.....	36	66	179	164	158
Neth. Antilles...	11	20	24	31	25
Mexico.....	43	120	73	111	214
Hong Kong.....	95	84	375	288	232
Venezuela.....	55	119	152	88	75
Switzerland.....	1/	1/	4	13	73
Japan.....	5	3	21	13	42
Italy.....	1	2	53	13	31
Aruba.....	3	1/	2	5	4
Panama.....	21	4	25	23	32
All others.....	167	116	273	265	283
Total.....	437	534	1,181	1,014	1,169
	Value (1,000 dollars)				
Canada.....	1,080	2,063	3,828	4,204	4,572
Neth. Antilles...	264	296	1,129	4,345	4,199
Mexico.....	615	1,922	1,364	1,724	3,632
Hong Kong.....	1,316	1,069	2,232	2,262	3,436
Venezuela.....	706	799	1,749	737	2,046
Switzerland.....	17	4	581	1,276	1,247
Japan.....	153	131	516	718	1,303
Italy.....	16	63	875	444	1,104
Aruba.....	2/	2/	2/	2/	953
Panama.....	393	43	438	325	786
All others.....	3,811	2,003	4,090	4,577	5,807
Total.....	7,291	8,393	16,802	20,612	29,085

1/ Less than 500 units.

2/ Not available.

Source: Compiled from official statistics of the U.S. Department of Commerce.



CHAPTER 8. PROFILES OF FOREIGN INDUSTRIES AND THE ABILITY OF  
FOREIGN PRODUCERS TO GENERATE EXPORTS

Overview

International production of watches is dominated by companies in Hong Kong, Switzerland, and Japan. Together, according to industry sources, watch producers in these countries account for as much as 80 percent of world production. Other producer countries that account for a significant share of world production include France and the United States (table 8-1). 1/

During the past decade, watch production in Asian countries has increased considerably, in contrast with such production in the United States and Switzerland, which experienced significant declines in production in the late 1970s and early 1980s. These changes in production are a function of two major factors. First, the shift in consumer demand from mechanical to quartz analog and digital watches caught the European industry (particularly Swiss companies) by surprise. This unexpected shift in demand allowed Japanese and, later, Hong Kong producers to gain increasing shares of the international market at the expense of traditional watch suppliers. Second, rising labor costs made it more profitable for companies to assemble watches and perform other labor-intensive operations in countries with lower labor costs, such as Hong Kong, Taiwan, and the Philippines.

As table 8-1 illustrates, watch production remained fairly steady during 1986-87 for all of the major producer countries. Between 1987 and 1988, the Japanese industry's production is estimated to have grown 28 percent; most of this increase was accounted for by domestic sales. In contrast, watch production in Hong Kong is estimated to have declined 17 percent. Hong Kong production had reached capacity as a result of labor shortages and much of the production has been contracted to China. Swiss production \* \* \*

In contrast, current production and production capacity in countries that qualify for duty-free treatment under the Generalized System of Preferences (GSP), although negligible, are growing rapidly. Table 8-2 shows estimated production for three of the primary producer countries that potentially qualify for duty-free treatment under the GSP. 2/

---

1/ In particular, France is an important producer country, with production (assembly) of watches amounting to \*\*\*  
in 1987, according to U.S. Department of State estimates.

2/ Commission staff were not able to obtain production, trade, or capacity data for countries such as Brazil and Mexico. Nonetheless, industry sources indicated that both of these countries have assembly operations. United Nation data indicated that Brazilian exports of watches amounted to \$2.4 million in 1985; the country exported only \$136,000 to the United States during that year.

Table 8-1

Watches: Production of top producer countries and the United States,  
1986-88

(In thousand of units)

Country	1986	1987	1988 1/
Hong Kong.....	373,547	380,055	315,000
Japan.....	200,819	200,159	256,000
Switzerland.....	***	***	***
United States.....	2/ ***	2/ ***	2/ ***
Total.....	***	***	***

1/ Estimated by the Commission Staff.

2/ Compiled from data submitted in response to questionnaires of the  
U.S. International Trade Commission.

Source: U.S. Department of State, except as noted.

Table 8-2

Watches: Estimated production, capacity, and capacity utilization rates by  
GSP-designated countries, 1986-88

Country	1986	1987	1/ 1988
<b>Production:</b>			
Philippines 2/ (1,000 units) ..	***	***	***
Thailand (1,000 units).....	***	***	***
India 3/ (1,000 units).....	***	***	***
Total (1,000 units).....	***	***	***
<b>Capacity:</b>			
Philippines 4/ (1,000 units) ..	***	***	***
Thailand 5/ (1,000 units).....	***	***	***
India (1,000 units).....	***	***	***
Total (1,000 units).....	***	***	***
<b>Capacity utilization:</b>			
Philippines (percent).....	***	***	***
Thailand (percent).....	***	***	***
India (percent).....	***	***	***
Average (percent).....	***	***	***

1/ Estimated by the Commission staff.

2/ \* \* \*

3/ Data reported for years, 1985-86, 1986-87, and 1987-88.

4/ Production capacity for the Philippines \* \* \*

\* \* \*

production in 1989.

5/ Table 8-7 provides more information on the production capacity of  
various firms in the watch and watch components industry in Thailand.

Source: U.S. Department of State.

For all three countries combined, production increased by \*\*\* percent, to \*\*\* million units during the 1986-88 period. Watch production in Thailand \* \* \*

units. Production capacity \* \* \*

With the inclusion of Thailand in 1988, capacity \* \* \*

level. The

remainder of this chapter includes a review and analysis of trends in watch and watch band, straps, and bracelet production, exports, and capacity for the following regions: Asia, Europe, Canada, and Latin America.

### Asia

Watch production or assembly occurs throughout Asia. The most significant producer countries are Hong Kong, Japan, China, Taiwan, Korea, the Philippines, Thailand, and India. Other countries that qualify for duty-free treatment under the GSP, such as Indonesia and Malaysia, are not significant producers of watches, watch parts, or watch bands, straps, and bracelets. 1/

Watch operations in the region fall into three basic groups:

1) industries that manufacture most or all of the parts required for watch assembly, including capital-intensive operations such as the production of movement parts; 2) industries that specialize in the production of selected watch parts, as well as watch assembly; and 3) industries limited to watch-assembly operations. Japanese firms make up the first group. Countries whose industries fall into the second group include Taiwan (specializing in hands and dials) and Hong Kong (specializing in cases). Producer countries limited mostly to assembly operations include the Philippines, Singapore, China, and Thailand. As firms in countries in the first and second groups shift labor-intensive operations to countries in the third group to take advantage of lower wage rates, the companies also frequently set up certain types of manufacturing operations to reduce delays in the supply of various component parts. Technology transfers of this nature are apparent in countries such as Thailand, in which many of the watch operations are partially or entirely owned by foreign corporations \* \* \*

The watch and watch band, strap, and bracelet industries in these countries, unlike those in the United States or Europe, produce primarily for the export market. Production capacity is not available for Japan,

---

1/ U.S. Department of State officials indicated that there is no production (assembly) of watches in Malaysia and \* \* \*

Hong Kong, Taiwan, China, or Korea. The following sections provide a brief review of selected Asian countries' export trends over the past 3 years. 1/

### Hong Kong

Hong Kong is the world's largest producer of watches in volume terms (table 8-1). Domestic watch consumption in Hong Kong is \* \* \* \*\*\* percent of production. Exports are shown in table 8-3. The watch industry plays an important role in Hong Kong's economy; if combined with the clock industry, it ranks as the third-largest export earner. Hong Kong watch operations tend to be quite labor intensive. At the end of 1986, \*\*\* establishments, accounting for \*\*\* percent of the total watch-related workforce, were wholly or partly owned by foreign investors. Total investment in these facilities amounted to \*\*\* million. Japanese firms had investments in \*\*\* of these facilities. These firms employed \*\*\* workers and accounted for \*\*\* percent of total foreign investment in the watch industry. 2/ Several leading Hong Kong firms have purchased \* \* \*

so that these companies

can compete with European and Japanese firms at the upper end of the market.

Table 8-3

Watches and watch bands, straps, and bracelets: Total exports from Hong Kong and exports from Hong Kong to the United States, 1986-88

Item	1986	1987	1988 <u>1/</u>
<b>Watches:</b>			
United States.....	133,516	134,281	83,776
World.....	373,547	380,054	235,991
<b>Watch bands, straps, and bracelets:</b>			
United States.....	14,620	18,862	21,215
World.....	123,862	164,519	239,887

1/ Data cover first 3 quarters only.

Source: U.S. Department of State.

1/ Based primarily on information provided to Commission staff by the U.S. embassies in the respective countries, unless otherwise indicated. Export data are not available for China or Taiwan. There are around 14 companies that export watches or watch bands, straps, and bracelets in Taiwan; \* \* \* export to the United States.

2/ U.S. Government sources indicated that \* \* \*



In addition to the United States, other important export markets for Hong Kong manufacturers and assemblers of watches include Japan, the United Kingdom, Germany, Spain, and Switzerland. Hong Kong manufacturers of watch bands, straps, and bracelets export their products to countries such as the United Kingdom, Japan, China, Singapore, and Germany. According to the U.S. Department of State, Hong Kong's watch and watch bands, straps, and bracelet exports to the United States were broken out as follows in 1988:

<u>Item</u>	<u>Quantity</u> <u>(1,000 units)</u>
<b>Watches:</b>	
Digital.....	43,407
Quartz analog/dual display.....	36,756
Mechanical.....	3,609
	<u>Quantity</u> <u>(1,000 units)</u>
<b>Bands, straps, and bracelets:</b>	
Textile.....	387
Leather.....	6,260
Plastic.....	3,034
Metal.....	11,534

Exports of quartz analog watches grew by 52 percent in volume terms during the first three quarters of 1988, compared with the corresponding period in 1987. According to industry and Government sources, Hong Kong's watch industry assembles quartz analog watches primarily from movements (or movement parts) that are produced in Switzerland or Japan and from domestically produced watch cases.

\* \* \* \* \*

1/ It is expected that growth in quartz analog watch production will continue, but at a lower growth rate than the 52 percent in volume terms registered in 1987.

---

1/ According to industry sources, the watch industry in Hong Kong is operating at close to \*\*\* percent capacity. Capacity utilization is \* \* \*. Improvements in quality have allowed manufacturers to shift much of their production to midrange quartz analog watches.

Production of metal watchbands for export is also expected to grow, both in volume and value terms. Hong Kong manufacturers are in the process of upgrading their product lines. As chapter 7 illustrates, unit values for the Hong Kong industry's output have increased during the 1986-88 period.

### Japan

Japan is the second-largest producer of watches in the world. According to information supplied by Ministry of International Trade and Industry (MITI), there are seven major watch producers in Japan: Citizen Watch Co., Ltd.; Casio Computer Co., Ltd.; Orient Watch Co., Ltd.; Ricoh Computer, Ltd.; Seiko Epson Corp.; Seiko Instruments, Inc.; and Seikosha Co., Inc. Approximately 35 small companies produce watchbands. Japanese exports of wristwatches are shown in table 8-4.

As table 8-4 illustrates, Japanese companies have not been able to increase their exports to the United States or the world significantly. Exports of wristwatches in 1987 actually declined as compared with 1986 in all of the major markets except the United Kingdom. In addition, exports of base metal watchbands also decreased significantly between 1986 and 1987, with exports declining 15 percent, to 3.8 million units.

Despite growing watch and watch-movement production (table 8-1), some Japanese manufacturers are taking steps to reduce costs and improve their competitiveness, as the companies' respective profit margins shrink in the face of growing competition with Hong Kong manufacturers. A number of Japanese producers have already established watch production and/or assembly facilities in lower wage-rate areas such as Hong Kong, Taiwan, Korea, and Thailand in order to reduce labor costs. Most of the watches assembled in these countries use Japanese-produced movements and cases and metal expansion bands produced in Hong Kong, Japan, or in some instances, the United States.

### Korea

Exports of watches from Korea increased from \$118 million in 1985 to \$176 million in 1987, or by 50 percent. Korea's principal export markets include the United States, Japan, and Hong Kong (table 8-5).

During the same period, Korean imports of watch movements and watch cases and case parts increased by 125 percent, from \$25.4 million in 1985 to \$57 million in 1987. Principal sources of these components were Switzerland and Japan.

South Korean watch firms engage mainly in the assembly and casing of lower value opto-electronic display watches made from foreign-made components. South Korea also manufactures certain metal watch bracelets; however, these are generally low-value articles and are facing stiff

Table 8-4

Watches and watch straps, bands and bracelets: Exports from Japan by principal destinations, 1986-88 1/

Item	1986	1987	1988
<b>Wristwatches:</b>			
United States (1,000 units).....	18,313	18,295	12,346
Hong Kong (1,000 units).....	11,227	10,571	9,290
United Kingdom (1,000 units).....	3,053	3,513	3,187
Germany (1,000 units).....	3,673	3,017	2,726
Other (1,000 units).....	<u>27,403</u>	<u>24,050</u>	<u>18,838</u>
Total (1,000 units).....	63,669	59,446	46,387
<b>Watch bands, straps, and bracelets:</b>			
<b>Base metal:</b>			
United States (dozens).....	203,583	149,548	<u>2/</u>
World (dozens).....	<u>166,526</u>	<u>165,266</u>	<u>2/</u>
Total (dozens).....	370,109	314,814	<u>2/</u>
<b>Leather:</b>			
United States (dozens).....	4,989	15,552	<u>2/</u>
Other (dozens).....	<u>55,282</u>	<u>85,361</u>	<u>2/</u>
Total (dozens).....	60,271	100,913	<u>2/</u>

1/ Data for 1988 include only the first 3 quarters.

2/ Not available.

Source: U.S. Department of State.

Table 8-5

Watches: Exports of watches from Korea, by countries, 1985-87

(In thousands of dollars)

Country market	1985	1986	1987
United States.....	33,968	46,837	54,010
Japan.....	38,575	39,124	48,541
Hong Kong.....	23,951	28,313	35,688
Other.....	<u>24,619</u>	<u>29,160</u>	<u>38,421</u>
Total.....	118,113	143,434	176,660

Source: United Nations.

competition from Hong Kong watch bracelet manufacturers according to industry sources.

Singapore

Singapore's watch industry has been able to generate export growth much in the way that the Korean industry had been able to expand. Overall, exports of watches from Singapore have increased from \$37 million in 1985 to \$58 million in 1987, or by 56 percent. The major destinations for Singapore's watches in 1988 were Hong Kong (\$19 million) and Malaysia (\$16 million). Imports of watch movements and watch cases and parts increased steadily over the 3-year period (88 percent), from \$4.3 million in 1985 to \$8.1 million in 1987. Hong Kong manufacturers were the major source for these components. 1/

China

Prior to 1984, the watch industry in China consisted of small-scale assemblers of mainly mechanical pin-lever watches. These watches were made primarily for domestic consumption, and manufacturers were located in provinces throughout the country. The Chinese watch industry has grown rapidly since 1984, in part as a result of labor shortages in Hong Kong. The labor shortages resulted in higher wages, which reduced the Hong Kong manufacturers' competitive advantage, forcing them to contract out labor-intensive operations in low-wage countries such as China. These operations were limited mostly to the assembly of low-end opto-electronic display watches. Joint ventures and partnerships were set up, with Hong Kong supplying the technology, as well as watch cases, movements (mainly Japanese), and bands.

\* \* \* \* \*

. 2/

U.S. imports of watches from China reflect the rapid growth in Chinese production since 1984. At that time, U.S. imports of watches from China amounted to less than \$1,000. By the end of 1988, U.S. imports had increased to \$29 million, of which 92 percent were those with an opto-electronic display. 3/

---

1/ United Nations.

2/ For example, \* \* \* reportedly opened an assembly facility in China recently.

3/ U.S. watch imports from China are generally inexpensive and of lower quality than similar watches produced in Hong Kong and other Asian countries. Many of these watches are given away as promotional articles and for the most part are not available for retail sale.

Philippines

There are two watch manufacturers currently producing watches in the Philippines. In addition, one new watch assembler is reported to have begun operations in early 1989. Three watchband manufacturers have operations in the Philippines.

\* \* \* \* \*

Two of the three watchband manufacturers are \* \* \*  
the third is \* \* \*  
for export to Hong Kong.

Exports of watch movements from the Philippines were estimated at \*\*\* in 1988, all of which supplied the \* \* \* market. Watch parts imports on a consignment basis totaled 320 metric tons during the first three quarters of 1988. Of this amount, Hong Kong supplied 105 metric tons, the United Kingdom and Northern Ireland, 69, the United States, 48, and Switzerland, 24. During the same period, the United States supplied the Philippine watch industry with 87 metric tons of case parts (out of a total of 111 tons).

Philippine watch production \* \* \* in  
1988, \* \* \* . \* \* \*

. \* \* \*  
. Current watch production at the Timex facilities in the Philippines is shown in Table 8-6.

Thailand

There are around 12 export-oriented watch or watch components manufacturing firms in Thailand. Table 8-7 shows estimated production capacity by type of product for these companies. Two of the companies,

\* \* \* \* \*

In 1987, Thailand exported \*\*\*

. Table 8-8 shows Thailand exports of watches for the years 1985-87.

Table 8-6  
 Timex's Philippines watch production and exports to the United States by  
 types; 1988

(In thousands of units)			
Watch type	Total production	Total exports	Exports to USA

\* \* \* \* \*

---

Source: U.S. Embassy, Philippines.

Table 8-7

Watches and watch parts: Estimated production capacity of the watch industry in Thailand, by products and by ownership 1/

(In thousand of units)						
Ownership	Watches	Bands or bracelets	Cases	Move- ments	Other	Percent Parts exported

\* \* \* \* \*

1/ Unless otherwise indicated, data are for 1988.

Source: U.S. Department of State.

Table 8-8

Wristwatches: Thai exports, by principal markets, 1985-87

(In units)			
Country	1986	1987	1988 1/
United States.....	***	***	***
Hong Kong.....	***	***	***
United Kingdom.....	***	***	***
Switzerland.....	***	***	***
Other.....			
Total.....	***	***	***

1/ Data for 1988 include only the first 2 quarters.

Source: U.S. Department of State.

Foreign watch manufacturers have found Thailand to be an ideal location to expand their businesses. The relative stability of Thailand's





## CHAPTER 9. ECONOMIC TRENDS

## Prices

The demand for a watch depends on its functions and its stylishness. 1/ In recent years, there has been significant growth in the demand for watches as a fashion accessory. With the introduction of inexpensive, plastic watches such as the "Swatch" watch, consumers began purchasing multiple watches to be worn with different outfits. In addition, growth has also occurred in the markets for sports-oriented training watches.

The retail prices of watches vary greatly and range from less than \$5 to well over \$2,000. The retail price of a watch is determined by several factors, such as the type of the band, strap, or bracelet used, the amount and fineness of the gold used in the case or bracelet, and the packaging of the watch. Most watch companies publish price lists. Some companies only publish suggested consumer retail price lists; others have price lists for each level of sale, e.g., distributor, retailer, and suggested consumer price lists. Some watch companies offer quantity discounts from the price lists. 2/ In addition, some watch companies reported that increased discounts are sometimes applied to certain models of watches when the inventory level is high. A marketing technique used by many watch companies that affects the prices of watches is co-op advertising. Under this practice, the watch company offers an allowance to the customer in return for advertisement of its watches. Although the amount of allowance varies, a 5-percent allowance is common and generally appears on the invoice as a separate item.

Watch sales are generally made either as spot purchases or purchase orders. Those customers that use purchase orders to buy watches generally order several months before the product is needed. 3/ Spot purchases are made on an as-needed basis. 4/ The majority of watches purchased by retailers in the United States are bought during the fourth quarter.

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1/ One importer, \* \* \* , stated that the demand for watches is sometimes affected by the geographic region in which they are sold. For example, sporty-type watches sell very well in California \* \* \*

2/ \* \* \*

3/ \* \* \*

4/ \* \* \*

Transportation costs are not generally an important factor in the watch industry. \* \* \*

. Therefore, if transportation costs were to rise, \* \* \*

The Commission requested price data from U.S. producers/assemblers and U.S. importers of watches. <sup>1/</sup> Data were requested for each firm's largest sale to mass merchandisers and catalog houses for each quarter during the period January 1986 to December 1988. Although pricing information was requested from U.S. insular possessions watch assemblers, none provided data because prices are usually transfer prices set by their parent companies or affiliates in the United States. The products for which prices were requested from U.S. producers/assemblers and U.S. importers are listed below:

PRODUCT 1: Quartz analog watch with metal expansion band. The watch case is plated with 1 to 2 microns (nominal) of gold that is not less than 26 kt. The watchband is plated with 1 micron (nominal) or less of gold that is not less than 10 kt.

PRODUCT 2: Quartz analog watch with nonexpansion integrated metal bracelet, with both the watch case and the band plated with 1 to 2 microns (nominal) of gold that is not less than 16 kt.

PRODUCT 3: Quartz analog "water resistant" watch plated with 1 to 2 microns (nominal) of gold that is not less than 16 kt with a leather (calfskin) band.

PRODUCT 4: Quartz analog water-resistant watch with plastic case and plastic band.

Prices were requested only for quartz analog watches. According to the National Family Opinion Survey, of the approximately 66 million watches sold during 1987, two-thirds, in terms of value, were quartz analog and the remainder were evenly split between digital and mechanical watches. In terms of units, however, digital watches accounted for 60 percent of the units sold or given as premiums. The number of digital watches sold at retail has dropped sharply, to 21 million units in 1987; the remainder were premiums or giveaways.

Questionnaires were sent to 10 U.S. assemblers and 10 U.S. importers of watches. Usable price information was received from six U.S. assemblers, \* \* \*

Six importers responded to the questionnaire, but only minimal price data were received. Price data collection for watches was difficult. Some of the data problems are discussed below.

---

<sup>1/</sup> The Commission also requested price data from manufacturers of watch bands, straps, and bracelets; that information is discussed later.

Watch companies sell many different models of watches. For the majority of watch companies, several different models of watches fall into the product descriptions for which pricing information was requested. Thus, within each product group, a range of prices may exist. In addition, none of the responding watch companies reported a unique f.o.b. price for the product descriptions; rather, the firms reported the largest quarterly sale and the total value of that sale. The f.o.b. prices, therefore, represent an average unit value for the watches within the product description.

Data from importers was limited for several reasons. 1/ \* \* \*  
which sells watches under the brand names \* \* \*

no prices because \* \* \* reported

. 2/  
\* \* \* another large importer, did not report prices  
because of the unique manner in which it prices and sells its watches.  
\* \* \*

Each \* \* \*  
\* \* \*

For example, \* \* \*

\* \* \*  
\* \* \* . 3/  
did not report prices because the majority of its  
watches are \* \* \*

\* \* \*  
\* \* \* could not provide pricing information for

. 4/ In addition, \* \* \* only  
provided yearly prices.

Price trends for watches

Prices reported by U.S. producers/assemblers and U.S. importers for products 1 to 4 fluctuated slightly during the period of investigation (tables 9-1 through 9-5). However, these variations are not necessarily due to actual changes in the prices. These variations may be caused by shifts in the product mix of watches sold during a quarter because there

1/ Product descriptions were chosen in an attempt to conform to the HTSUS.

2/ The microns of gold in the watches for which price data was requested were considerably lower, i.e., 1 to 2 microns.

3/ Staff interview with \* \* \*

4/ \* \* \*

are different types of watches with slightly different prices that fit each product description. Indeed, the majority of those watch companies that reported prices stated that their prices have not changed during the past 3 years. 1/

Prices for sales to mass merchandisers for product 1 were reported by five U.S. assemblers--\* \* \*

\* \* \* . 2/ U.S. assemblers' prices ranged from \*\*\* to \*\*\* , with the majority in the range of \*\*\* to \*\*\* . Prices reported by \* \* \* and \* \* \* for sales to mass merchandisers were consistently lower than those of \* \* \* during the period (table 9-1).

\* \* \* prices for product 1 for sales to mass merchandisers correspond to sales in the amount of \*\*\* watches for its largest customer and \*\*\* watches to all mass merchandisers in 1988. \* \* \* sales of product 1 in 1988 amounted to \*\*\* for its yearly sales to its largest mass merchandiser and catalog house customers and \*\*\* for shipments to all mass merchandisers and catalog houses. 3/ \* \* \* prices for product 1 for its yearly sales to its largest mass merchandiser and catalog house customers and total sales to all of these types of customers correspond to sales in the amount of \*\*\* and \*\*\* watches in 1988. \* \* \* prices for all sales of product 1 to mass merchandisers represented sales of \*\*\* watches. 4/ \* \* \* prices for product 1 correspond to sales in the amount of \*\*\* and \*\*\* watches, respectively, for its yearly sales to its largest mass merchandiser in 1988 and total sales to all mass merchandisers.

During January 1986-December 1988, \* \* \* reported prices for sales of product 1 to catalog houses were consistently higher than those of \* \* \* and \* \* \* (table 9-2). \* \* \* prices for its yearly sales of product 1 to its largest catalog-house customer correspond to

---

1/ For example, \* \* \*

2/ \* \* \*

3/ \* \* \*

4/ \* \* \*

Table 9-1

F.o.b prices 1/ reported by U.S. assemblers of watches for sales to mass merchandisers of product, 1, by quarters, January 1986-December 1988. 2/

(Per unit)						
U.S. Assemblers						
Period	***	***	***	***	***	***
1986:						
Jan.-Mar...	***	***	***	***	***	***
Apr.-June..	***	***	***	***	***	***
July-Sept..	***	***	***	***	***	***
Oct.-Dec...	***	***	***	***	***	***
1987:						
Jan.-Mar...	***	***	***	***	***	***
Apr.-June..	***	***	***	***	***	***
July-Sept..	***	***	***	***	***	***
Oct.-Dec...	***	***	***	***	***	***
1988:						
Jan.-Mar...	***	***	***	***	***	***
Apr.-June..	***	***	***	***	***	***
July-Sept..	***	***	***	***	***	***
Oct.-Dec...	***	***	***	***	***	***

1/ These prices generally represent average f.o.b. prices. Watch companies reported total quantity and value of watches sold to their largest customer in each quarter; these were used to determine the average price of the different watches that fit the product description.

2/ \*\*\*

\*\*\*

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table 9-2

F.o.b 1/ prices reported by U.S. assemblers and importers of watches for sales to catalog houses of product 1, by quarters, January 1986-December 1988. 2/ 3/

Period	(Per unit)		
	U.S. Assemblers		
	* * *	* * *	* * *
1986:			
Jan.-Mar.....	***	***	***
Apr.-June.....	***	***	***
July-Sept.....	***	***	***
Oct.-Dec.....	***	***	***
1987:			
Jan.-Mar.....	***	***	***
Apr.-June.....	***	***	***
July-Sept.....	***	***	***
Oct.-Dec.....	***	***	***
1988:			
Jan.-Mar.....	***	***	***
Apr.-June.....	***	***	***
July-Sept.....	***	***	***
Oct.-Dec.....	***	***	***

1/ These prices generally represent average f.o.b. prices. Watch companies reported total quantity and value of watches sold to their largest customer in each quarter; these were used to determine the average price of the different watches that fit the product description.

2/

\* \* \* \* \*

3/

\* \* \* \* \*

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

sales in the amount of \*\*\* watches; sales to all catalog houses during 1988 correspond to sales in the amount of \*\*\* watches. \* \* \*

prices for sales of product 2 to catalog houses correspond to sales in the amount of \*\*\* watches sold in 1988. \* \* \* prices for product 1 for its 1988 sales to its largest catalog-house customer correspond to sales in the amount of \*\*\* watches, and total sales to all catalog houses correspond to sales in the amount of \*\*\* in 1988.

Three U.S. assemblers and one importer reported prices for sales of product 2 to mass merchandisers (table 9-3). In general, \* \* \* prices

were lower than those of the \* \* \*

\* \* \* prices for imported watches are for \* \* \*  
 , and these prices were higher than those reported by  
 \* \* \* during January 1986-December 1988.

\* \* \* prices for its yearly sales of product 2 to its largest mass merchandiser correspond to sales in the amount of \*\*\* watches; sales to all mass merchandisers during 1988 accounted for \*\*\* watches.  
 \* \* \* prices for product 2 for its sales to its largest mass merchandiser and total sales to all of these customers correspond to sales in the amount of \*\*\* and \*\*\* watches in 1988. 1/ In 1988, \* \* \* reported prices for product 2 for its yearly sales to its largest mass merchandiser and total sales to all of its mass merchandisers correspond to sales in the amount of \*\*\* and \*\*\* watches, respectively, in 1988.

\*\*\* U.S. assemblers, \* \* \* , reported prices for sales of product 2 to catalog houses (table 9-3). Prices reported by \* \* \* were higher than those of \* \* \* for all quarters. \* \* \* prices for its yearly sales of product 2 to its largest catalog-house customer correspond to sales in the amount of \*\*\* watches; sales to all catalog houses during 1988 accounted for \*\*\* watches. In 1988, \* \* \* reported prices for its yearly sales of product 2 to its largest catalog-house customer correspond to sales in the amount of \*\*\* watches and \*\*\* watches to all catalog houses.

For sales of product 3 to mass merchandisers, \* \* \* prices were the lowest by any supplier throughout the period (table 9-4). \* \* \* prices for product 3 were slightly lower than those of \* \* \* during 1986-88. \* \* \* prices for product 3 for its yearly sales to its largest mass merchandiser and total sales to these customers correspond to sales in the amount of \*\*\* and \*\*\* watches, respectively, in 1988. \* \* \* prices for its yearly sales to its largest mass merchandiser correspond to sales in the amount of \*\*\* watches; sales of product 3 to all mass merchandisers accounted for \*\*\* watches in 1988. 2/ \* \* \*

---

1/ \* \* \*

2/ \* \* \*

Table 9-3

F.o.b <sup>1/</sup> prices reported by U.S. assemblers of watches for sales to mass merchandisers and catalog houses of product 2, by quarters, January 1986-December 1988

Period	(Per unit)					
	Sales to mass Merchandisers 2/			Sales to catalog houses		
	U.S. assemblers			U.S. importer		
	***	***	***	***	***	***
1986:						
Jan.-Mar...	***	***	***	***	***	***
Apr.-June..	***	***	***	***	***	***
July Sept..	***	***	***	***	***	***
Oct.-Dec...	***	***	***	***	***	***
1987:						
Jan.-Mar...	***	***	***	***	***	***
Apr.-June..	***	***	***	***	***	***
July-Sept..	***	***	***	***	***	***
Oct.-Dec...	***	***	***	***	***	***
1988:						
Jan.-Mar...	***	***	***	***	***	***
Apr.-June..	***	***	***	***	***	***
July-Sept..	***	***	***	***	***	***
Oct.-Dec...	***	***	***	***	***	***

<sup>1/</sup> These prices generally represent average f.o.b. prices. Watch companies reported total quantity and value of watches sold to their largest customer in each quarter; these were used to determine the average price of the different watches that fit the product description.

<sup>2/</sup> \* \* \*

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.



Table 9-4

F.o.b prices 1/ reported by U.S. assemblers of watches for sales to mass merchandisers and catalog houses of product 3, by quarters, January 1986-December 1988. 2/

Period	(Per unit)					
	Sales to mass merchandisers			Sales to catalog houses		
	U.S. assemblers			U.S. assemblers		
	***	***	***	***	***	***
1986:						
Jan.-Mar....	***	***	***	***	***	***
Apr.-June...		***	***	***	***	***
July-Sept...	***	***	***	***	***	***
Oct.-Dec....	***	***	***	***	***	***
1987:						
Jan.-Mar....	***	***	***	***	***	***
Apr.-June...	***	***	***	***	***	***
July-Sept...	***	***	***	***	***	***
Oct.-Dec....	***	***	***	***	***	***
1988:						
Jan.-Mar....	***	***	***	***	***	***
Apr.-June...	***	***	***	***	***	***
July-Sept...	***	***	***	***	***	***
Oct.-Dec....	***	***	***	***	***	***

1/ These prices generally represent average f.o.b. prices. Watch companies reported total quantity and value of watches sold to their largest customer in each quarter; these were used to determine the average price of the different watches that fit the product description.

2/ Prices presented in table 1 for sales made by \*\*\*

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

reported prices for product 3 correspond to sales in the amount of \*\*\* watches for its sales to its largest mass merchandiser in 1988 and \*\*\* watches for sales to all mass merchandisers in that year.

\*\*\* U.S. assemblers, \*\*\* and \*\*\* (table 9-4) reported prices for sales of product 3 to catalog houses. \*\*\* prices were slightly higher than those reported by \*\*\* in all but one quarter. \*\*\* prices for product 3 for its yearly sales to its largest catalog-house customer and total sales to catalog houses correspond to sales in the amount of \*\*\* and \*\*\* watches in 1988. In 1988, \*\*\* sales of product 3 to its largest catalog house customer accounted for \*\*\* watches, with \*\*\* watches going to all catalog houses.

\*\*\* and \*\*\* importers, \* \* \* reported price data for sales of product 4 to mass merchandisers and catalog houses (table 9-5). \* \* \* prices for \* \* \* were higher than \* \* \* and \* \* \* prices in every quarter and higher than \* \* \* in 9 of 12 quarters. <sup>1/</sup> \* \* \* prices for product 4 were higher than \* \* \* prices and \* \* \* prices in all but two quarters. \* \* \* prices for product 4 for its yearly sales to its largest mass merchandiser customer and total sales to mass merchandisers correspond to sales in the amount of \*\*\* and \*\*\* watches in 1988. \* \* \* prices accounted for \*\*\* watches sold to its largest mass merchandisers and catalog house customers and \*\*\* to all of these customers in 1988. \* \* \* prices for product 4 represented sales of \*\*\* watches for its yearly sales to its largest mass merchandiser and \*\*\* to all mass merchandisers in 1988. \* \* \* prices for product 4 represented sales of \*\*\* watches for its sales to its largest department-store customers and \*\*\* watches to all department stores and distributors in 1988.

\* \* \* prices for sales to catalog houses were lower than those reported by \* \* \* in all but one quarter (table 9-5). \* \* \* prices for product 4 for its sales to its largest mass merchandiser customers and for total sales to all of its mass merchandiser customers correspond to sales in the amount of \*\*\* and \*\*\* watches in 1988. \* \* \* prices for product 4 for sales to catalog houses correspond to sales in the amount of \*\*\* watches for its yearly sales to its largest catalog-house customers and \*\*\* watches to all catalog houses in 1988.

#### Price trends for watch bands, straps, and bracelets

The Commission also requested price data from U.S. watch band, strap, and bracelet manufacturers. Data were requested for each firm's largest sale to mass merchandisers and catalog houses for each quarter during the period January 1986 to December 1988. The products for which prices were requested from U.S. watch band, strap, and bracelet manufacturers are listed below:

PRODUCT 1: Metal expansion watchband clad or plated with gold to a thickness ranging from 1-2 microns (nominal) that is not less than 16 kt.

PRODUCT 2: Metal expansion watchband, flash gold plated.

PRODUCT 3: Metal link, nonexpansion watchband clad or plated with gold to thickness ranging from 2 to 3 microns (nominal) that is not less than 16 kt.

PRODUCT 4: Nonembossed calfskin watchband with finished edge with gold-plated (less than 1 micron) or base-metal buckle.

Table 9-5  
 F.o.b. prices <sup>1/</sup> reported by U.S. assemblers and importers of watches for sales to mass merchandisers and catalog houses of product 4, by quarters, January 1986-December 1988.

Period	(Per unit)					
	Sales to mass merchandisers				Sales to catalog houses	
	U.S. Assemblers		U.S. Importers		U.S. Assembler	U.S. Importer
	* * *	* * *	* * *	* * *	* * *	* * *
1986:						
Jan.-Mar....	***	***	***	***	***	***
Apr.-June...	***	***	***	***	***	***
July-Sept...	***	***	***	***	***	***
Oct.-Dec....	***	***	***	***	***	***
1987:						
Jan.-Mar....	***	***	***	***	***	***
Apr.-June...	***	***	***	***	***	***
July-Sept...	***	***	***	***	***	***
Oct.-dec....	***	***	***	***	***	***
1988:						
Jan.-Mar....	***	***	***	***	***	***
Apr.-June...	***	***	***	***	***	***
July-Sept...	***	***	***	***	***	***
Oct.-Dec....	***	***	***	***	***	***

<sup>1/</sup> These prices generally represent average f.o.b. prices. Watch companies reported total quantity and value of watches sold to their largest customer in each quarter; these were used to determine the average price of the different watches that fit the product description.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Questionnaire responses with usable data were received from \*\*\* watch-band manufacturers, \* \* \*. There has been \* \* \* of the four products for which price data were requested during the period of investigation (table 9-6).

\* \* \* was \* \* \* to report prices for products 1 and 2; these prices were \* \* \*. \* \* \* sold \*\*\* units of product 1 to mass merchandisers and \*\*\* units to catalog houses in 1988. Prices reported by \* \* \* for product 2 correspond to sales in the amount of \*\*\* units to mass merchandisers and \*\*\* to catalog house in 1988.

Table 9-6

F.o.b prices of products 1-4 as reported by U.S. watch band, strap, and bracelet manufacturers for sales to mass merchandisers, by quarters, January 1986-December 1988 1/

Period	Product 1	Product 2	Product 3	Product 4		
	***	***	***	***	***	***
				2/	3/	4/
1986:						
Jan.-Mar...	***	***	***	***	***	***
Apr.-June..	***	***	***	***	***	***
July-Sept..	***	***	***	***	***	***
Oct.-Dec...	***	***	***	***	***	***
1987:						
Jan.-Mar...	***	***	***	***	***	***
Apr.-June..	***	***	***	***	***	***
July-Sept..	***	***	***	***	***	***
Oct.-Dec...	***	***	***	***	***	***
1988:						
Jan.-Mar...	***	***	***	***	***	***
Apr.-June..	***	***	***	***	***	***
July-Sept..	***	***	***	***	***	***
Oct.-Dec...	***	***	***	***	***	***

1/ Prices reported by \*\*\*

\*\*\*

2/ \*\*\*

\*\*\*

3/ \*\*\*

4/ \*\*\*

\*\*\*

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

\*\*\* and \*\*\* reported prices for sales of product 3. Neither \*\*\* nor \*\*\*; \*\*\* prices were \*\*\* for sales to mass merchandisers and to catalog houses, and \*\*\* prices were \*\*\* to distributors and \*\*\* to watch companies. \*\*\* sold \*\*\* units of product 3 to mass merchandisers and \*\*\* units to catalog houses. \*\*\* prices for product 3 represent sales of \*\*\* units to its largest distributor and \*\*\* units to a watch company in 1988.

\*\*\* watchband manufacturers reported prices for sales of product 4;  
 \* \* \* prices were \* \* \* during the period, and \* \* \*  
 . \* \* \* prices are \* \* \*  
 \* \* \* sold \*\*\* watchbands to mass  
 merchandisers and \*\*\* to catalog houses in 1988. \* \* \* sold \*\*\*  
 watchbands to \* \* \* in 1988.

#### Exchange Rates

Quarterly data reported by the International Monetary Fund indicate that during the period January 1986 through December 1988 the nominal value of the Hong Kong dollar and the Philippine peso depreciated 9.9 percent and 5.9 percent, respectively, against the U.S. dollar (tables 9-7 and 9-8). 1/ The nominal value of the Japanese yen, the Swiss franc, and the Thai baht appreciated 50.0 percent, 32.2 percent, and 5.1 percent relative to the U.S. dollar during the period January 1986-December 1988. 2/ Adjusted for relative movements in producer price indexes, the real value of the Hong Kong dollar, the Japanese yen, the Philippine peso, the Swiss franc, and the Thai baht appreciated 8.5, 28.0, 9.4, 23.2, and 14.0 percent, respectively, against the U.S. dollar as of the fourth quarter of 1988. 3/

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1/ Data for Hong Kong are for the period January 1986 through June 1988.

2/ Data for the last quarter reported for Switzerland are for October and November 1988 only.

3/ Data for Hong Kong are for the period January 1986-March 1988.

Table 9-7

Nominal exchange-rate equivalents of the Hong Kong dollar and the Japanese yen in U.S. dollars, real-exchange-rate equivalents. 1/ and producer price indexes in Hong Kong and Japan, 2/ indexed by quarters, January 1986-December 1988

Period	Hong Kong				Japan		
	U.S.	Pro-	Nominal-	Real-	Pro-	Nominal-	Real-
	Price	ducer	exchange-	exchange-	ducer	exchange-	exchange-
	Index	Price	rate	rate	Price	rate	rate
		Index	index	index <u>3/</u>	Index	index	index <u>3/</u>
			US dollars/HK dollar			US dollars/Yen	
1986:							
Jan.-Mar...	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Apr.-June..	98.1	99.5	98.4	99.8	96.3	110.4	108.4
July-Sept..	97.6	102.0	112.8	117.9	93.8	120.6	115.8
Oct.-Dec...	98.0	104.8	108.3	115.8	92.8	117.2	111.0
1987:							
Jan.-Mar...	99.1	106.5	104.5	112.3	92.2	122.7	114.1
Apr.-June..	100.7	108.0	98.2	105.3	91.4	131.7	119.6
July-Sept..	101.9	109.7	98.2	105.8	92.6	127.9	116.3
Oct.-Dec...	102.3	111.7	99.6	108.8	92.3	138.4	124.8
1988:							
Jan.-Mar...	102.9	114.4	97.5	108.5	91.2	146.8	130.2
Apr.-June..	104.8	<u>4/</u>	90.1	<u>4/</u>	90.9	149.6	129.9
July-Sept..	106.2	<u>4/</u>	<u>4/</u>	<u>4/</u>	91.8	140.5	121.5
Oct.-Dec...	106.7	<u>4/</u>	<u>4/</u>	<u>4/</u>	90.0	150.0	128.0

1/ Exchange rates expressed in U.S. dollars per unit of foreign currency.

2/ Producer price indexes--intended to measure final product prices--are based on average quarterly indexes presented in line 63 of the International Financial Statistics.

3/ The indexed real exchange rate represents the nominal exchange rate adjusted for relative movements in producer price indexes in the United States and the respective foreign country. Producer prices in the United State increased 6.7 percent between January 1986 and December 1988, compared with an 14.4 increase for Hong Kong as of March 1988, and a 9.0 percent decrease in Japan as of December 1988.

4/ Not available.

Note.--January-March 1986=100.

Source: International Monetary Fund, International Financial Statistics, March 1989.

Table 9-8  
Exchange rates: 1/ Nominal exchange-rate equivalents of selected currencies in U.S. dollars, real exchange-rate equivalents, and producer price indicators in specified countries, 2/ indexed by quarters, January 1986-December 1988

Period	U.S.			Philippines			Switzerland			Thailand		
	Pro-ducer Price Index	Nominal exchange rate index	Real exchange rate index 3/	Pro-ducer Price Index	Nominal exchange rate index	Real exchange rate index 3/	Pro-ducer Price Index	Nominal exchange rate index	Real exchange rate index 3/	Pro-ducer Price Index	Nominal exchange rate index	Real exchange rate index 3/
	—US dollars/peso—			—US dollars/franc—			—US dollars/baht—					
1986:												
Jan.-Mar.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Apr.-June....	98.1	96.7	96.6	98.4	105.9	106.3	98.9	100.5	101.4	99.2	101.4	103.1
July-Sept....	97.6	97.1	97.7	97.3	117.2	116.8	99.5	101.2	102.7	99.5	101.2	102.7
Oct.-Dec.....	98.0	100.7	100.9	96.2	118.8	116.6	99.9	102.5	103.3	99.9	102.5	103.3
1987:												
Jan.-Mar.....	99.1	101.4	100.2	95.9	127.9	123.8	103.5	103.2	106.0	103.5	103.2	106.0
Apr.-June....	100.7	103.1	100.5	95.7	132.6	126.0	107.4	102.5	108.1	107.4	102.5	108.1
July-Sept....	101.9	107.3	103.3	96.0	129.6	122.2	110.5	104.0	112.2	110.5	104.0	112.2
Oct.-Dec.....	102.3	114.7	108.4	96.3	141.0	132.7	111.8	105.0	114.0	111.8	105.0	114.0
1988:												
Jan.-Mar.....	102.8	118.0	110.2	96.8	143.8	135.4	113.4	105.2	113.9	113.4	105.2	113.9
Apr.-June....	104.8	120.1	109.8	97.9	139.4	130.2	114.9	103.8	112.3	114.9	103.8	112.3
July-Sept....	106.2	122.0	109.4	98.5	126.4	117.2	115.7	105.1	114.0	115.7	105.1	114.0
Oct.-Dec.....	106.7	4/	4/	5/	99.5	132.2	123.2					

1/ Exchange rates expressed in U.S. dollars per unit of foreign currency.

2/ Producer price indicators—intended to measure final product prices—are based on average quarterly indexes presented in line 63 of the International Financial Statistics.

3/ The indexed real exchange rate represents the nominal exchange rate adjusted for relative movements in producer price indexes in the United States and the respective foreign country. Producer prices in the United States increased 6.7 percent between January 1986 and December 1988 compared with a 15.7-percent increase in the Philippines, a 0.5-percent decrease in Switzerland, and a 15.7-percent increase in Thailand as of July-December 1988, the last period for which its producer price index is reported.

4/ Not available.

5/ Data are for October and November only.

Source: International Monetary Fund, International Financial Statistics, March 1989.

Note.—January-March 1986=100.0.





CHAPTER 10. PROBABLE ECONOMIC EFFECTS

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APPENDIX A

REQUEST LETTER FROM THE UNITED STATES TRADE REPRESENTATIVE

October 17, 1988

93 OCT 19

# PUBLIC INSPECTION

OFFICE OF THE SECRETARY  
DOCKET/USITC

<p><b>1470</b></p> <p>Case of the Secretary Int'l Trade Commission</p>	OFFICE OF THE CHAIRMAN
--	------------------------

89 OCT 18 A10:28

RECORDED

The Honorable Anne Brunsdale  
Acting Chairman  
United States International Trade  
Commission  
500 E Street, S.W.  
Washington, D.C. 20436

Dear Acting Chairman Brunsdale:

The Trade Policy Staff Committee has recently accepted for review a petition submitted on behalf of Timex Corporation, Waterbury, Connecticut, for the addition of watches to the list of articles eligible for duty-free treatment under the Generalized System of Preferences (GSP). The Committee has decided to incorporate this petition, to the extent feasible, into the 1988 annual review of the GSP, the results of which will be announced in the spring of 1989 and become effective July 1, 1989.

In accordance with sections 503(a) and 131(a) of the Trade Act of 1974 (the Act), and pursuant to the authority of the President delegated to the United States Trade Representative (USTR) by sections 4(c) and 8(c) and (d) of Executive Order 11846 of March 31, 1975, as amended, I hereby notify the International Trade Commission that watches provided for in headings 9101 and 9102 of the Harmonized Tariff Schedule of the United States (HTS) are being considered for designation as eligible articles for purposes of the GSP, as set forth in Title V of the Act.

Pursuant to sections 503(a) and 131(A) of the Act, I request that the Commission provide its advice, with respect to the watches provided for in each 8-digit subheading under HTS heading 9101 and 9102, as to the probable economic effect on U.S. industries producing or assembling watches and U.S. industries producing or assembling watch bands, straps or bracelets and on U.S. consumers. Separate advice should be provided for the watch manufacturing and assembly industry and the watch band, strap and bracelet manufacturing and assembly industry and for each geographic area (the United States and U.S. insular possessions).

In providing its advice, I request the Commission to assume that benefits of the GSP would not apply to imports that would be excluded from receiving such benefits by virtue of the "competitive need" limits specified in section 504(c) of the Act.



Honorable Anne Brunsdale  
Page Two

In order to form a basis for the injury determination required by section 503(c)(1)(B) of the Act, I request that the Commission provide, to the degree possible, data on the following factors for the most recent three year period for each of the aforementioned U.S. industries: annual production, capacity, capacity utilization, domestic shipments, exports, inventories, employment, wages and financial experience (including prices). In addition, I request that data be provided for the most recent three year period, to the extent possible, on the following factors for current and potential foreign producers: current and potential production capacity and capacity utilization, domestic shipments, and exports to U.S. and other markets.

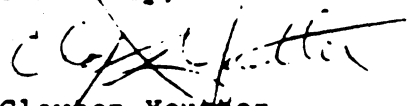
Section 504(d) of the Act exempts from one of the competitive need limits in section 504(c) articles for which no like or directly competitive article was being produced in the United States on January 3, 1985. Accordingly, pursuant to the authority of section 332(g) of the Tariff Act of 1930, I request that the Commission provide advice with respect to whether articles like or directly competitive with the watches described in each 8-digit subheading of headings 9101 and 9102 of the HTS were being produced in the United States on January 3, 1985.

The Commission is requested to provide the advice requested herein as soon as possible, but not later than 6 months after receipt of this request, in accordance with the provisions of the Act.

In accordance with USTR policy, I direct you to mark as "confidential" such portions of the Commission's report and its working papers as my Office will identify in a classification guide. Information Security Oversight Office Directive No. 1, section 2001.21 (implementing Executive Order 12356, sections 2.1) requires that classification guides identify or categorize the elements of information which require protection. Accordingly, I request that you provide my Office with an outline of this report as soon as possible. Based on this outline and my Office's knowledge of the information to be covered in the report, a USTR official with original classification authority will provide detailed instructions.

The Commission's assistance in this matter is greatly appreciated.

Sincerely,

  
Clayton Yeutter

CY:ldl

THE UNITED STATES TRADE REPRESENTATIVE  
Executive Office of the President  
Washington, D.C. 20506

January 31, 1989

The Honorable Anne Brunsdale  
Acting Chairman  
U.S. International Trade Commission  
500 E Street, S.W.  
Washington, D.C. 20436

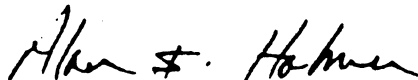
Dear Chairman Brunsdale:

On October 17, Ambassador Yeutter wrote to you requesting the Commission's advice on the probable economic effects of adding watches to the list of articles eligible for duty-free treatment under the Generalized System of Preferences, as requested in a petition submitted on behalf of Timex Corporation. Shortly after the Commission's institution of an investigation of this subject, Commission and USTR staffs met and agreed on the specific information and advice such an investigation would provide.

This letter is to confirm this agreement and to clarify that we are seeking information and analysis from the Commission, to the extent possible, on annual production, capacity, capacity utilization, domestic shipments, exports, inventories, employment, wages, and financial experience; the potential decline in output, market share, profits, productivity and return on investment; the potential negative effects on cash flow, and ability to raise capital and investment; any rapid increases in import penetration and the likelihood that such penetration will rise to an injurious level; factors affecting domestic prices; and any other factors the Commission deems relevant.

We appreciate the efforts to respond effectively to this unique request, and look forward to receiving your report in April.

Sincerely,



Alan F. Holmer  
Acting

APPENDIX B

HTSUSA ITEM NUMBERS FOR WATCHES AND WATCH BANDS, STRAPS, AND BRACELETS

## HARMONIZED TARIFF SCHEDULE of the United States

Annotated for Statistical Reporting Purposes

## CHAPTER 91

## CLOCKS AND WATCHES AND PARTS THEREOF

XVIII  
91-1**Notes**

1. This chapter does not cover:
  - (a) Clock or watch glasses or weights (classified according to their constituent material);
  - (b) Watch chains (heading 7113 or 7117, as the case may be);
  - (c) Parts of general use defined in note 2 to section XV, of base metal (section XV), or similar goods of plastics (chapter 39) or of precious metal or metal clad with precious metal (generally heading 7115); clock or watch springs are, however, to be classified as clock or watch parts (heading 9114);
  - (d) Bearing balls (heading 7328 or 8482, as the case may be);
  - (e) Articles of heading 8412 constructed to work without an escapement;
  - (f) Ball bearings (heading 8482); or
  - (g) Articles of chapter 85, not yet assembled together or with other components into watch or clock movements or into articles suitable for use solely or principally as parts of such movements (chapter 85).
2. Heading 9101 covers only watches with case wholly of precious metal or of metal clad with precious metal, or of the same materials combined with natural or cultured pearls, or precious or semiprecious stones (natural, synthetic or reconstructed) of headings 7101 to 7104. Watches with case of base metal inlaid with precious metal fall in heading 9102.
3. For the purposes of this chapter, the expression "watch movements" means devices regulated by a balance wheel and hairspring, quartz crystal or any other system capable of determining intervals of time, with a display or a system to which a mechanical display can be incorporated. Such watch movements shall not exceed 12 mm in thickness and 50 mm in width, length or diameter.
4. Except as provided in note 1, movements and other parts suitable for use both in clocks or watches and in other articles (for example, precision instruments) are to be classified in this chapter.

**Additional U.S. Notes**

1. For the purposes of this chapter:
  - (a) The term "watches" embraces timepieces (including timepieces having special features, such as chronographs, calendar watches and watches designed for use in skin diving) of a kind for wearing or carrying on the person whether or not the movement contained therein conforms to the definition of "watch movements" in note 3, above. Timepieces incorporating a stand, however simple, are not classifiable as watches.
  - (b) The term "cases" embraces inner and outer cases, containers and housings for movements, together with parts or pieces, such as, but not limited to, rings, feet, posts, bases and outer frames, and any auxiliary or incidental features, which (with appropriate movements) serve to complete the watches, clocks, time switches and other apparatus provided for in this chapter.
  - (c) The term "jewels" includes substitutes for jewels.
  - (d) The term "clock movements" means devices regulated by a balance wheel and hairspring, quartz crystal or any other system capable of determining intervals of time, with a display or a system to which a mechanical display can be incorporated. Such clock movements shall either exceed 12 mm in thickness or 50 mm in width, length or diameter, or both.
  - (e) The term "complete watch or clock movements, unassembled or partly assembled (movement sets)" refers to sets which consist of all parts necessary to assemble a watch or clock movement, except that for movements having mechanical displays the set may or may not include the dial and hands.
  - (f) The term "incomplete watch or clock movements, assembled" refers to:
    - (i) Mechanical movements which are mounted but lack certain parts other than the dial, hands or winding spindle (e.g., the escapement or the barrel bridge);
    - (ii) Battery powered movements with mechanical displays which are mounted but lack certain parts other than the dial, hands, setting spindle or battery (e.g., the motor); or
    - (iii) Other movements intended to operate with opto-electronic displays which are mounted but lack certain parts other than the battery (e.g., the display).
  - (g) The term "rough watch or clock movements" refers to sets of unassembled parts for the assembly of watch or clock movements of a kind constructed to work with an escapement. These sets do not include escapement, balance wheel and hairspring or other regulating device, mainspring, dial or hands; they therefore consist mainly of the base plate (and any additional plates), bridges, train, motion work, winding and setting mechanism and any additional mechanisms such as automatic winding device, calendar mechanisms, chronograph, alarm, etc. These sets may be entered with or without a barrel. Each element, intended for use as it is, may itself consist of one simple piece or of several parts fitted inseparably together, but such elements may not themselves be assembled to each other.

**HARMONIZED TARIFF SCHEDULE of the United States**  
*Annotated for Statistical Reporting Purposes*

XVIII  
91-2

2. Watch straps, watch bands and watch bracelets entered with wrist watches and of a kind normally sold therewith, whether or not attached, are classified with the watch in heading 9101 or 9102. Otherwise, watch straps, watch bands and watch bracelets shall be classified in heading 9113.
3. Batteries entered with battery powered watches or clocks, or with the complete, assembled movements thereof, and intended for use therewith, are classifiable under the provision for the watch, clock or movement. Similarly, batteries entered with a complete watch or clock movement, unassembled or partly assembled (movement set) or with an incomplete watch or clock movement, assembled, and intended for use therewith, are classifiable under the provision for such movement. Batteries are otherwise classifiable in heading 8506 or 8507, whether or not suitable for use with watches or clocks.
4. **Special Marking Requirements:** With the following exceptions, any movement or case provided for in this chapter, whether imported separately or attached to an article provided for in this chapter, shall not be permitted to be entered unless conspicuously and indelibly marked by cutting, die-sinking, engraving, stamping or mold-marking (either indented or raised), as specified below. Movements with opto-electronic display only and cases designed for use therewith, whether entered as separate articles or as components of assembled watches or clocks, are excepted from the marking requirements set forth in this note. The special marking requirements are as follows:
  - (a) Watch movements shall be marked on one or more of the bridges or top plates to show:
    - (i) the name of the country of manufacture;
    - (ii) the name of the manufacturer or purchaser; and
    - (iii) in words, the number of jewels, if any, serving a mechanical purpose as frictional bearings.
  - (b) Clock movements shall be marked on the most visible part of the front or back plate to show:
    - (i) the name of the country of manufacture;
    - (ii) the name of the manufacturer or purchaser; and
    - (iii) the number of jewels, if any.
  - (c) Watch cases shall be marked on the inside or outside of the back to show:
    - (i) the name of the country of manufacture; and
    - (ii) the name of the manufacturer or purchaser.
  - (d) Clock cases provided for in this chapter shall be marked on the most visible part of the outside of the back to show the name of the country of manufacture.
5. **Products of Insular Possessions**
  - (a) Except as provided in paragraphs (b) through (j) of this note, any article provided for in this chapter which is the product of the Virgin Islands, Guam and American Samoa (hereinafter referred to as the "insular possessions") and which contains any foreign component shall be subject to duty:
    - (i) At the rates set forth in column 1, if the countries of origin of more than 50 percent in value of the foreign components are countries to products of which column 1 rates apply; and
    - (ii) At the rates set forth in column 2, if the countries of origin of 50 percent or more in value of the foreign components are countries to products of which column 2 rates apply.
  - (b) Watch movements and watches (including watch straps, watch bands, and watch bracelets assembled onto watches) that are produced or manufactured in a United States insular possession which contain any foreign component may be admitted free of duty without regard to the value of the foreign materials such watches contain if they conform with the provisions of this note, but the total quantity of such articles entered free of duty shall not exceed the amounts established by or pursuant to paragraph (d) of this note.
  - (c) Notwithstanding the provisions of paragraph (b) of this note, the provisions of this note and the benefits thereunder shall not apply to any article containing any material which is the product of any country with respect to which column 2 rates of duty apply.
  - (d)
    - (i) In calendar year 1983 the total quantity of such articles which may be entered free of duty shall not exceed 4,800,000 units.
    - (ii) In subsequent calendar years, the Secretary of Commerce and the Secretary of the Interior (hereinafter referred to as the "Secretaries"), acting jointly, shall establish a limit on the quantity which may be entered free of duty during the calendar year, and shall consider whether such limit is in the best interest of the insular possessions and not inconsistent with domestic or international trade policy considerations. The quantity the Secretaries establish in any calendar year under this paragraph shall not--
      - (A) exceed 10,000,000 units or one-ninth of apparent domestic consumption (as determined by the International Trade Commission pursuant to paragraph (e) of this note), whichever is greater;
      - (B) be decreased by more than 10 percent of the quantity established for the immediately preceding calendar year; and

**HARMONIZED TARIFF SCHEDULE of the United States**  
*Annotated for Statistical Reporting Purposes*

XVIII  
91-3

- (C) be increased to more than 7,000,000 units or by more than 20 percent of the quantity established for the immediately preceding calendar year, whichever is greater.
- (e) On or before April 1 of each calendar year (beginning with the first year in which watch imports from the United States insular possessions exceed 9,000,000 units), the International Trade Commission shall determine the apparent United States consumption of watches and watch movements during the preceding calendar year, shall report such determination to the Secretaries, and shall publish such determination in the Federal Register.
- (f) (i) In calendar year 1983, not more than 3,000,000 units of the total quantity of articles described in paragraph (d) which may be entered free of duty shall be the product of the Virgin Islands, not more than 1,200,000 units shall be the product of Guam, and not more than 800,000 units shall be the product of American Samoa.
- (ii) For calendar year 1984 and thereafter, the Secretaries may establish new territorial shares of the total amount which may be entered free of duty, taking into account the capacity of each territory to produce and ship its assigned amounts. A territory's share in any year shall not be reduced:
- (A) by more than 200,000 units in calendar year 1984 or 1985; and
- (B) by more than 500,000 units in calendar year 1986 or thereafter, except that no territorial share shall be established at less than 500,000 units.
- (g) The Secretaries, acting jointly, shall allocate the calendar year duty exemptions provided by paragraphs (b), (d) and (f) of this note on a fair and equitable basis among producers located in the insular possessions, and shall issue appropriate licenses thereof. Allocations made by the Secretaries shall be final. In making the allocations, the Secretaries shall consider the potential impact of territorial production on domestic production of like articles and shall establish allocation criteria (including minimum assembly requirements) that will reasonably maximize the net amount of direct economic benefits to the insular possessions.
- (h) (i) In the case of each calendar year beginning after December 31, 1982, and before January 1, 1985, the Secretaries, acting jointly, shall:
- (A) verify the wages paid by each producer to permanent residents of the insular possessions during the preceding calendar year; and
- (B) issue to each producer (not later than March 1 of such year) a certificate for the applicable amount.
- (ii) For purposes of subparagraph (i), except as provided in subparagraphs (iii) and (iv), the term "applicable amount" means an amount equal to the sum of:
- (A) 90 percent of the producer's creditable wages on the assembly during the preceding calendar year of the first 300,000 units; plus
- (B) the applicable graduated declining percentage (determined each year by the Secretaries) of the producer's creditable wages on the assembly during the preceding calendar year of units in excess of 300,000 but not in excess of 750,000.
- (iii) The aggregate amount of all certificates which are issued during any calendar year shall not exceed an amount which bears the same ratio to \$5,000,000 as:
- (A) the gross national product of the United States (as determined by the Secretary of Commerce) for the preceding calendar year, bears to:
- (B) the gross national product of the United States (as so determined) for 1982.
- (iv) (A) Subject to the provision of clause (B), if the amount of the certificates issued under subparagraph (i) would exceed the limit under subparagraph (iii), the applicable amount of each producer's certificate shall be reduced proportionately by the amount of such excess.
- (B) The applicable amount of any producer's certificate shall not be reduced below the amount determined under subparagraph (ii)(A), except that if the application of this clause would result in the aggregate amount of the certificates exceeding the limit under subparagraph (iii), the applicable amount of each producer's certificate shall again be reduced proportionately by the amount of the excess determined after application of this clause.
- (v) Any certificate issued under subparagraph (i) shall entitle the certificate holder to secure the refund of duties equal to the face value of the certificate on watches, watch movements and, with the exception of discrete cases, parts therefor imported into the customs territory of the United States by the certificate holder. Such refunds shall be made under regulations issued by the Treasury Department. Not more than 5 percent of such refunds may be retained as a reimbursement to the Customs Service for the administrative costs of making the refunds.
- (vi) Any certificate issued under subparagraph (i), or any portion thereof, shall be negotiable.
- (vii) Any certificate issued under subparagraph (i) shall expire 1 year from the date of issuance and may be applied against duties on imports of watches and watch movements the entry of which were made within 2 years prior to the date of issuance of the certificate.
- (viii) For purposes of determining the applicable amount of any producer's certificate to be issued during calendar year 1983, the greater of:
- (A) the producer's creditable wages for calendar year 1982; or
- (B) 60 percent of the producer's creditable wages for calendar year 1981 shall be considered the creditable wages for calendar year 1982.

HARMONIZED TARIFF SCHEDULE of the United States  
Annotated for Statistical Reporting Purposes

XVIII  
91-4

- (1j) the Secretaries are authorized to issue such regulations, not inconsistent with the provisions of this note, as they determine necessary to carry out their respective duties under this note. Such regulations shall include minimum assembly requirements. Any duty-free entry determined not to have been made in accordance with applicable regulations shall be subject to the applicable civil remedies and criminal sanctions, and, in addition, the Secretaries may cancel or restrict the license or certificate of any manufacturer found in willful violation of the regulations.

U.S. Statistical Notes

1. The calculation of duties on various watches, clocks, watch movements and clock movements requires that these articles be constructively separated into their component parts and each component separately valued. The individual components shall be separately reported under the statistical suffixes show below. In each instance the sum of the values of the individual components shall be equal to the total value of the article. In those instances where the components of an article are to be separately reported under the following reporting scheme, the entry should include all the individually named components even if not included in the shipment. In such instance the entered quantity and value would be zero. For example, entry of a battery powered watch, imported without a battery, classifiable under subheading 9101.11.40 would include a line for the statistical reporting number for the battery (9101.11.4040) with the quantity and value shown as zero. To determine the proper statistical reporting number(s) for the subheadings enumerated below, the importer shall combine the applicable 8-digit subheading number with the applicable statistical suffix found below. To the resulting statistical reporting numbers the importer shall append the proper check digit from the list in U.S. statistical note 2 below.

- (a) The statistical suffixes for subheadings 9101.11.40, 9101.11.60, 9101.19.40, 9101.19.60, 9102.11.10, 9102.11.25, 9102.11.30, 9102.11.45, 9102.11.50, 9102.11.65, 9102.11.70, 9102.11.95, 9102.19.20, 9102.19.40, 9102.19.60 and 9102.19.80 shall be:

Stat. Suffix	Article Description	Unit of Quantity
10	Movement	No.
20	Case	No.
30	Strap, band or bracelet	No.
40	Battery	No.

- (b) The statistical suffixes for subheadings 9101.12.00 and 9102.12.00 shall be:

Stat. Suffix	Article Description	Unit of Quantity
10	Movement, case, and strap, band or bracelet	No. of movements
20	Battery	No.

- (c) The statistical suffixes for subheadings 9101.21.40, 9101.21.60, 9101.29.10, 9101.29.20, 9101.29.30, 9101.29.40, 9101.29.50, 9101.29.60, 9102.21.10, 9102.21.25, 9102.21.30, 9102.21.50, 9102.21.70, 9102.21.90, 9102.29.05, 9102.29.10, 9102.29.15, 9102.29.20, 9102.29.25, 9102.29.30, 9102.29.35, 9102.29.40, 9102.29.45, 9102.29.50, 9102.29.55 and 9102.29.60 shall be:

Stat. Suffix	Article Description	Unit of Quantity
10	Movement	No.
20	Case	No.
30	Strap, band or bracelet	No.

- (d) The statistical suffixes for subheadings 9101.91.20, 9102.91.20, 9104.00.05, 9104.00.10, 9104.00.25, 9104.00.30 and 9104.00.45 shall be:

Stat. Suffix	Article Description	Unit of Quantity
10	Movement and case	No. of movements
20	Battery	No.

- (e) The statistical suffixes for subheadings 9101.91.40, 9101.91.60, 9102.91.40, 9102.91.60 and 9104.00.50 shall be:

Stat. Suffix	Article Description	Unit of Quantity
10	Movement	No.
20	Case	No.
30	Battery	No.

HARMONIZED TARIFF SCHEDULE of the United States  
Annotated for Statistical Reporting Purposes

XVIII  
91-5

(f) The statistical suffixes for subheadings 9101.99.20, 9101.99.40, 9101.99.60, 9101.99.80, 9102.99.20, 9102.99.40, 9102.99.60, 9102.99.80, 9104.00.60, 9105.29.10, 9105.29.20, 9105.99.20 and 9105.99.30 shall be:

Stat. Suf. Fix	Article Description	Unit of Quantity
10	Movement.....	No.
20	Case.....	No.

(g) The statistical suffixes for subheadings 9103.10.20, 9103.10.40 and 9103.10.80 shall be:

Stat. Suf. Fix	Article Description	Unit of Quantity
10	Travel clocks: Movement and case.....	No. of movements:
20	Battery.....	No.
30	Other clocks: Movement and case.....	No. of movements:
40	Battery.....	No.

(h) The statistical suffixes for subheadings 9103.90.00, 9105.19.10 and 9105.19.20 shall be:

Stat. Suf. Fix	Article Description	Unit of Quantity
10	Travel clocks: Movement.....	No.
20	Case.....	No.
30	Other clocks: Movement.....	No.
40	Case.....	No.

(i) The statistical suffixes for subheading 9105.11.40 shall be:

Stat. Suf. Fix	Article Description	Unit of Quantity
10	Clocks capable of operating only on AC power.....	No.
	Other:	
20	Travel clocks: Movement and case.....	No. of movements:
30	Battery.....	No.
40	Other clocks: Movement and case.....	No. of movements:
50	Battery.....	No.

(k) The statistical suffixes for subheading 9105.11.80 shall be:

Stat. Suf. Fix	Article Description	Unit of Quantity
10	Clocks capable of operating only on AC power.....	No.
	Other:	
20	Travel clocks: Movement.....	No.
30	Case.....	No.
40	Battery.....	No.
	Other clocks:	
50	Movement.....	No.
60	Case.....	No.
70	Battery.....	No.



HARMONIZED TARIFF SCHEDULE of the United States

Annotated for Statistical Reporting Purposes

XVIII  
91-6

(l) The statistical suffixes for subheading 9105.19.30 shall be:

Stat. Suffix	Article Description	Unit of Quantity
10	Travel clocks: Movement..... dutiable jewels...	No. v
20	Case.....	No.
30	Other clocks: Movement..... dutiable jewels...	No. v
40	Case.....	No.

(m) The statistical suffixes for subheadings 9105.21.40, 9105.21.80 and 9105.91.40 shall be:

Stat. Suffix	Article Description	Unit of Quantity
10	Clocks capable of operating only on AC power.....	No.
20	Other clocks: Movement and case.....	No. of movements
30	Battery.....	No.

(n) The statistical suffixes for subheadings 9105.29.30 and 9105.99.40 shall be:

Stat. Suffix	Article Description	Unit of Quantity
10	Movement..... dutiable jewels...	No. v
20	Case.....	No.

(o) The statistical suffixes for subheading 9105.91.80 shall be:

Stat. Suffix	Article Description	Unit of Quantity
10	Clocks capable of operating only on AC power: Movement.....	No.
20	Case.....	No.
30	Other clocks: Movement.....	No.
40	Case.....	No.
50	Battery.....	No.

(p) The statistical suffixes for subheadings 9108.11.40, 9108.11.80, 9108.12.00, 9108.19.40 and 9108.19.80 shall be:

Stat. Suffix	Article Description	Unit of Quantity
10	Movement.....	No.
20	Battery.....	No.

(q) The statistical suffixes for subheadings 9109.11.10, 9109.11.20, 9109.11.40, 9109.11.60, 9109.19.10, 9109.19.20, 9109.19.40 and 9109.19.60 shall be:

Stat. Suffix	Article Description	Unit of Quantity
10	Clock movements capable of operating only on AC power.....	No.
20	Other clocks movements: Movement.....	No.
30	Battery.....	No.



HARMONIZED TARIFF SCHEDULE of the United States

Annotated for Statistical Reporting Purposes

XVIII  
91-8

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty		2
				General	Special	
9101		Wrist watches, pocket watches and other watches, including stop watches, with case of precious metal or of metal clad with precious metal: Wrist watches, battery powered, whether or not incorporating a stop watch facility:				
9101.11 9101.11.40	1/	With mechanical display only: Having no jewels or only one jewel in the movement.....	1/	51¢ each + 6.25% on the case and strap, band or bracelet + 5.3% on the battery	Free (E,IL) 45.9¢ each + 5.6% on the case and strap, band or bracelet + 4.7 % on the battery (CA)	\$2.25 each + 45% on the case + 80% on strap, band or bracelet + 35% on the battery
9101.11.80	1/	Other.....	1/	87¢ each + 6.25% on the case and strap, band or bracelet + 5.3% on the battery	Free (E,IL) 78.3¢ each + 5.6% on the case and strap, band or bracelet + 4.7 % on the battery (CA)	\$3.25 each + 45% on the case + 80% on the strap, band, or bracelet + 35% on the battery
9101.12.00	1/	With opto-electronic display only.....	1/	3.9% on the movement, case and strap, band or bracelet + 5.3% on the battery	Free (E,IL) 3.5% on the movement, case and strap, band or bracelet + 4.7% on the battery (CA)	35%
9101.18 9101.18.40	1/	Other: Having no jewels or only one jewel in the movement.....	1/	51¢ each + 6.25% on the case and strap, band or bracelet + 5.3% on the battery	Free (E,IL) 45.9¢ each + 5.6% on the case and strap, band or bracelet + 4.7 % on the battery (CA)	\$2.25 each + 45% on the case + 80% on the strap, band or bracelet + 35% on the battery
9101.18.80	1/	Other.....	1/	87¢ each + 6.25% on the case and strap, band or bracelet + 5.3% on the battery	Free (E,IL) 78.3¢ each + 5.6% on the case and strap, band or bracelet + 4.7 % on the battery (CA)	\$3.25 each + 45% on the case + 80% on the strap, band or bracelet + 35% on the battery
9101.21 9101.21.40	1/	Other wrist watches, whether or not incorporating a stop watch facility: With automatic winding: Having over 17 jewels in the movement.....	1/	\$2.30 each + 6.25% on the case and strap, band or bracelet	Free (E,IL) \$2.07 each + 5.6% on the case and strap, band or bracelet (CA)	\$11.50 each + 45% on the case + 80% on the strap, band or bracelet
9101.21.80	1/	Other.....	1/	\$2.30 each + 6.25% on the case and strap, band or bracelet	Free (E,IL) \$2.07 each + 5.6% on the case and strap, band or bracelet (CA)	\$5.75 each + 45% on the case + 80% on the strap, band or bracelet

1/ See U.S. statistical note 1 to this chapter.

HARMONIZED TARIFF SCHEDULE of the United States  
Annotated for Statistical Reporting Purposes

XVIII  
91-9

Heading/ Subheading	Stat. Suf. & cd.	Article Description	Units of Quantity	Rates of Duty		
				General	Special	2
9101 (con.)		Wrist watches, pocket watches and other watches, including stop watches, with case of precious metal or of metal clad with precious metal (con.): Other wrist watches, whether or not incorporating a stop watch facility (con.): Other:				
9101.29		Having no jewels or only one jewel in the movement.....	1/	\$1c each + 6.25% on the case and strap, band or bracelet	Free (E,IL) 45.8c each + 5.6% on the case and strap, band or bracelet (CA)	\$2.25 each + 45% on the case + 80% on the strap, band or bracelet
9101.29.10	1/					
9101.29.20	1/	Having over 1 jewel but not over 7 jewels in the movement.....	1/	87c each + 6.25% on the case and strap, band or bracelet	Free (E,IL) 78.3c each + 5.6% on the case and strap, band or bracelet (CA)	\$3.25 each + 45% on the case + 80% on the strap, band or bracelet
		Having over 7 jewels but not over 17 jewels in the movement: With movement valued not over \$15 each: With movement measuring not over 15.2 mm.....				
9101.29.30	1/		1/	\$2.85 each + 6.25% on the case and strap, band or bracelet	Free (E,IL) \$2.565 each + 5.6% on the case and strap, band or bracelet (CA)	\$4.75 each + 45% on the case + 80% on the strap, band or bracelet
9101.29.40	1/	With movement measuring over 15.2 mm.....	1/	\$2.40 each + 6.25% on the case and strap, band or bracelet	Free (E,IL) \$2.16 each + 5.6% on the case and strap, band or bracelet (CA)	\$4.75 each + 45% on the case + 80% on the strap, band or bracelet
9101.29.50	1/	With movement valued over \$15 each.....	1/	\$1.27 each + 6.25% on the case and strap, band or bracelet	Free (E,IL) \$1.143 each + 5.6% on the case and strap, band or bracelet (CA)	\$4.75 each + 45% on the case + 80% on the strap, band or bracelet
9101.29.60	1/	Having over 17 jewels in the movement.....	1/	\$2.30 each + 6.25% on the case and strap, band or bracelet	Free (E,IL) \$2.07 each + 5.6% on the case and strap, band or bracelet (CA)	\$11.50 each + 45% on the case + 80% on the strap, band or bracelet

1/ See U.S. statistical note 1 to this chapter.

HARMONIZED TARIFF SCHEDULE of the United States

Annotated for Statistical Reporting Purposes

XVIII  
91-10

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty		
				General	Special	2
9101 (con.)		Wrist watches, pocket watches and other watches, including stop watches, with case of precious metal or of metal clad with precious metal (con.):				
9101.91		Other:				
9101.91.20	1/	Battery powered: With opto-electronic display only...	1/	3.9% on the movement and case + 5.3% on the battery	Free (E,IL) 3.5% on the move- ment and case + 4.7% on the battery (CA)	35%
9101.91.40	1/	Other: Having no jewels or only one jewel in the movement.....	1/	51¢ each + 6% on the case + 5.3% on the battery	Free (E,IL) 45.9¢ each + 5.4% on the case + 4.7% on the battery (CA)	\$2.25 each + 45% on the case + 35% on the battery
9101.91.60	1/	Other.....	1/	87¢ each + 6% on the case + 5.3% on the battery	Free (E,IL) 78.3¢ each + 5.4% on the case + 4.7% on the battery (CA)	\$3.25 each + 45% on the case + 35% on the battery
9101.99		Other:				
9101.99.20	1/	Having no jewels or not over 7 jewels in the movement.....	1/	51¢ each + 6% on the case	Free (E,IL) 45.9¢ each + 5.4% on the case (CA)	\$2.25 each + 45% on the case
9101.99.40	1/	Having over 7 but not over 17 jewels in the movement: With movement valued not over \$15 each.....	1/	\$1.95 each + 6% on the case	Free (E,IL) \$1.755 each + 5.4% on the case (CA)	\$4.75 each + 45% on the case
9101.99.60	1/	With movement valued over \$15 each.....	1/	\$1.27 each + 6% on the case	Free (E,IL) \$1.143 each + 5.4% on the case (CA)	\$4.75 each + 45% on the case
9101.99.80	1/	Having over 17 jewels in the movement.....	1/	\$2.30 each + 6% on the case	Free (E,IL) \$2.07 each + 5.4% on the case (CA)	\$11.50 each + 45% on the case

1/ See U.S. statistical note 1 to this chapter.

HARMONIZED TARIFF SCHEDULE of the United States

Annotated for Statistical Reporting Purposes

XVIII  
91-11

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty		2
				General	Special	
9102		Wrist watches, pocket watches and other watches, including stop watches, other than those of heading 9101:				
9102.11		Wrist watches, battery powered, whether or not incorporating a stop watch facility: With mechanical display only: Having no jewels or only one jewel in the movement:				
9102.11.10	1/	With strap, band or bracelet of textile material or of base metal, whether or not gold- or silver-plated: With gold- or silver-plated case.....	1/	44¢ each + 8% on the case + 14% on the strap, band or bracelet + 5.3% on the battery	Free (E*, IL) 39.6¢ each + 5.4% on the case + 12.6% on the strap, band or bracelet + 4.7% on the battery (CA)	\$1.90 each + 45% on the case + 110% on the strap, band or bracelet + 35% on the battery
9102.11.25	1/	Other.....	1/	40¢ each + 8.5% on the case + 14% on the strap, band or bracelet + 5.3% on the battery	Free (E*, IL) 36¢ each + 7.6% on the case + 12.6% on the strap, band or bracelet + 4.7% on the battery (CA)	\$1.70 each + 45% on the case + 110% on the strap, band or bracelet + 35% on the battery
9102.11.30	1/	Other: With gold- or silver-plated case.....	1/	44¢ each + 8% on the case + 2.8% on the strap, band or bracelet + 5.3% on the battery	Free (E, IL) 39.6¢ each + 5.4% on the case + 2.5% on the strap, band or bracelet + 4.7% on the battery (CA)	\$1.90 each + 45% on the case + 35% on the strap, band or bracelet + 35% on the battery
9102.11.45	1/	Other.....	1/	40¢ each + 8.5% on the case + 2.8% on the strap, band or bracelet + 5.3% on the battery	Free (E, IL) 36¢ each + 7.6% on the case + 2.5% on the strap, band or bracelet + 4.7% on the battery (CA)	\$1.70 each + 45% on the case + 35% on the strap, band or bracelet + 35% on the battery

1/ See U.S. statistical note 1 to this chapter.

HARMONIZED TARIFF SCHEDULE of the United States

Annotated for Statistical Reporting Purposes

XVIII  
91-12

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty		
				General	Special	2
9102 (con.)		Wrist watches, pocket watches and other watches, including stop watches, other than those of heading 9101 (con.):				
		Wrist watches, battery powered, whether or not incorporating a stop watch facility (con.):				
		With mechanical display only (con.):				
		Other:				
		With strap, band or bracelet of textile material or of base metal, whether or not gold- or silver-plated:				
9102.11.50	1/	With gold- or silver-plated case.....	1/	80c each + 6% on the case + 14% on the strap, band or bracelet + 5.3% on the battery	Free (E, IL) 72c each + 5.4% on the case + 12.6% on the strap, band or bracelet + 4.7% on the battery (CA)	\$2.90 each + 45% on the case + 110% on the strap, band or bracelet + 35% on the battery
9102.11.65	1/	Other.....	1/	76c each + 8.5% on the case + 14% on the strap, band or bracelet + 5.3% on the battery	Free (E, IL) 68.4c each + 7.6% on the case + 12.6% on the strap, band or bracelet + 4.7% on the battery (CA)	\$2.70 each + 45% on the case + 110% on the strap, band or bracelet + 35% on the battery
		Other:				
		With gold- or silver-plated case.....	1/	80c each + 6% on the case + 2.6% on the strap, band or bracelet + 5.3% on the battery	Free (E, IL) 72c each + 5.4% on the case + 2.5% on the strap, band or bracelet + 4.7% on the battery (CA)	\$2.90 each + 45% on the case + 35% on the strap, band or bracelet + 35% on the battery
9102.11.85	1/	Other.....	1/	76c each + 8.5% on the case + 2.6% on the strap, band or bracelet + 5.3% on the battery	Free (E, IL) 68.4c each + 7.6% on the case + 2.5% on the strap, band or bracelet + 4.7% on the battery (CA)	\$2.70 each + 45% on the case + 35% on the strap, band or bracelet + 35% on the battery
9102.12.00	1/	With opto-electronic display only.....	1/	3.9% on the movement, case and strap, band or bracelet	Free (E, IL) 3.5% on the movement, case and strap, band or bracelet + 4.7% on the battery (CA)	35%

1/ See U.S. statistical note 1 to this chapter.

HARMONIZED TARIFF SCHEDULE of the United States

Annotated for Statistical Reporting Purposes

XVIII  
91-13

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty		2
				General	Special	
9102 (con.)		Wrist watches, pocket watches and other watches, including stop watches, other than those of heading 9101 (con.):				
		Wrist watches, battery powered, whether or not incorporating a stop watch facility (con.):				
9102.19		Other: Having no jewels or only one jewel in the movement:				
9102.19.20	1/	With strap, band or bracelet of textile material or of base metal, whether or not gold- or silver-plated.....	1/	40¢ each + 6% on the case + 14% on the strap, band or bracelet + 5.3% on the battery	Free (E*, IL) 36¢ each + 5.4% on the case + 12.6% on the strap, band or bracelet + 4.7% on the battery (CA)	\$1.00 each + 4% on the case + 11% on the strap, band or bracelet + 35% on the battery
9102.19.40	1/	Other.....	1/	40¢ each + 6% on the case + 2.8% on the strap, band or bracelet + 5.3% on the battery	Free (E, IL) 36¢ each + 5.4% on the case + 2.5% on the strap, band or bracelet + 4.7% on the battery (CA)	\$1.70 each + 4.5% on the case + 35% on the strap, band or bracelet + 35% on the battery
9102.19.60	1/	Other: With strap, band or bracelet of textile material or of base metal, whether or not gold- or silver-plated.....	1/	76¢ each + 6% on the case + 14% on the strap, band or bracelet + 5.3% on the battery	Free (E*, IL) 68.4¢ each + 5.4% on the case + 12.6% on the strap, band or bracelet + 4.7% on the battery (CA)	\$2.70 each + 4.5% on the case + 11% on the strap, band or bracelet + 35% on the battery
9102.19.80	1/	Other.....	1/	76¢ each + 6% on the case + 2.8% on the strap, band or bracelet + 5.3% on the battery	Free (E, IL) 68.4¢ each + 5.4% on the case + 2.5% on the strap, band or bracelet + 4.7% on the battery (CA)	\$2.70 each + 4.5% on the case + 35% on the strap, band or bracelet + 35% on the battery

1/ See U.S. statistical note 1 to this chapter.



HARMONIZED TARIFF SCHEDULE of the United States

Annotated for Statistical Reporting Purposes

XVIII  
81-14

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty		
				General	Special	2
9102 (con.)		Wrist watches, pocket watches and other watches, including stop watches, other than those of heading 9101 (con.):				
		Other wrist watches, whether or not incorporating a stop watch facility:				
		With automatic winding:				
		Having no jewels or only one jewel in the movement:				
		With strap, band or bracelet of textile material or of base metal, whether or not gold- or silver-plated.....	1/	75¢ each + 6% on the case + 14% on the strap, band or bracelet	Free (E, IL) 67.5¢ each + 5.4% on the case + 12.6% on the strap, band or bracelet (CA)	\$2.70 each + 45% on the case + 110% on the strap, band or bracelet
		Other.....	1/	75¢ each + 6% on the case + 2.6% on the strap, band or bracelet	Free (E, IL) 67.5¢ each + 5.4% on the case + 2.5% on the strap, band or bracelet (CA)	\$2.70 each + 45% on the case + 35% on the strap, band or bracelet
		Having over one jewel but not over 17 jewels in the movement:				
		With strap, band or bracelet of textile material or of base metal, whether or not gold- or silver-plated.....	1/	\$2.19 each + 6% on the case + 14% on the strap, band or bracelet	Free (E, IL) \$1.971 each + 5.4% on the case + 12.6% on the strap, band or bracelet (CA)	\$5.20 each + 45% on the case + 110% on the strap, band or bracelet
		Other.....	1/	\$2.19 each + 6% on the case + 2.6% on the strap, band or bracelet	Free (E, IL) \$1.971 each + 5.4% on the case + 2.5% on the strap, band or bracelet (CA)	\$5.20 each + 45% on the case + 35% on the strap, band or bracelet
		Having over 17 jewels in the movement:				
		With strap, band or bracelet of textile material or of base metal, whether or not gold- or silver-plated.....	1/	\$2.19 each + 6% on the case + 14% on the strap, band or bracelet	Free (E, IL) \$1.971 each + 5.4% on the case + 12.6% on the strap, band or bracelet (CA)	\$10.95 each + 45% on the case + 110% on the strap, band or bracelet
		Other.....	1/	\$2.19 each + 6% on the case + 2.6% on the strap, band or bracelet	Free (E, IL) \$1.971 each + 5.4% on the case + 2.5% on the strap, band or bracelet (CA)	\$10.95 each + 45% on the case + 35% on the strap, band or bracelet

1/ See U.S. statistical note 1 to this chapter.

HARMONIZED TARIFF SCHEDULE of the United States

Annotated for Statistical Reporting Purposes

XVIII  
91-13

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty		
				1		2
				General	Special	
9102 (con.)		Wrist watches, pocket watches and other watches, including stop watches, other than those of heading 9101 (con.): Other wrist watches, whether or not incorporating a stop watch facility (con.):				
9102.29		Other:				
		Having no jewels or only one jewel in the movement:				
9102.29.05	1/	With strap, band or bracelet of textile material or of base metal, whether or not gold- or silver-plated.....	1/	40¢ each + 6% on the case + 14% on the strap, band or bracelet	Free (E*, IL) 38¢ each + 5.4% on the case + 12.6% on the strap, band or bracelet (CA)	\$1.70 each + 45% on the case + 110% on the strap, band or bracelet
9102.29.10	1/	Other.....	1/	40¢ each + 6% on the case + 2.6% on the strap, band or bracelet	Free (E, IL) 38¢ each + 5.4% on the case + 2.5% on the strap, band or bracelet (CA)	\$1.70 each + 45% on the case + 35% on the strap, band or bracelet
		Having over one jewel but not over 7 jewels in the movement:				
9102.29.15	1/	With strap, band or bracelet of textile material or of base metal, whether or not gold- or silver-plated.....	1/	76¢ each + 6% on the case + 14% on the strap, band or bracelet	Free (E*, IL) 68.4¢ each + 5.4% on the case + 12.6% on the strap, band or bracelet (CA)	\$2.70 each + 45% on the case + 110% on the strap, band or bracelet
9102.29.20	1/	Other.....	1/	76¢ each + 6% on the case + 2.6% on the strap, band or bracelet	Free (E, IL) 68.4¢ each + 5.4% on the case + 2.5% on the strap, band or bracelet (CA)	\$2.70 each + 45% on the case + 35% on the strap, band or bracelet

1/ See U.S. statistical note 1 to this chapter.

HARMONIZED TARIFF SCHEDULE of the United States

Annotated for Statistical Reporting Purposes

XVIII  
91-18

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty		
				General	Special	2
9102 (con.)		Wrist watches, pocket watches and other watches, including stop watches, other than those of heading 9101 (con.):				
9102.29 (con.)		Other wrist watches, whether or not incorporating a stop watch facility (con.):				
		Other (con.):				
		Having over 7 but not over 17 jewels in the movement:				
		With movement valued not over \$15 each:				
		With movement measuring not over 15.2 mm:				
9102.29.25	1/	With strap, band or bracelet of textile material or of base metal, whether or not gold- or silver-plated.....	1/	\$2.74 each + 6% on the case + 14% on the strap, band or bracelet	Free (E, IL) \$2.466 each + 5.4% on the case + 12.6% on the strap, band or bracelet (CA)	\$4.20 each + 45% on the case + 110% on the strap, band or bracelet
9102.29.30	1/	Other.....	1/	\$2.74 each + 6% on the case + 2.8% on the strap, band or bracelet	Free (E, IL) \$2.466 each + 5.4% on the case + 2.5% on the strap, band or bracelet (CA)	\$4.20 each + 45% on the case + 35% on the strap, band or bracelet
		With movement measuring over 15.2 mm:				
		With strap, band or bracelet of textile material or of base metal, whether or not gold- or silver-plated.....	1/	\$2.29 each + 6% on the case + 14% on the strap, band or bracelet	Free (E, IL) \$2.061 each + 5.4% on the case + 12.6% on the strap, band or bracelet (CA)	\$4.20 each + 45% on the case + 110% on the strap, band or bracelet
9102.29.35	1/	Other.....	1/	\$2.29 each + 6% on the case + 2.8% on the strap, band or bracelet	Free (E, IL) \$2.061 each + 5.4% on the case + 2.5% on the strap, band or bracelet (CA)	\$4.20 each + 45% on the case + 35% on the strap, band or bracelet
9102.29.40	1/	Other.....	1/	\$2.29 each + 6% on the case + 2.8% on the strap, band or bracelet	Free (E, IL) \$2.061 each + 5.4% on the case + 2.5% on the strap, band or bracelet (CA)	\$4.20 each + 45% on the case + 35% on the strap, band or bracelet
		With movement valued over \$15 each:				
		With strap, band or bracelet of textile material or of base metal, whether or not gold- or silver-plated....	1/	\$1.16 each + 6% on the case + 14% on the strap, band or bracelet	Free (E, IL) \$1.044 each + 5.4% on the case + 12.6% on the strap, band or bracelet (CA)	\$4.20 each + 45% on the case + 110% on the strap, band or bracelet
9102.29.45	1/	Other.....	1/	\$1.16 each + 6% on the case + 2.8% on the strap, band or bracelet	Free (E, IL) \$1.044 each + 5.4% on the case + 2.5% on the strap, band or bracelet (CA)	\$4.20 each + 45% on the case + 35% on the strap, band or bracelet
9102.29.50	1/	Other.....	1/	\$1.16 each + 6% on the case + 2.8% on the strap, band or bracelet	Free (E, IL) \$1.044 each + 5.4% on the case + 2.5% on the strap, band or bracelet (CA)	\$4.20 each + 45% on the case + 35% on the strap, band or bracelet

1/ See U.S. statistical note 1 to this chapter.

HARMONIZED TARIFF SCHEDULE of the United States

Annotated for Statistical Reporting Purposes

XVIII  
91-17

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty		
				General	Special	2
9102 (con.)		Wrist watches, pocket watches and other watches, including stop watches, other than those of heading 9101 (con.):				
9102.29 (con.)		Other wrist watches, whether or not incorporating a stop watch facility (con.):				
		Other (con.):				
		Having over 17 jewels in the movement:				
9102.29.55	1/	With strap, band or bracelet of textile material or of base metal, whether or not gold- or silver-plated.....	1/	\$2.19 each + 6% on the case + 14% on the strap, band or bracelet	Free (E,IL) \$1.971 each + 5.4% on the case + 12.6% on the strap, band or bracelet (CA)	\$10.95 each + 45% on the case + 110% on the strap, band or bracelet
9102.29.60	1/	Other.....	1/	\$2.19 each + 8% on the case + 2.6% on the strap, band or bracelet	Free (E,IL) \$1.971 each + 5.4% on the case + 2.5% on the strap, band or bracelet (CA)	\$10.95 each + 45% on the case + 35% on the strap, band or bracelet
		Other:				
		Battery powered:				
9102.81 9102.81.20	1/	With opto-electronic display only....	1/	3.9% on the movement and case + 5.3% on the battery	Free (E,IL) 3.5% on the movement and case + 4.7% on the case (CA)	35%
		Other:				
9102.81.40	1/	Having no jewels or only one jewel in the movement.....	1/	40¢ each + 6% on the case + 5.3% on the battery	Free (E,IL) 36¢ each + 5.4% on the case + 4.7% on the battery (CA)	\$1.70 each + 45% on the case + 35% on the battery
9102.81.80	1/	Other.....	1/	76¢ each + 6% on the case + 5.3% on the battery	Free (E,IL) 68.4¢ each + 5.4% on the case + 4.7% on the battery (CA)	\$2.70 each + 45% on the case + 35% on the battery
		Other:				
9102.99 9102.99.20	1/	Having no jewels or not over 7 jewels in the movement.....	1/	40¢ each + 6% on the case	Free (E,IL) 36¢ each + 5.4% on the case (CA)	\$1.70 each + 45% on the case
		Having over 7 but not over 17 jewels in the movement:				
9102.99.40	1/	With movement valued not over \$15 each.....	1/	\$1.84 each + 6% on the case	Free (E,IL) \$1.656 each + 5.4% on the case (CA)	\$4.20 each + 45% on the case
9102.99.60	1/	With movement valued over \$15 each.....	1/	\$1.18 each + 6% on the case	Free (E,IL) \$1.044 each + 5.4% on the case (CA)	\$4.20 each + 45% on the case
9102.99.80	1/	Having over 17 jewels in the movement.....	1/	\$2.19 each + 6% on the case	Free (E,IL) \$1.971 each + 5.4% on the case (CA)	\$10.95 each + 45% on the case

1/ See U.S. statistical note 1 to this chapter.

HARMONIZED TARIFF SCHEDULE of the United States

Annotated for Statistical Reporting Purposes

XVIII  
91-25

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty		
				General	Special	2
9111		Watch cases and parts thereof:				
9111.10.00	00 5	Cases of precious metal or of metal clad with precious metal.....	No.....	15c each + 8%	Free (E,IL) 13.5c each + 5.4% (CA)	75c each + 45%
9111.20		Cases of base metal, whether or not gold- or silver-plated:				
9111.20.20	00 9	Gold- or silver-plated.....	No.....	8c each + 8%	Free (E,IL) 7.2c each + 5.4% (CA)	40c each + 45%
9111.20.40	00 5	Other.....	No.....	4c each + 8.5%	Free (E,IL) 3.8c each + 7.6% (CA)	20c each + 45%
9111.80.00	00 0	Other cases.....	No.....	4c each + 8.5%	Free (E,IL) 3.8c each + 7.6% (CA)	20c each + 45%
9111.90		Parts:				
9111.90.40	00 0	Of precious metal or of metal clad with precious metal.....	No.....	8%	Free (E,IL) 7.2% (CA)	75c each + 45%
9111.90.50	00 7	Other: Bezels, backs and centers.....	No.....	2c each + 8.5%	Free (E,IL) 1.8c each + 7.6% (CA)	10c each + 45%
9111.90.70	00 3	Other.....	No.....	8.1%	Free (E,IL) 7.2% (CA)	45%
9112		Clock cases and cases of a similar type for other goods of this chapter, and parts thereof:				
9112.10.00	00 4	Cases of metal.....	No.....	6.9%	Free (B,E,IL) 6.2% (CA)	45%
9112.80.00	00 9	Other cases.....	No.....	6.9%	Free (A,B,E,IL) 6.2% (CA)	45%
9112.90.00	00 7	Parts.....	X.....	6.9%	Free (A,B,E,IL) 6.2% (CA)	45%
9113		Watch straps, watch bands and watch bracelets, and parts thereof:				
9113.10.00	00 3	Of precious metal or of metal clad with precious metal.....	X.....	6.5%	Free (A*,E,IL) 5.8% (CA)	80%
9113.20		Of base metal, whether or not gold- or silver-plated:				
9113.20.20	00 7	Straps, bands and bracelets: Valued not over \$5 per dozen.....	Doz.....	14%	Free (A,E,IL) 12.6% (CA)	110%
9113.20.40	00 3	Valued over \$5 per dozen.....	Doz.....	14%	Free (E,IL) 12.6% (CA)	110%
9113.20.60	00 8	Parts: Of watch bracelets, valued not over \$12 per dozen.....	X.....	11%	Free (A,E,IL) 9.9% (CA)	110%
9113.20.90	00 2	Other.....	X.....	11%	Free (A,E,IL) 9.9% (CA)	110%
9113.90		Other:				
9113.90.40	00 8	Of textile material.....	X.....	9%	Free (E,IL) 8.1% (CA)	78.5%
9113.90.80	00 9	Other.....	X.....	2.8%	Free (A,E,IL) 2.5% (CA)	35%



APPENDIX C  
NOTICE OF INVESTIGATION

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[TA-131(b)-13, TA-503(a)-17, and 332-286]

**Probable Economic Effect of Providing  
Duty-Free Treatment for Watches  
Under the Generalized System of  
Preferences**

**AGENCY:** United States International  
Trade Commission.

**ACTION:** Institution of investigation and  
scheduling of hearing.

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**SUMMARY:** Following receipt on October  
18, 1988, of a request from the U.S. Trade  
Representative made in part at the  
direction of the President, the  
Commission instituted investigation  
Nos. TA-131(b)-13, TA-503(a)-17, and  
332-286 under sections 503(a) and 131(b)  
of the Trade Act of 1974 (19 U.S.C.  
2463(a) and 2151(b)) and section 332(g)  
of the Tariff Act of 1930 (19 U.S.C.  
1332(g))—

(1) Pursuant to sections 503(a) and  
131(b) of the Trade Act, and the  
authority of the President delegated to  
the U.S. Trade Representative by  
sections 4(c) and 8(c) and (d) of  
Executive Order 11846, as amended, to  
advise the President, with respect to the



watches provided for in each 8-digit subheading under the Harmonized Tariff Schedule of the United States (HTS) heading 9101 and 9102, as to the probable economic effect on U.S. industries producing or assembling watches and U.S. industries producing or assembling watch bands, straps or bracelets and on U.S. consumers of the elimination of U.S. import duties under the U.S. Generalized System of preferences (GSP). Separate advice will be provided for the watch manufacturing and assembly industry and the watch band, strap and bracelet manufacturing and assembly industry and for each of two geographic areas (the United States and U.S. insular possessions). In providing its advice, the USTR requested the Commission to assume that benefits of the GSP would not apply to imports that would be excluded from receiving such benefits by virtue of the "competitive need" limitations specified in section 504(c) of the Act.

The Commission will provide, to the degree possible, data on the following factors for the most recent three year period for each of the aforementioned U.S. industries: Annual production, capacity, capacity utilization, domestic shipments, exports, inventories, employment, wages, and financial experience (including prices). Data will also be provided, to the extent possible, on the following factors for current and potential foreign producers: current and potential production capacity and capacity utilization, domestic shipments, and exports to U.S. and other markets.

(2) Pursuant to section 332(g) of the Tariff Act and at the direction of the President, to advise the President, with respect to whether articles like or directly competitive with the watches described in each 8-digit subheading of headings 9101 and 9102 of the HTS were being produced in the United States on January 3, 1985 for purposes of section 504(d) of the Trade Act.

**EFFECTIVE DATE:** November 7, 1988.

**FOR FURTHER INFORMATION CONTACT:** Ms. Linda Linkins (202-252-1499), Office of Industries. For information on legal aspects of the investigation contact Mr. William Gearhart of the Commission's Office of the General Counsel at 202-252-1091.

#### Background

The USTR announced the items which have been sent to the Commission for probable economic effect advice in the Federal Register of October 7, 1988 (53 FR 39576).

#### Public Hearing

A public hearing in connection with the investigation will be held in the Commission Hearing Room, 800 E Street SW., Washington, DC 20436, beginning at 9:30 a.m. on January 19, 1989. All persons shall have the right to appear by counsel or in person, to present information, and to be heard. Persons wishing to appear at the public hearing should file requests to appear and should file prehearing briefs (original and 14 copies) with the Secretary, United States International Trade Commission, 800 E St., SW., Washington, DC 20436, not later than noon, December 29, 1988. Posthearing briefs must be filed by January 17, 1989.

#### Written Submissions

In lieu of or in addition to appearances at the public hearing, interested persons are invited to submit written statements concerning the investigation. Written statements should be received by the close of business on January 17, 1989. Commercial or financial information which a submitter desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of § 201.6 of the Commission's *Rules of Practice and Procedure* (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection by interested persons. All submissions should be addressed to the Secretary at the Commission's office in Washington, DC.

Hearing-impaired individuals are advised that information on this matter can be obtained by contacting our TDD terminal on (202) 252-1810.

By order of the Commission.  
Kenneth R. Mason,  
Secretary.

Issued: November 10, 1988.  
[FR Doc. 88-20495 Filed 11-15-88; 8:45 am]  
BILLING CODE 7020-02-0

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**INTERNATIONAL TRADE  
COMMISSION**

[TA-131(b)-13, TA-503(a)-17, and 332-266]

**Probable Economic Effect of Providing  
Duty-Free Treatment for Watches  
Under the Generalized System of  
Preferences**

**AGENCY:** International Trade  
Commission.

**ACTION:** Amendment to hearing notice  
and investigation schedule.

**SUMMARY:** The following changes have  
been made to the schedule for Inv. Nos.  
TA-131(b)-13, TA-503(a)-17, and 332-  
266:

Activity	New scheduled date
Pre-hearing briefs due to the Com- mission.	Jan. 17, 1989 (COB).
Hearing.....	Jan. 23, 1989.
Posthearing briefs due to the Commission.	Jan. 30, 1989 (COB).

The original notice of investigation  
and hearing schedule was published in  
the *Federal Register* on November 16,  
1988 (53 FR 46126). All other schedule  
dates listed in the original notice remain  
the same.

**EFFECTIVE DATE:** December 30, 1988.

**FOR FURTHER INFORMATION CONTACT:**  
Ms. Linda Linkins, (202-252-1499),  
Office of Industries.

Hearing-impaired individuals are  
advised that information on this matter  
can be obtained by contacting our TDD  
terminal on (202) 252-1810.

By order of the Commission.  
Issued: December 30, 1988.

**Kenneth R. Mason,**  
*Secretary.*

[FR Doc. 89-193 Filed 1-5-89; 8:45 am]

BILLING CODE 7020-02-01

APPENDIX D

LIST OF PARTICIPANTS IN THE U.S. INTERNATIONAL TRADE COMMISSION HEARING

CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject : PROBABLE ECONOMIC EFFECT OF  
 PROVIDING DUTY-FREE TREATMENT FOR WATCHES  
 UNDER THE GENERALIZED SYSTEM OF PREFERENCES.

Inv. No. : TA-131(B)-13, TA-503(a)-17,  
 and 332-266

Date and Time : January 23, 1989 - 9:30 a.m.

Congressional appearance:

Honorable Ron de Lugo, United States Representative, Virgin Islands,  
and Chairman, Subcommittee on Insular and International Affairs

Honorable Ron Machtley, United States Congressman, State of Rhode Island

Public Officials:

Honorable Alexander A. Farrelly  
Governor of the U.S. Virgin Islands

Honorable Holland L. Redfield, II, 18th Legislature  
State Senator of the Virgin Islands

Honorable Alicia Hansen  
State Senator from the U.S. Virgin Islands

WITNESS AND ORGANIZATION

TIME  
CONSTRAINTS

In Opposition to Duty-Free Treatment under GSP:

Bishop, Cook, Purcell & Reynolds  
Washington, D.C.  
on behalf of

William Roebuck, Director of the U.S Virgin  
Islands Industrial Development Commission

Andrew Wechsler, Economists Incorporated  
(Economic consultant to the Government of  
the U.S. Virgin Islands)

Ralph Mandrew of the Virgin Islands Workers Union

- more -

TIME  
CONSTRAINTS

WITNESS AND ORGANIZATION

Paul J. Arnold, former Commissioner of Labor of the  
Virgin Islands Government and currently Vice  
President of Danested Corporation

Bill Alberger )  
Peter N. Hiebert )—OF COUNSEL  
Florence R. Keenan )

In Opposition to Duty-Free Treatment under GSP:

Steptoe & Johnson  
Washington, D.C.

Belair Watch Corporation, Benrus Watch Company, Inc.,  
Helbros Watches, Inc., Jules Jurgenson Corporation,  
Ronda Watch Corporation

Paul R. Sutter, General Manager,  
Ronda Watch Corporation

Marilyn Mitchell, Finishing Inspector,  
Master Time Company Ltd (Virgin Islands)

Andrew Wechsler, Senior Economist,  
Economists Incorporated

Susan G. Esserman )—OF COUNSEL

Textron, Inc.  
Washington, D.C.

Alfred M. Massotti, President,  
Speidel Division of Textron, Inc.  
(Accompanied by Harvey Applebaum and Bradford L.  
Smith, Covington and Burling)

Steven Wein, Manager, Legislative Affairs,  
Textron, Inc.

In support of Duty-Free Treatment under GSP:

Hogan & Hartson  
Washington, D.C.  
on behalf of

Timex Corporation  
Frank Sherer  
Frank Judge  
Dean Hill

TIME  
CONSTRAINTS

WITNESS AND ORGANIZATION

St. Maxens & Company  
Thomas F. St. Maxens

Randy E. Miller )--OF COUNSEL

In support of Duty-Free Treatment under GSP:

Arkansas Industrial Development Commission  
Little Rock, Arkansas

Dave Harrington, Executive Director

Ralston Purina Governmental Affairs  
Washington, D.C.

(Eveready Battery Company, Inc. is a  
subsidiary of Ralston Purina Company)

Claude D. Alexander, Director,  
Government Affairs

APPENDIX E  
SELECTED LEGISLATION  
AND U.S. DEPARTMENT OF COMMERCE NOTICES PERTAINING TO WATCHES

## HARMONIZED TARIFF SCHEDULE of the United States

Annotated for Statistical Reporting Purposes

Page 1

## GENERAL NOTES

1. Tariff Treatment of Imported Goods. All goods provided for in this schedule and imported into the customs territory of the United States from outside thereof are subject to duty or exempt therefrom as prescribed in general notes 3 and 4.
2. Customs Territory of the United States. The term "customs territory of the United States", as used in the tariff schedule, includes only the States, the District of Columbia and Puerto Rico.
3. Rates of Duty. The rates of duty in the "Rates of Duty" columns designated 1 ("General" and "Special") and 2 of the tariff schedule apply to goods imported into the customs territory of the United States as hereinafter provided in this note:

(a) Rate of Duty Column 1.

- (i) Except as provided in subparagraph (iv) of this paragraph, the rates of duty in column 1 are rates which are applicable to all products other than those of countries enumerated in paragraph (b) of this note. Column 1 is divided into two subcolumns, "General" and "Special", which are applicable as provided below.
- (ii) The "General" subcolumn sets forth the general most-favored-nation (MFN) rates which are applicable to products of those countries described in subparagraph (i) above which are not entitled to special tariff treatment as set forth below.
- (iii) The "Special" subcolumn reflects rates of duty under one or more special tariff treatment programs described in paragraph (c) of this note and identified in parentheses immediately following the duty rate specified in such subcolumn. These rates apply to those products which are properly classified under a provision for which a special rate is indicated and for which all of the legal requirements for eligibility for such program or programs have been met. Where a product is eligible for special treatment under more than one program, the lowest rate of duty provided for any applicable program shall be imposed. Where no special rate of duty is provided for a provision, or where the country from which a product otherwise eligible for special treatment was imported is not designated as a beneficiary country under a program appearing with the appropriate provision, the rates of duty in the "General" subcolumn of column 1 shall apply.

(iv) Products of Insular Possessions.

- (A) Except as provided in additional U.S. note 5 of chapter 91 and except as provided in additional U.S. note 3 of chapter 96, and except as provided in section 423 of the Tax Reform Act of 1986, goods imported from insular possessions of the United States which are outside the customs territory of the United States are subject to the rates of duty set forth in column 1 of the tariff schedule, except that all such goods the growth or product of any such possession, or manufactured or produced in any such possession from materials the growth, product or manufacture of any such possession or of the customs territory of the United States, or of both, which do not contain foreign materials to the value of more than 70 percent of their total value (or more than 50 percent of their total value with respect to goods described in section 213(b) of the Caribbean Basin Economic Recovery Act), coming to the customs territory of the United States directly from any such possession, and all goods previously imported into the customs territory of the United States with payment of all applicable duties and taxes imposed upon or by reason of importation which were shipped from the United States, without remission, refund or drawback of such duties or taxes, directly to the possession from which they are being returned by direct shipment, are exempt from duty.
- (B) In determining whether goods produced or manufactured in any such insular possession contain foreign materials to the value of more than 70 percent, no material shall be considered foreign which either--
  - (1) at the time such goods are entered, or
  - (2) at the time such material is imported into the insular possession,

may be imported into the customs territory from a foreign country, and entered free of duty; except that no goods containing material to which (2) of this subparagraph applies shall be exempt from duty under subparagraph (A) unless adequate documentation is supplied to show that the material has been incorporated into such goods during the 18-month period after the date on which such material is imported into the insular possession.



## HARMONIZED TARIFF SCHEDULE of the United States

Annotated for Statistical Reporting Purposes

Page 2

General Note 3(a)(iv) (con.):

- (C) Subject to the limitations imposed under sections 503(b) and 504(c) of the Trade Act of 1974, goods designated as eligible under section 503 of such Act which are imported from an insular possession of the United States shall receive duty treatment no less favorable than the treatment afforded such goods imported from a beneficiary developing country under title V of such Act.
- (D) Subject to the provisions in section 213 of the Caribbean Basin Economic Recovery Act, goods which are imported from insular possessions of the United States shall receive duty treatment no less favorable than the treatment afforded such goods when they are imported from a beneficiary country under such Act.
- (b) Rate of Duty Column 2. Notwithstanding any of the foregoing provisions of this note, the rates of duty shown in column 2 shall apply to products, whether imported directly or indirectly, of the following countries and areas pursuant to section 401 of the Tariff Classification Act of 1962, to section 231 or 257(e)(2) of the Trade Expansion Act of 1962, to section 404(a) of the Trade Act of 1974 or to any other applicable section of law, or to action taken by the President thereunder:

Afghanistan	German Democratic Republic	Mongolia
Albania	Kampuchea	North Korea
Bulgaria	Laos	Romania
Cuba	Latvia	Union of Soviet Socialist Republics
Czechoslovakia	Lithuania	Vietnam
Estonia		

(c) Products Eligible for Special Tariff Treatment.

- (i) (A) Programs under which special tariff treatment may be provided, and the corresponding symbols for such programs as they are indicated in the "Special" subcolumn, are as follows:

Generalized System of Preferences	A or A*
Automotive Products Trade Act	B
Agreement on Trade in Civil Aircraft	C
United States-Canada Free-Trade Agreement	CA
Caribbean Basin Economic Recovery Act	E or E*
United States-Israel Free Trade Area	IL

- (B) Articles which are eligible for the special tariff treatment provided for in subdivision (c) of this note and which are subject to temporary modification under any provision of subchapters I and II of chapter 99 shall be subject, for the period indicated in the "Effective Period" column in chapter 99, to rates of duty as follows:
- (1) if a rate of duty for which the article may be eligible is set forth in the "Special" subcolumn in chapter 99 followed by one or more symbols described above, such rate shall apply in lieu of the rate followed by the corresponding symbol(s) set forth for such article in the "Special" subcolumn in chapters 1 to 98; or
- (2) if "No change" appears in the "Special" subcolumn in chapter 99 and subdivision (B)(1) above does not apply, the rate of duty in the "General" subcolumn in chapter 99 or the applicable rate(s) of duty set forth in the "Special" subcolumn in chapters 1 to 98, whichever is lower, shall apply.
- (C) Unless the context requires otherwise, articles which are eligible for the special tariff treatment provided for in subdivision (c) of this note and which are subject to temporary modification under any provision of subchapters III or IV of chapter 99 shall be subject, for the period indicated in chapter 99, to the rates of duty in the "General" subcolumn in such chapter.
- (D) Whenever any rate of duty set forth in the "Special" subcolumn in chapters 1 to 98 is equal to or higher than, the corresponding rate of duty provided in the "General" subcolumn in such chapters, such rate of duty in the "Special" subcolumn shall be deleted; except that, if the rate of duty in the "Special" subcolumn is an intermediate stage in a series of staged rate reductions for that subheading, such rate shall be treated as a suspended rate and shall be set forth in the "Special" subcolumn, followed by one or more symbols described above, and followed by an "s" in parentheses. If no rate of duty for which the article may be eligible is provided in the "Special" subcolumn for a particular subheading in chapters 1 to 98, the rate of duty provided in the "General" subcolumn shall apply.

Public Law 89-805

AN ACT

To amend the Tariff Schedules of the United States with respect to the dutiable status of watches, clocks, and timing apparatus from insular possessions of the United States.

November 10, 1966  
[H. R. 8436]

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled.* That (a) paragraph (a) of general headnote 3 of the Tariff Schedules of the United States (19 U.S.C. § 1202) is amended—

Tariff Schedules.  
Watches, clocks,  
etc.  
77A Stat. 11.  
Post, p. 1523.

(1) by striking out "Articles" in subparagraph (i) and inserting in lieu thereof "Except as provided in headnote 6 of schedule 7, part 2, subpart E, articles"; and

(2) by striking out "except that all articles" in subparagraph (i) and inserting in lieu thereof "except that all such articles".

(b) The headnotes of schedule 7, part 2, subpart E of the Tariff Schedules of the United States are amended by adding at the end thereof the following new headnote:

Products of insular possessions.  
77A Stat. 347;  
79 Stat. 946.

"6. Products of Insular Possessions.—(a) Except as provided in paragraph (b) of this headnote, any article provided for in this subpart which is the product of an insular possession of the United States outside the customs territory of the United States and which contains any foreign component shall be subject to duty—

"(i) at the rates set forth in column numbered 1, if the countries of origin of more than 50 percent in value of the foreign components are countries to products of which column numbered 1 rates apply, and

"(ii) at the rates set forth in column numbered 2, if the countries of origin of 50 percent or more in value of the foreign components are countries to products of which column numbered 2 rates apply.

77A Stat. 349.

"(b) If the requirements for free entry set forth in general headnote 3(a) are complied with, watches (provided for in item 715.05) and watch movements (provided for in items 716.08 through 719...) which are the product of the Virgin Islands, Guam, or American Samoa and which contain any foreign component may be admitted free of duty, but the total quantity of such articles entered free of duty during each calendar year shall not exceed a number equal to  $\frac{1}{4}$  of the apparent United States consumption of watch movements during the preceding calendar year (as determined by the Tariff Commission), of which total quantity—

"(i) not to exceed 87.5 percent shall be the product of the Virgin Islands,

"(ii) not to exceed 8.33 percent shall be the product of Guam, and

"(iii) not to exceed 4.17 percent shall be the product of American Samoa.

U.S. consumption of watch movements.  
Publication in Federal Register.

"(c) On or before April 1 of each calendar year (beginning with 1967), the Tariff Commission shall determine the apparent United States consumption of watch movements during the preceding calendar year, shall report such determination to the Secretary of the Treasury, the Secretary of the Interior, and Secretary of Commerce, and shall publish such determination in the Federal Register, together with the number of watches and watch movements which are the product of the Virgin Islands, Guam, and American Samoa which may be entered free of duty under paragraph (b) during the calendar year.

"(d) The Secretary of the Interior and the Secretary of Commerce, acting jointly, shall allocate on a fair and equitable basis among producers of watches and watch movements located in the Virgin Islands, Guam, and American Samoa the quotas for each calendar year provided by paragraph (b) for articles which are the product of the Virgin Islands, Guam, and American Samoa, respectively. Allocations made by the Secretaries shall be final. The Secretaries are authorized to issue such regulations as they determine necessary to carry out their duties under this paragraph."

(c) The amendments made by subsections (a) and (b) shall apply only with respect to articles entered, or withdrawn from warehouse, for consumption on or after January 1, 1967.

Variable pressure water channel and ionosonde, duty-free entry.

SEC. 2. (a) The Secretary of the Treasury is authorized and directed to admit free of duty one variable pressure water channel (one-seventh scale model) imported for the use of the Stevens Institute of Technology and one ionosonde (and accompanying spare parts) for the use of the University of Illinois.

(b) If the liquidation of the entry of the articles described in subsection (a) of this section has become final, such entry shall be reliquidated and the appropriate refund of duty shall be made.

Approved November 10, 1966.

of such countries exceeds \$5,000,000 during a calendar year, then all subsequent provisions of credits, guarantees or insurance in any amount, during such year shall be reported to the Board under the provisions of paragraph (1).

(c) The Board shall submit to Congress a quarterly report on trade between the United States and nonmarket economy countries and instrumentalities of such countries. Such report shall include a review of the status of negotiations of bilateral trade agreements between the United States and such countries under this title, the activities of joint trade commissions created pursuant to such agreements, the resolution of commercial disputes between the United States and such countries, any exports from such countries which have caused disruption of United States markets, and recommendations for the promotion of east-west trade in the national interest of the United States. Report to Congress.

## TITLE V—GENERALIZED SYSTEM OF PREFERENCES

### SEC. 501. AUTHORITY TO EXTEND PREFERENCES.

19 USC 2461.

The President may provide duty-free treatment for any eligible article from any beneficiary developing country in accordance with the provisions of this title. In taking any such action, the President shall have due regard for—

- (1) the effect such action will have on furthering the economic development of developing countries;
- (2) the extent to which other major developed countries are undertaking a comparable effort to assist developing countries by granting generalized preferences with respect to imports of products of such countries; and
- (3) the anticipated impact of such action on United States producers of like or directly competitive products.

### SEC. 502. BENEFICIARY DEVELOPING COUNTRY.

19 USC 2462.

(a) (1) For purposes of this title, the term "beneficiary developing country" means any country with respect to which there is in effect an Executive order by the President of the United States designating such country as a beneficiary developing country for purposes of this title. Before the President designates any country as a beneficiary developing country for purposes of this title, he shall notify the House of Representatives and the Senate of his intention to make such designation, together with the considerations entering into such decision. "Beneficiary developing country."

(2) If the President has designated any country as a beneficiary developing country for purposes of this title, he shall not terminate such designation (either by issuing an Executive order for that purpose or by issuing an Executive order which has the effect of terminating such designation) unless, at least 60 days before such termination, he has notified the House of Representatives and the Senate and has notified such country of his intention to terminate such designation, together with the considerations entering into such decision.

(3) For purposes of this title, the term "country" means any foreign country, any overseas dependent territory or possession of a foreign country, or the Trust Territory of the Pacific Islands. In the case of an association of countries which is a free trade area or customs union, the President may by Executive order provide that all members of such association other than members which are barred from designation under subsection (b) shall be treated as one country for purposes of this title. "Country."

50 STAT. 2167

The designation  
re: [unclear]

(b) No designation shall be made under this section with respect to any of the following:

- |   |                                     |
|---|-------------------------------------|
| Australia                                 | Japan                               |
| Austria                                   | Monaco                              |
| Canada                                    | New Zealand                         |
| Czechoslovakia                            | Norway                              |
| European Economic Community member states | Poland                              |
| Finland                                   | Republic of South Africa            |
| Germany (East)                            | Sweden                              |
| Hungary                                   | Switzerland                         |
| Iceland                                   | Union of Soviet Socialist Republics |

In addition, the President shall not designate any country a beneficiary developing country under this section—

(1) if such country is a Communist country, unless (A) the products of such country receive nondiscriminatory treatment, (B) such country is a contracting party to the General Agreement on Tariffs and Trade and a member of the International Monetary Fund, and (C) such country is not dominated or controlled by international communism;

(2) if such country is a member of the Organization of Petroleum Exporting Countries, or a party to any other arrangement of foreign countries, and such country participates in any action pursuant to such arrangement the effect of which is to withhold supplies of vital commodity resources from international trade or to raise the price of such commodities to an unreasonable level and to cause serious disruption of the world economy; withhold supplies of vital commodity resources from international trade or to raise the price of such commodities to an unreasonable level which causes serious disruption of the world economy;

(3) if such country affords preferential treatment to the products of a developed country, other than the United States, which has, or is likely to have, a significant adverse effect on United States commerce, unless the President has received assurances satisfactory to him that such preferential treatment will be eliminated before January 1, 1976, or that action will be taken before January 1, 1976, to assure that there will be no such significant adverse effect, and he reports those assurances to the Congress;

(4) if such country—

(A) has nationalized, expropriated, or otherwise seized ownership or control of property owned by a United States citizen or by a corporation, partnership, or association which is 50 percent or more beneficially owned by United States citizens.

(B) has taken steps to repudiate or nullify an existing contract or agreement with a United States citizen or a corporation, partnership, or association which is 50 percent or more beneficially owned by United States citizens, the effect of which is to nationalize, expropriate, or otherwise seize ownership or control of property so owned, or

(C) has imposed or enforced taxes or other exactions, restrictive maintenance or operational conditions, or other measures with respect to property so owned, the effect of which is to nationalize, expropriate, or otherwise seize ownership or control of such property,

unless—

(D) the President determines that—

(i) prompt, adequate, and effective compensation has been or is being made to such citizen, corporation, partnership, or association,

(ii) good faith negotiations to provide prompt, adequate, and effective compensation under the applicable provisions of international law are in progress, or such country is otherwise taking steps to discharge its obligations under international law with respect to such citizen, corporation, partnership, or association, or

(iii) a dispute involving such citizen, corporation, partnership, or association over compensation for such a seizure has been submitted to arbitration under the provisions of the Convention for the Settlement of Investment Disputes, or in another mutually agreed upon forum, and

promptly furnishes a copy of such determination to the Senate and House of Representatives;

(5) if such country does not take adequate steps to cooperate with the United States to prevent narcotic drugs and other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse Prevention and Control Act of 1970 (21 U.S.C. 812)) produced, processed, or transported in such country from entering the United States unlawfully; and

(6) if such country fails to act in good faith in recognizing as binding or in enforcing arbitral awards in favor of United States citizens or a corporation, partnership or association which is 50 percent or more beneficially owned by United States citizens, which have been made by arbitrators appointed for each case or by permanent arbitral bodies to which the parties involved have submitted their dispute.

Paragraphs (4), (5), and (6) shall not prevent the designation of any country as a beneficiary developing country under this section if the President determines that such designation will be in the national economic interest of the United States and reports such determination to the Congress with his reasons therefor.

(c) In determining whether to designate any country a beneficiary developing country under this section, the President shall take into account—

(1) an expression by such country of its desire to be so designated;

(2) the level of economic development of such country, including its per capita gross national product, the living standards of its inhabitants, and any other economic factors which he deems appropriate;

(3) whether or not the other major developed countries are extending generalized preferential tariff treatment to such country; and

(4) the extent to which such country has assured the United States it will provide equitable and reasonable access to the markets and basic commodity resources of such country.

(d) General headnote 3(a) to the Tariff Schedules of the United States (19 U.S.C. 1202) (relating to products of insular possessions) is amended by adding at the end thereof the following new paragraph:

“(iii) Subject to the limitations imposed under sections 503(b) and 504(c) of the Trade Act of 1974, articles designated eligible articles under section 503 of such Act which are imported from an insular possession of the United States shall receive duty treat-

88 STAT. 2069

ment no less favorable than the treatment afforded such articles imported from a beneficiary developing country under title V of such Act."

Exemptions.  
19 USC 2462.

(e) The President may exempt from the application of paragraph (2) of subsection (b) any country during the period during which such country (A) is a party to a bilateral or multilateral trade agreement to which the United States is also a party if such agreement fulfills the negotiating objectives set forth in section 108 of assuring the United States fair and equitable access at reasonable prices to supplies of articles of commerce important to the economic requirements of the United States and (B) is not in violation of such agreement by action denying the United States such fair and equitable access.

19 USC 2463.

SEC. 503. ELIGIBLE ARTICLES.

(a) The President shall, from time to time, publish and furnish the International Trade Commission with lists of articles which may be considered for designation as eligible articles for purposes of this title. Before any such list is furnished to the Commission, there shall be in effect an Executive order under section 502 designating beneficiary developing countries. The provisions of sections 131, 132, 133, and 134 of this Act shall be complied with as though action under section 501 were action under section 101 of this Act to carry out a trade agreement entered into under section 101. After receiving the advice of the Commission with respect to the listed articles, the President shall designate those articles he considers appropriate to be eligible articles for purposes of this title by Executive order.

Ante, p. 1994,  
1995.  
Ante, p. 1982.

(b) The duty-free treatment provided under section 501 with respect to any eligible article shall apply only—

(1) to an article which is imported directly from a beneficiary developing country into the customs territory of the United States; and

(2) (A) if the sum of (i) the cost or value of the materials produced in the beneficiary developing country plus (ii) the direct costs of processing operations performed in such beneficiary developing country is not less than 35 percent of the appraised value of such article at the time of its entry into the customs territory of the United States; or

(B) if the sum of (i) the cost or value of the materials produced in 2 or more countries which are members of the same association of countries which is treated as one country under section 502(a)(8), plus (ii) the direct costs of processing operations performed in such countries is not less than 50 percent of the appraised value of such article at the time of its entry into the customs territory of the United States.

"Country."

For purposes of paragraph (2)(A), the term "country" does not include an association of countries which is treated as one country under section 502(a)(8) but does include a country which is a member of any such association. The Secretary of the Treasury shall prescribe such regulations as may be necessary to carry out this subsection.

Regulations.

Import-sensitive articles.

(c) (1) The President may not designate any article as an eligible article under subsection (a) if such article is within one of the following categories of import-sensitive articles—

(A) textile and apparel articles which are subject to textile agreements,

(B) watches,

(C) import-sensitive electronic articles,

(D) import-sensitive steel articles,

January 3, 1975

- 93 -

Pub. Law 93-618

88 STAT. 2070

(E) footwear articles specified in items 700.05 through 700.27, 700.29 through 700.53, 700.55.23 through 700.55.75, and 700.60 through 700.80 of the Tariff Schedules of the United States,

19 USC 1202.

(F) import-sensitive semimanufactured and manufactured glass products, and

(G) any other articles which the President determines to be import-sensitive in the context of the Generalized System of Preferences.

(2) No article shall be an eligible article for purposes of this title for any period during which such article is the subject of any action proclaimed pursuant to section 203 of this Act or section 232 or 351 of the Trade Expansion Act of 1962.

Ante, p. 2015.

19 USC 1862,  
1981.

19 USC 2464.

#### SEC. 504. LIMITATIONS ON PREFERENTIAL TREATMENT.

(a) The President may withdraw, suspend, or limit the application of the duty-free treatment accorded under section 501 with respect to any article or with respect to any country; except that no rate of duty may be established in respect of any article pursuant to this section other than the rate which would apply but for this title. In taking any action under this subsection, the President shall consider the factors set forth in sections 501 and 502(c).

(b) The President shall, after complying with the requirements of section 502(a)(2), withdraw or suspend the designation of any country as a beneficiary developing country if, after such designation, he determines that as the result of changed circumstances such country would be barred from designation as a beneficiary developing country under section 502(b). Such country shall cease to be a beneficiary developing country on the day on which the President issues an Executive order revoking his designation of such country under section 502.

Beneficiary  
developing  
country,  
designation  
withdrawal or  
suspension.

(c)(1) Whenever the President determines that any country—

(A) has exported (directly or indirectly) to the United States during a calendar year a quantity of an eligible article having an appraised value in excess of an amount which bears the same ratio to \$25,000,000 as the gross national product of the United States for the preceding calendar year, as determined by the Department of Commerce, bears to the gross national product of the United States for calendar year 1974, or

(B) except as provided in subsection (d), has exported (either directly or indirectly) to the United States a quantity of any eligible article equal to or exceeding 50 percent of the appraised value of the total imports of such article into the United States during any calendar year,

then, not later than 60 days after the close of such calendar year, such country shall not be treated as a beneficiary developing country with respect to such article, except that, if before such 60th day, the President determines and publishes in the Federal Register that, with respect to such country—

Publication  
in Federal  
Register.

(i) there has been an historical preferential trade relationship between the United States and such country,

(ii) there is a treaty or trade agreement in force covering economic relations between such country and the United States, and

(iii) such country does not discriminate against, or impose unjustifiable or unreasonable barriers to, United States commerce, then he may designate, or continue the designation of, such country as a beneficiary developing country with respect to such article.

(2) A country which is no longer treated as a beneficiary developing country with respect to an eligible article by reason of this subsection



88 STAT. 2071

may be redesignated, subject to the provisions of section 502, a beneficiary developing country with respect to such article if imports of such article from such country did not exceed the limitations in paragraph (1) of this subsection during the preceding calendar year.

(d) Subsection (c) (1) (B) does not apply with respect to any eligible article if a like or directly competitive article is not produced on the date of enactment of this Act in the United States.

Puerto Rico,  
imported  
coffee, duty.

(e) No action pursuant to section 501 may affect any tariff duty imposed by the Legislature of Puerto Rico pursuant to section 319 of the Tariff Act of 1930 (19 U.S.C. sec. 1319) on coffee imported into Puerto Rico.

19 USC 2465.

#### SEC. 505. TIME LIMIT ON TITLE; COMPREHENSIVE REVIEW.

(a) No duty-free treatment under this title shall remain in effect after the date which is 10 years after the date of the enactment of this Act.

Presidential  
report to  
Congress.

(b) On or before the date which is 5 years after the date of the enactment of this Act, the President shall submit to the Congress a full and complete report of the operation of this title.

## TITLE VI—GENERAL PROVISIONS

19 USC 2481.

#### SEC. 601. DEFINITIONS.

For purposes of this Act—

(1) The term "duty" includes the rate and form of any import duty, including but not limited to tariff-rate quotas.

(2) The term "other import restriction" includes a limitation, prohibition, charge, and exaction other than duty, imposed on importation or imposed for the regulation of importation. The term does not include any orderly marketing agreement.

(3) The term "ad valorem" includes ad valorem equivalent. Whenever any limitation on the amount by which or to which any rate of duty may be decreased or increased pursuant to a trade agreement is expressed in terms of an ad valorem percentage, the ad valorem amount taken into account for purposes of such limitation shall be determined by the President on the basis of the value of imports of the articles concerned during the most recent representative period.

(4) The term "ad valorem equivalent" means the ad valorem equivalent of a specific rate or, in the case of a combination of rates including a specific rate, the sum of the ad valorem equivalent of the specific rate and of the ad valorem rate. The ad valorem equivalent shall be determined by the President on the basis of the value of imports of the article concerned during the most recent representative period. In determining the value of imports, the President shall utilize, to the maximum extent practicable, the standards of valuation contained in section 402 or 402a of the Tariff Act of 1930 (19 U.S.C. sec. 1401a or 1402) applicable to the article concerned during such representative period.

(5) An imported article is "directly competitive with" a domestic article at an earlier or later stage of processing, and a domestic article is "directly competitive with" an imported article at an earlier or later stage of processing, if the importation of the article has an economic effect on producers of the domestic article comparable to the effect of importation of articles in the same stage of processing as the domestic article. For purposes of this paragraph, the unprocessed article is at an earlier stage of processing.

PUBLIC LAW 94-88—AUG. 9, 1975

89 STAT. 433

Public Law 94-88  
94th Congress

An Act

To amend the Tariff Schedules of the United States to provide duty free treatment to watches and watch movements manufactured in any insular possession of the United States if foreign materials do not exceed 70 percent of the total value of such watches and movements, to amend child support provisions of title IV of the Social Security Act, and for other purposes.

Aug. 9, 1975  
[H.R. 7710]

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That general headnote 3(a) (i) of the Tariff Schedules of the United States (19 U.S.C. 1202) is amended by inserting immediately after "50 percent of their total value" the following: "(or more than 70 percent of their total value with respect to watches and watch movements)".

Certain watches and watch movements, duty suspension; Social Security Act, amendments. 19 USC 1202 note.

SEC. 2. The amendment made by the first section of this Act shall apply with respect to articles entered, or withdrawn from warehouse, for consumption on or after the date of enactment of this Act.

(B) after such aircraft was operational,

(3) is returned to the United States after being so exported without having been advanced in value or improved in condition by any process of manufacture or other means while abroad, and

(4) was entered for consumption before 1970, the rate of duty provided for in item 694.40 on the date of such entry shall, notwithstanding any other provision of law, be assessed upon the full value of such aircraft less the value of such components and materials; and such entry shall, notwithstanding the provisions of section 514 of the Tariff Act of 1930 or any other provision of law, be reliquidated on the basis of such assessment. For the purposes of this section, the value of any such component or material is the cost of such component or material at the time of installation in the aircraft plus the cost of such installation.

19 USC 1514.

#### SEC. 110. WATCHES.

(a) PRODUCTS OF INSULAR POSSESSIONS DEFINED.—Paragraph (a)(i) of headnote 3 of the General Headnotes and Rules of Interpretation is amended by striking out “(or more than 70 percent of the total value with respect to watches and watch movements)”.

19 USC 1202  
note.

(b) RATE OF DUTY ON WATCHES.—Headnote 6 of schedule 7, part 2, subpart E is amended—

(1) by striking out “paragraph (b)” in paragraph (a) and inserting in lieu thereof “paragraphs (b) through (h)”;

(2) by striking out “an insular possession of the United States outside the customs territory of the United States” in paragraph (a), and inserting in lieu thereof “the Virgin Islands, Guam, and American Samoa (hereinafter referred to as the ‘insular possessions’)”; and

(3) by striking out paragraphs (b) through (d) and inserting in lieu thereof the following new paragraphs:

“(b) Watches and watch movements produced or manufactured in a United States insular possession which contain any foreign component may be admitted free of duty without regard to the value of the foreign materials such watches contain if they conform with the provisions of this headnote, but the total quantity of such articles entered free of duty shall not exceed the amounts established by or pursuant to paragraph (c) of this headnote.

“(c) Notwithstanding the provisions of paragraph (b) of this headnote, the provisions of this headnote and the benefits thereunder shall not apply to any article containing any material which is the product of any country with respect to which column 2 rates of duty apply.

“(d)(i) In calendar year 1983 the total quantity of such articles which may be entered free of duty shall not exceed 4,800,000 units.

“(ii) In subsequent calendar years, the Secretary of Commerce and the Secretary of the Interior (hereinafter referred to as the “Secretaries”), acting jointly, shall establish a limit on the quantity which may be entered free of duty during the calendar year, and shall consider whether such limit is in the best interest of the insular possessions and not inconsistent with domestic or international trade policy considerations. The quantity the Secretaries establish in any calendar year under this paragraph shall not—

Limitations.

“(I) exceed 10,000,000 units, or one-ninth of apparent domestic consumption (as determined by the International Trade Com-

mission pursuant to paragraph (d) of this headnote), whichever is greater;

"(II) be decreased by more than 10 percent of the quantity established for the immediately preceding calendar year; and

"(III) be increased to more than 7,000,000 units, or by more than 20 percent of the quantity established for the immediately preceding calendar year, whichever is greater.

Publication in  
Federal  
Register.

"(e) On or before April 1 of each calendar year (beginning with the first year in which watch imports from the United States insular possessions exceed 9,000,000 units), the International Trade Commission shall determine the apparent United States consumption of watches and watch movements (including solid state timepieces) during the preceding calendar year, shall report such determination to the Secretaries, and shall publish such determination in the Federal Register.

"(f)(i) In calendar year 1983, not more than 3,000,000 units of the total quantity of articles described in paragraph (d) which may be entered free of duty shall be the product of the Virgin Islands, not more than 1,200,000 units shall be the product of Guam, and not more than 600,000 units shall be the product of American Samoa.

Territorial  
shares.

"(ii) For calendar year 1984 and thereafter, the Secretaries may establish new territorial shares of the total amount which may be entered free of duty, taking into account the capacity of each territory to produce and ship its assigned amounts. A territory's share in any year shall not be reduced—

"(I) by more than 200,000 units in calendar year 1984 or 1985, and

"(II) by more than 500,000 units in calendar year 1986 or thereafter, except that no territorial share shall be established at less than 500,000 units.

Allocations.

"(g) The Secretaries, acting jointly, shall allocate the calendar year duty exemptions provided by paragraphs (b), (d), and (f) of this headnote on a fair and equitable basis among producers located in the insular possessions, and shall issue appropriate licenses therefor. Allocations made by the Secretaries shall be final. In making the allocations, the Secretaries shall consider the potential impact of territorial production on domestic production of like articles and shall establish allocation criteria (including minimum assembly requirements) that will reasonably maximize the net amount of direct economic benefits to the insular possessions.

"(h)(i) In the case of each calendar year beginning after December 31, 1982, and before January 1, 1995, the Secretaries, acting jointly, shall—

"(I) verify the wages paid by each producer to permanent residents of the insular possessions during the preceding calendar year, and

"(II) issue to each producer (not later than March 1 of such year) a certificate for the applicable amount.

"(ii) For purposes of subparagraph (i), except as provided in subparagraphs (iii) and (iv), the term 'applicable amount' means an amount equal to the sum of—

"(I) 90 percent of the producer's creditable wages on the assembly during the preceding calendar year of the first 300,000 units, plus

"(II) the applicable graduated declining percentage (determined each year by the Secretaries) of the producer's creditable

wages on the assembly during the preceding calendar year of units in excess of 300,000 but not in excess of 750,000.

"(iii) The aggregate amount of all certificates which are issued during any calendar year shall not exceed an amount which bears the same ratio to \$5,000,000 as—

Certificates.

"(I) the gross national product of the United States (as determined by the Secretary of Commerce) for the preceding calendar year, bears to—

"(II) the gross national product of the United States (as so determined) for 1982.

"(iv) (I) Subject to the provision of clause (II), if the amount of the certificates issued under subparagraph (i) would exceed the limit under subparagraph (iii), the applicable amount of each producer's certificate shall be reduced proportionately by the amount of such excess.

"(II) The applicable amount of any producer's certificate shall not be reduced below the amount determined under subparagraph (ii)(I), except that if the application of this clause would result in the aggregate amount of the certificates exceeding the limit under subparagraph (iii), the applicable amount of each producer's certificate shall again be reduced proportionately by the amount of the excess determined after application of this clause.

"(v) Any certificate issued under subparagraph (i) shall entitle the certificate holder to secure the refund of duties equal to the face value of the certificate on watches, watch movements (including solid state timepieces) and, with the exception of discrete cases, parts therefor imported into the customs territory of the United States by the certificate holder. Such refunds shall be made under regulations issued by the Treasury Department. Not more than 5 percent of such refunds may be retained as a reimbursement to the Customs Service for the administrative costs of making the refunds.

Refund.

"(vi) Any certificate issued under subparagraph (i), or any portion thereof, shall be negotiable.

"(vii) Any certificate issued under subparagraph (i) shall expire 1 year from the date of issuance and may be applied against duties on imports of watches and watch movements the entry of which were made within 2 years prior to the date of issuance of the certificate.

Expiration of certificate.

"(viii) For purposes of determining the applicable amount of any producer's certificate to be issued during calendar year 1983, the greater of—

"(I) the producer's creditable wages for calendar year 1982, or

"(II) 60 percent of the producer's creditable wages for calendar year 1981,

shall be considered the creditable wages for calendar year 1982.

"(i) The Secretaries are authorized to issue such regulations, not inconsistent with the provisions of this headnote, as they determine necessary to carry out their respective duties under this headnote. Such regulations shall include minimum assembly requirements. Any duty-free entry determined not to have been made in accordance with applicable regulations shall be subject to the applicable civil remedies and criminal sanctions, and, in addition, the Secretaries may cancel or restrict the license or certificate of any manufacturer found in willful violation of the regulations."

Regulations.

PUBLIC LAW 100-418—AUG. 23, 1988

102 STAT. 1313

allowance shall be made for all detectable moisture and impurities present in, or upon, the imported crude oil or petroleum products.”.

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply with respect to articles entered, or withdrawn from warehouse for consumption, after October 1, 1987.

19 USC 1507  
note.

**SEC. 1903. ELIGIBLE ARTICLES UNDER THE GENERALIZED SYSTEM OF PREFERENCES.**

Section 503(c)(1)(B) of the Trade Act of 1974 (19 U.S.C. 2463(c)(1)(B)) is amended to read as follows:

“(B) watches, except those watches entered after June 30, 1989, that the President specifically determines, after public notice and comment, will not cause material injury to watch or watch band, strap, or bracelet manufacturing and assembly operations in the United States or the United States insular possessions.”.

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**DEPARTMENT OF COMMERCE**

International Trade Administration

**DEPARTMENT OF THE INTERIOR**

Office of Territorial and International Affairs

15 CFR Part 303

[Docket No. 80996-6243]

**Limit on Duty-Free Insular Watches in Calendar Year 1989**

**AGENCIES:** Import Administration, International Trade Administration, Department of Commerce; Office of Territorial and International Affairs, Department of the Interior.

**ACTION:** Final rule.

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**SUMMARY:** Pursuant to Pub. L. 97-496, the Departments of the Interior and Commerce (the Departments) share responsibility for establishing a limit on the quantity of watches and watch movements which may be entered free of duty during each calendar year. The law also requires the Departments to establish the shares of this limited quantity which may be entered from the three insular possessions of the U.S. and the Northern Mariana Islands (NMI). This action maintains during 1989 the existing limit and territorial shares while changing the set aside for new entrant invitations in the Virgin Islands and Guam to 200,000 units each. We have done this by amending 15 CFR 303.14(d)(2) and (3).

**EFFECTIVE DATE:** January 30, 1989.

**FOR FURTHER INFORMATION CONTACT:** Faye Robinson, (202) 377-1660.

**SUPPLEMENTARY INFORMATION:** We published these revisions in proposed form on October 11, 1988 (53 FR 39812) and invited comments. We received no comments.

Accordingly, the Departments are establishing for calendar year 1989 a

total quantity and respective territorial shares as shown in the following table:

Virgin Islands.....	4,700,000
Guam.....	1,000,000
American Samoa.....	500,000
Northern Mariana Islands.....	500,000
Total.....	6,700,000

**Classification:** Executive Order 12291. In accordance with Executive Order 12291 (46 FR 13193, February 19, 1981), the Departments of Commerce and the Interior have determined that this rule does not constitute a "major rule" as defined by Section 1(b) of the Order. It is not likely to result in:

- (1) An annual effect on the economy of \$100 million or more;
- (2) A major increase in costs or prices for consumers, individual industries, Federal, State, or local government agencies, or geographic regions; or
- (3) Significant adverse effects on competition, employment, investment, productivity, innovation, or on the ability of United States-based enterprises to compete with foreign-based enterprises in domestic or export markets.

Therefore, preparation of a Regulatory Impact Analysis is not required.

This regulation was submitted to the Office of Management and Budget for review, as required by Executive Order 12291.

This final rule does not contain policies with Federalism implications sufficient to warrant preparation of a Federalism assessment under Executive Order 12612.

**Regulatory Flexibility Act.** In accordance with the Regulatory Flexibility Act, 5 U.S.C. 601 et seq., the General Counsel of the Department of Commerce has certified that this action will not have a significant economic impact on a substantial number of small entities. Fewer than ten entities are directly affected by this action. The commercial benefits of the program governed by these regulations, for entities both directly and indirectly affected, are less than \$10 million per year.

**Paperwork Reduction Act.** This rule does not contain information collection requirements subject to the Paperwork Reduction Act of 1980, 44 U.S.C. 3501 et seq.

#### List of Subjects in 15 CFR Part 303

Imports, Customs duties and inspection, Watches and jewelry, Marketing quotas, Administrative practice and procedure, Reporting and recordkeeping requirements, American

Samoa, Guam, Virgin Islands, Northern Mariana Islands.

For reasons set forth above, we amend Part 303 as follows:

#### PART 303—(AMENDED)

1. The authority citation for Part 303 continues to read as follows:

Authority: Pub. L. 97-446, 96 Stat. 2329, 2331 (19 U.S.C. 1202 note); Pub. L. 94-241, 90 Stat. 263 (48 U.S.C. 1681, note)

#### § 303.14 (Amended)

2. Section 303.14 is amended by changing "500,000 to 200,000" in § 303.14(d) (2) and (3).

**Timothy N. Bergan,**

*Deputy Assistant Secretary for Import Administration.*

**David Heggstad,**

*Acting Assistant Secretary for Territorial and International Affairs.*

[FR Doc. 88-29909 Filed 12-29-88; 8:45 am]

BILLING CODES 4310-03-M and 2610-02-M



of the United States each year; and raise to \$32,000 the limit on individual creditable wages.

**EFFECTIVE DATE:** Regulation effective December 30, 1988. The changes incorporated in these amendments are effective with respect to entries made and taxes and wages paid on or after January 1, 1989.

**FOR FURTHER INFORMATION CONTACT:** Faye Robinson, (202) 377-1660.

**SUPPLEMENTARY INFORMATION:** We published these revisions in proposed form on October 7, 1988 (53 FR 39486) and invited comments. We received one comment. The comment supported all proposed changes.

Under 5 U.S.C. 553(d)(1) the effective date of this rule need not be delayed for 30 days because this rule relieves a restriction. The restriction is relieved by raising the maximum value of components used in the assembly of duty-free watches from \$80 to \$150 and watch movements from \$30 to \$35.

**Classification:** Executive Order 12291

In accordance with Executive Order 12291 (48 FR 13193, February 19, 1981), the Departments of Commerce and the Interior have determined that this rule does not constitute a "major rule" as defined by Section 1(b) of the Order. It is not likely to result in:

- (1) An annual effect on the economy of \$100 million or more;
- (2) A major increase in costs or prices for consumers, individual industries, Federal, State, or local government agencies, or geographic regions; or
- (3) Significant adverse effects on competition, employment, investment, productivity, innovation, or on the ability of United States-based enterprises to compete with foreign-based enterprises in domestic or export markets.

Therefore, preparation of a Regulatory Impact Analysis is not required.

This regulation was submitted to the Office of Management and Budget for review, as required by Executive Order 12291.

This final rule does not contain policies with Federalism implications sufficient to warrant preparation of a Federalism assessment under Executive Order 12612.

#### Regulatory Flexibility Act

In accordance with the Regulatory Flexibility Act, 5 U.S.C. 601 et seq., the General Counsel of the Department of Commerce has certified that this action will not have a significant economic impact on a substantial number of small entities. Fewer than ten entities are directly affected by this action. The

commercial benefits of the program governed by these regulations, for entities both directly and indirectly affected, are less than \$10 million per year.

#### Paperwork Reduction Act

This rule does not contain information collection requirements subject to the Paperwork Reduction Act of 1980, 44 U.S.C. 3501 et seq.

#### List of Subjects in 15 CFR Part 303

Imports, Customs duties and inspection, Watches and jewelry, Marketing quotas, Administrative practice and procedure, Reporting and recordkeeping requirements, American Samoa, Guam, Virgin Islands, Northern Mariana Islands.

#### PART 303—(AMENDED)

For reasons set forth above, we are amending Part 303 as follows:

1. The authority citation for Part 303 continues to read as follows:

Authority: Pub. L. 97-446, 90 Stat. 2328, 2331 (19 U.S.C. 1202 note); Pub. L. 94-341, 90 Stat. 263 (48 U.S.C. 1681, note)

#### § 303.1 (Amended)

2. Section 303.1(a) is amended by changing the words "Headnote 6 of Schedule 7, Part 2, Subpart E of the Tariff Schedules of the U.S. ("Headnote 6")" to "U.S. Legal Note 5 to Chapter 91 of the Harmonized Tariff Schedule of the United States ("91/5")".

#### §§ 303.1, 303.2, 303.5, and 303.14 (Amended)

3. The terms "Headnote 6" and/or "headnote 3(a)" are changed to read "91/5" each time they appear in 303.1 (a) and (b), 303.2(a) (10), (13), and (14), 303.5(b)(7) and 303.14(a)(1)(i).

#### § 303.3 (Amended)

4. Section 303.3(a) is revised to read as follows:

#### § 303.3 Determination of the total annual duty-exemption.

(a) Procedure for determination. If, after considering the productive capacity of the territorial watch industry and the economic interests of the territories, the Secretaries determine that the amount of the total annual duty-exemption, or the territorial shares of the total amount, should be changed, they shall publish in the Federal Register a proposed limit on the quantity of watch units which may enter duty-free into the customs territory of the United States and proposed territorial shares thereof and, after considering comments, establish the limit and shares by Federal Register notice. If the

#### DEPARTMENT OF COMMERCE

International Trade Administration

#### DEPARTMENT OF THE INTERIOR

Office of Territorial and International Affairs

#### 15 CFR Part 303

(Docket No. 80994-8243)

#### Watch Duty-Exemption Program

**AGENCIES:** Import Administration, International Trade Administration, Department of Commerce; Office of Territorial and International Affairs, Department of the Interior.

**ACTION:** Final rule.

**SUMMARY:** This action amends 15 CFR Part 303, which governs the allocation of duty-exemption entitlements among watch producers in the United States' insular possessions (the Virgin Islands, Guam, and American Samoa) and in the territory of the Northern Mariana Islands. The amendments convert tariff schedule references in the regulations to the new Harmonized Tariff Schedule of the United States; change the formula for allocating territorial shares to a fifty percent weight for creditable wages and fifty percent for units shipped; raise the maximum value of components used in the assembly of duty-free watches and watch movements to \$150 and \$35, respectively; eliminate specific dates for publication of notices on the quantity of watch and watch movement units, and territorial shares thereof, which may enter duty-free into the customs territory

Secretaries take no action under this section, they shall make the allocations in accordance with the limit and shares last established by this procedure.

§ 303.14 (Amended)

5. Section 303.14(a)(1)(i) is amended by changing "Eighty percent" to "Fifty percent" and "\$28,000" to "\$32,000".

6. Section 303.14(a)(1)(ii) is amended by changing "Twenty percent" to "Fifty percent".

7. Section 303.14(b)(3) is amended by changing "\$30" to "\$35" and "\$80" to "\$150".

**Timothy N. Bergen,**

*Deputy Assistant Secretary for Import Administration.*

**David Heggstad,**

*Acting Assistant Secretary for Territorial and International Affairs.*

[FR Doc. 88-28910 Filed 12-29-88; 8:45 am]

501000 0000 210-88-21 4310-00-01

**DEPARTMENT OF COMMERCE**  
**International Trade Administration**  
**DEPARTMENT OF THE INTERIOR**

**Office of the Secretary**  
 (Docket No. 88988-8243)

**Allocation of Duty-Exemptions for Calendar Year 1989 Among Watch Producers Located in the Virgin Islands and Guam**

**AGENCY:** Import Administration, International Trade Administration, Department of Commerce; and Office of the Secretary, Department of the Interior.

**ACTION:** Allocation of duty-exemptions for calendar year 1989 among producers located in the Virgin Islands and Guam.

**SUMMARY:** This action allocates 1989 duty-exemptions for watch producers located in the Virgin Islands and Guam pursuant to Pub. L. 97-446.

**FOR FURTHER INFORMATION CONTACT:** Faye Robinson, (202) 377-1660.

**SUPPLEMENTARY INFORMATION:** Pursuant to Pub. L. 97-446, the Departments of the Interior and Commerce (the Departments) share responsibility for the allocation of duty exemptions among watch assembly firms in the U.S. insular possessions and the Northern Mariana Islands. The total quantity of watches and watch movements which may be entered free of duty from the insular possessions and the Northern Mariana Islands is 6,700,000 units. Of this amount, 4,700,000 units may be allocated to Virgin Islands producers, 1,000,000 to Guam producers, 500,000 to American Samoa producers and 500,000 to Northern Mariana Islands producers (53 FR 52678).

The criteria for the calculation of the 1989 duty-exemption allocations among insular producers are set forth in § 303.14 of the regulations (15 CFR Part 303) as amended on December 29, 1988 (53 FR 52678). The amendments to § 303.14 of the regulations dated December 30, 1988 (53 FR 52904) are not included in the criteria because these amendments were effective only with respect to entries made and wages and taxes paid on or after January 1, 1989.

The Departments have verified the data submitted on application form ITA-334P by producers in the territories and inspected the current operations of all producers in accordance with § 303.5 of the regulations.

The verification established that in calendar year 1988 the Virgin Islands watch assembly firms shipped 3,438,149 watches and watch movements into the customs territory of the United States under Pub. L. 97-446. The dollar amount of creditable corporate income taxes paid by Virgin Islands producers during calendar year 1988 plus the creditable wages paid by the industry during calendar year 1988 to residents of the territory totalled \$8,825,179.

There is only one producer in Guam. Publication of the Guam data, accordingly, would disclose competitively sensitive information. The calendar year 1989 Virgin Islands and Guam annual allocations set forth below are based on the data verified by the Departments in the Virgin Islands and Guam. The allocations reflect adjustments made in data supplied on the producers' annual application forms (ITA Form-334P) as a result of the Departments' verification; and reallocation of duty-exemptions which have been voluntarily relinquished by some producers pursuant to § 303.6(b)(2) of the regulations.

The duty-exemption allocations for calendar year 1989 in the Virgin Islands are as follows:

Name of firm	Annual allocation
Belair Quartz, Inc.	500,000
Hampden Watch Co., Inc.	300,000
Master Time Co., Ltd.	550,000
Progress Watch Co., Inc.	700,000
Unitime Industries, Inc.	770,000
Tropez, Inc.	500,000
Timex, V.I., Inc.	750,000

The duty-exemption allocation for Guam is as follows:

Name of Firm	Annual Allocation
Timewise Ltd.	800,000

Timothy N. Bergan,  
 Deputy Assistant Secretary for Import Administration.

Timothy W. Glidden,  
 Acting Assistant Secretary, for Territorial and International Affairs.

[FR Doc. 89-6013 Filed 3-14-89; 8:45 am]

BILLING CODE 2610-08-12; 4310-02-11



APPENDIX F  
QUESTIONNAIRE PRODUCT CATEGORIES

Watch and Band Categories

<u>Category</u>	<u>Description</u>
	Mechanical watches:
1	With plastic cases.
	With metal cases:
	Wholly of precious metal or clad with precious metal:
2	With back made wholly of precious metal or clad with precious metal.
3	With back made of steel or other materials. Plated with no less than 16 kt gold or precious metal:
4	over 7 microns.
5	3 to 7 microns.
6	1 to 3 microns.
7	less than 1 micron.
8	Other.
	Quartz analog or dual-display watches:
9	With plastic cases.
	With metal cases:
	Wholly of precious metal or clad with precious metal:
10	With back made wholly of precious metal or clad with precious metal.
11	With back made of steel or other materials. Plated with no less than 16 kt gold or precious metal:
12	over 7 microns.
13	3 to 7 microns.
14	1 to 3 microns.
15	less than 1 micron.
16	Other.
	Digital watches:
17	With plastic cases.
	With metal cases:
	Wholly of precious metal or clad with precious metal:
18	With back made wholly of precious metal or clad with precious metal.

<u>Category</u>	<u>Description</u>
19	With back made of steel or other materials. Plated with no less than 16 kt gold or precious metal:
20	over 7 microns.
21	3 to 7 microns.
22	1 to 3 microns.
23	less than 1 micron.
24	Other.
	Watch bands, straps, and bracelets:
	Made of metal:
	Expansion:
25	Clad with gold or precious metal. Plated with no less than 16 kt gold or precious metal:
26	over 7 microns.
27	3 to 7 microns.
28	1 to 3 microns.
29	less than 1 micron.
30	Other.
	Other:
31	Of solid gold or precious metal.
32	Clad with gold or precious metal. Plated with no less than 16 kt gold or precious metal:
33	over 7 microns.
34	3 to 7 microns.
35	1 to 3 microns.
36	less than 1 micron.
37	Other.
38	Made of textile.
39	Made of other material.





APPENDIX G  
CONCORDANCE OF TSUS TO HTSUS

Table A  
 Watches: Harmonized Tariff Schedule item number; HTSUS/TSUSA  
 concordance as of Jan. 1, 1988;

HTS item No.	TSUSA item No.	Percent allocation
9101.11.40	682.95.00	<u>1/</u>
	715.05.09	25
	740.14.00	<u>1/</u>
	740.15.00	<u>1/</u>
9101.11.80	682.95.00	<u>1/</u>
	715.05.11	51
	715.05.19	50
	740.14.00	<u>1/</u>
	740.15.00	<u>1/</u>
9101.12.00	682.95.00	<u>1/</u>
	688.36.10	10
	688.42.50	01
9101.19.40	682.95.00	<u>1/</u>
	715.05.09	03
	740.14.00	<u>1/</u>
	740.15.00	<u>1/</u>
9101.19.80	682.95.00	<u>1/</u>
	715.05.11	02
	715.05.19	03
	740.14.00	<u>1/</u>
	740.15.00	<u>1/</u>
9101.21.40	715.05.80	05
	740.14.00	<u>1/</u>
	740.15.00	<u>1/</u>
9101.21.80	715.05.44	15
	715.05.54	03
	740.14.00	<u>1/</u>
	740.15.00	<u>1/</u>
9101.29.10	715.05.01	24
	715.05.44	10
	740.14.00	<u>1/</u>
	740.15.00	<u>1/</u>
9101.29.20	715.05.04	35
	715.05.44	15
	740.14.00	<u>1/</u>
	740.15.00	<u>1/</u>

See footnote at end of table.

Table A--Continued

Watches: Harmonized Tariff Schedule item number; HTSUS/TSUSA  
concordance as of Jan. 1, 1988

HTS item No.	TSUSA item No.	Percent allocation
9101.29.30	715.05.14	01
	715.05.54	01
	740.14.00	<u>1/</u>
	740.15.00	<u>1/</u>
9101.29.40	715.05.14	15
	715.05.54	02
	740.14.00	<u>1/</u>
	740.15.00	<u>1/</u>
9101.29.50	715.05.14	40
	715.05.54	39
	740.14.00	<u>1/</u>
	740.15.00	<u>1/</u>
9101.29.60	715.05.80	65
	740.14.00	<u>1/</u>
	740.15.00	<u>1/</u>
9101.91.20	682.95.00	<u>1/</u>
	688.36.10	02
	715.05.09	05
9101.91.40	682.95.00	<u>1/</u>
	715.05.01	02
	715.05.09	05
9101.91.80	682.95.00	<u>1/</u>
	715.05.01	02
	715.05.04	02
	715.05.11	03
	715.05.19	04
	715.05.90	02
9101.99.20	715.05.04	02
	715.05.44	10
	715.05.90	22
9101.99.40	715.05.14	01
	715.05.54	01
	715.05.90	15

See footnote at end of table.

Table A--Continued

Watches: Harmonized Tariff Schedule item number; HTSUS/TSUSA  
concordance as of Jan. 1, 1988

HTS item No.	TSUSA item No.	Percent allocation
9101.99.60	715.05.14	02
	715.05.54	03
	715.05.90	10
9101.99.80	715.05.80	05
9102.11.10	386.53.00	<u>1/</u>
	389.62.70	<u>1/</u>
	682.95.00	<u>1/</u>
	715.05.01	02
	715.05.02	03
	715.05.09	15
	715.05.10	17
	740.34.00	02
9102.11.25	740.35.00	03
	386.53.00	<u>1/</u>
	389.62.70	<u>1/</u>
	682.95.00	<u>1/</u>
	715.05.02	02
	715.05.09	06
	715.05.10	09
	740.34.00	01
9102.11.30	740.35.00	02
	715.05.02	02
	715.05.09	10
	715.05.10	17
	774.55.85	<u>1/</u>
	774.58.00	<u>1/</u>
	791.54.00	01
9102.11.45	682.95.00	<u>1/</u>
	715.05.02	03
	715.05.09	06
	715.05.10	07
	774.55.85	<u>1/</u>
	774.58.00	<u>1/</u>

See footnote at end of table.

Table A--Continued

Watches: Harmonized Tariff Schedule item number; HTSUS/TSUSA  
concordance as of Jan. 1, 1988

HTS item No.	TSUSA item No.	Percent allocation
9102.11.50	386.53.00	<u>1/</u>
	389.62.70	<u>1/</u>
	682.95.00	<u>1/</u>
	715.05.04	02
	715.05.08	03
	715.05.11	12
	715.05.12	30
	715.05.19	10
	715.05.20	35
	740.34.00	10
	740.35.00	16
9102.11.65	386.53.00	<u>1/</u>
	389.62.70	<u>1/</u>
	682.95.00	<u>1/</u>
	715.05.08	03
	715.05.11	08
	715.05.12	22
	715.05.19	07
	715.05.20	20
	740.34.00	03
	740.35.00	11
	9102.11.70	682.95.00
715.05.08		03
715.05.11		12
715.05.12		26
715.05.19		13
715.05.20		18
774.55.85		<u>1/</u>
791.54.00		15
9102.11.95	682.95.00	<u>1/</u>
	715.05.08	03
	715.05.11	08
	715.05.12	14
	715.05.19	07
	715.05.20	12
	774.55.85	<u>1/</u>
791.54.00	06	

See footnote at end of table.

Table A--Continued

Watches: Harmonized Tariff Schedule item number; HTSUS/TSUSA  
concordance as of Jan. 1, 1988

HTS item No.	TSUSA item No.	Percent allocation
9102.12.00	682.95.00	<u>1</u> /
	688.36.10	75
	688.42.50	10
9102.19.20	386.53.00	<u>1</u> /
	389.62.70	<u>1</u> /
	682.95.00	<u>1</u> /
	715.05.09	05
	715.05.10	04
	740.34.00	01
	740.35.00	15
9102.19.40	715.05.09	05
	715.05.10	04
	774.55.85	<u>1</u> /
	774.58.00	<u>1</u> /
	791.54.00	01
9102.19.60	386.53.00	<u>1</u> /
	389.62.70	<u>1</u> /
	682.95.00	<u>1</u> /
	715.05.11	01
	715.05.12	02
	715.05.19	02
	715.05.20	08
	740.34.00	01
740.35.00	10	
9102.19.80	682.95.00	<u>1</u> /
	715.05.11	01
	715.05.12	01
	715.05.19	02
	715.05.20	05
	774.58.00	<u>1</u> /
	791.54.00	01

See footnote at end of table.

Table A--Continued

Watches: Harmonized Tariff Schedule item number; HTSUS/TSUSA  
concordance as of Jan. 1, 1988

HTS item No.	TSUSA item No.	Percent allocation
9102.21.10	386.53.00	<u>1</u> /
	389.62.70	<u>1</u> /
	715.05.48	10
	740.34.00	<u>1</u> /
	740.35.00	<u>1</u> /
9102.21.25	715.05.48	05
	774.55.85	<u>1</u> /
	774.58.00	<u>1</u> /
	791.54.00	<u>1</u> /
9102.21.30	386.53.00	<u>1</u> /
	389.62.70	<u>1</u> /
	715.05.44	10
	715.05.48	30
	715.05.54	03
	715.05.58	10
	740.34.00	01
	740.35.00	01
9102.21.50	715.05.44	05
	715.05.48	15
	715.05.58	10
	774.55.85	<u>1</u> /
	774.58.00	<u>1</u> /
	791.54.00	01
9102.21.70	386.53.00	<u>1</u> /
	389.62.70	<u>1</u> /
	715.05.80	03
	715.05.83	20
	715.05.93	05
	740.34.00	<u>1</u> /
	740.35.00	01
9102.21.90	715.05.80	01
	715.05.83	10
	715.05.93	05
	774.55.85	<u>1</u> /
	774.58.00	<u>1</u> /
	791.54.00	02

See footnotes at end of table.

Table A--Continued

Watches: Harmonized Tariff Schedule item number; HTSUS/TSUSA  
concordance as of Jan. 1, 1988

HTS item No.	TSUSA item No.	Percent allocation
9102.29.05	386.53.00	1/
	389.62.70	1/
	715.05.01	35
	715.05.02	44
	715.05.44	15
	715.05.48	05
	740.34.00	06
	740.35.00	03
9102.29.10	715.05.01	28
	715.05.02	30
	715.05.44	05
	715.05.48	05
	774.55.85	1/
	774.58.00	1/
	791.54.00	01
9102.29.15	386.53.00	1/
	389.62.70	1/
	715.05.04	26
	715.05.08	58
	715.05.44	05
	715.05.48	15
	740.34.00	11
	740.35.00	01
9102.29.20	715.05.04	26
	715.05.08	15
	715.05.44	05
	715.05.48	10
	774.55.85	1/
	774.58.00	1/
	791.54.00	02
9102.29.25	386.53.00	1/
	389.62.70	1/
	715.05.14	02
	715.05.18	05
	715.05.54	02
	715.05.58	05
	740.34.00	14
	740.35.00	02

See footnote at end of table.



Table A--Continued

Watches: Harmonized Tariff Schedule item number; HTSUS/TSUSA  
concordance as of Jan. 1, 1988

HTS item No.	TSUSA item No.	Percent allocation
9102.29.30	715.05.14	01
	715.05.18	10
	715.05.54	02
	715.05.58	05
	774.55.85	<u>1/</u>
	774.58.00	<u>1/</u>
	791.54.00	01
9102.29.35	386.53.00	<u>1/</u>
	389.62.70	<u>1/</u>
	715.05.14	15
	715.05.18	30
	715.05.54	04
	715.05.58	10
	740.34.00	37
	740.35.00	06
	774.55.85	<u>1/</u>
774.58.00	<u>1/</u>	
9102.29.40	715.05.14	05
	715.05.18	10
	715.05.54	02
	715.05.58	10
	791.54.00	05
9102.29.45	386.53.00	<u>1/</u>
	389.62.70	<u>1/</u>
	715.05.14	10
	715.05.18	20
	715.05.54	25
	715.05.58	20
	740.34.00	06
	740.35.00	06
9102.29.50	715.05.14	05
	715.05.18	10
	715.05.54	10
	715.05.58	20
	774.55.85	<u>1/</u>
	774.58.00	<u>1/</u>
	791.54.00	09

See footnote at end of table.

Table A--Continued

Watches: Harmonized Tariff Schedule item number; HTSUS/TSUSA  
concordance as of Jan. 1, 1988

HTS item No.	TSUSA item No.	Percent allocation
9102.29.55	386.53.00	<u>1</u> /
	389.62.70	<u>1</u> /
	715.05.80	15
	715.05.83	40
	740.34.00	01
	740.35.00	02
9102.29.60	715.05.80	05
	715.05.83	20
	774.55.85	<u>1</u> /
	774.58.00	<u>1</u> /
	791.54.00	01
9102.91.20	682.95.00	<u>1</u> /
	688.36.10	13
	715.05.02	05
	715.05.09	10
	715.05.10	35
	715.05.93	32
9102.91.40	682.95.00	<u>1</u> /
	715.05.01	02
	715.05.02	02
	715.05.09	05
	715.05.10	07
	715.05.93	16
9102.91.80	682.95.00	<u>1</u> /
	715.05.04	02
	715.05.08	03
	715.05.11	02
	715.05.12	05
	715.05.19	02
	715.05.20	02
	715.05.90	04
	715.05.93	07
9102.99.20	715.05.01	05
	715.05.02	09
	715.05.04	05
	715.05.08	12

See footnote at end of table.

Table A--Continued

Watches: Harmonized Tariff Schedule item number; HTSUS/TSUSA  
concordance as of Jan. 1, 1988

HTS item No.	TSUSA item No.	Percent allocation
9102.99.20--Con.	715.05.44	05
	715.05.48	05
	715.05.90	22
	715.05.93	30
9102.99.40	715.05.14	02
	715.05.18	10
	715.05.54	01
	715.05.58	05
	715.05.90	15
	715.05.93	05
9102.99.60	715.05.14	01
	715.05.18	05
	715.05.54	02
	715.05.58	05
	715.05.90	10
9102.99.80	715.05.80	01
	715.05.83	10
9113.10.00	740.14.00	<u>1</u> /
	740.15.00	<u>1</u> /
	740.34.00	06
9113.20.20	740.34.00	06
9113.20.40	740.35.00	21
9113.20.60	740.38.00	01
	740.39.00	100
9113.20.90	740.38.00	04
	740.41.00	05
9113.90.40	386.53.00	<u>1</u> /
	389.62.70	<u>1</u> /
9113.90.80	774.55.85	<u>1</u> /
	774.58.00	<u>1</u> /
	791.54.00	09

1/ Less than 1 percent allocation.



APPENDIX H

U.S. PRODUCTION, SHIPMENTS, AND PURCHASES OF WATCH PARTS

The Commission did not send questionnaires to all producers of the various parts/components used in assembling watches and watch bands, straps, and bracelets. Many producers of such components manufacture products used in other industries. The watch parts that these companies produce generally are a small part of their overall operations. 1/ Nonetheless, the companies sell their products to watch assemblers in the United States and the U.S. Virgin Islands. Therefore, Commission staff interviewed officials from U.S. companies mentioned as sources for watch parts such as dials and cases. In addition, U.S. and U.S. insular possessions assemblers were requested to provide information on purchase of various watch parts for the 1986-88 period (tables H-1 and H-2).

As both tables indicate, purchases of components manufactured in the United States have grown over the 3-year period; purchases made by U.S. assemblers \* \* \*

(table H-2).

Of the watch assemblers that received a Commission questionnaire \* \* \*  
\* \* \*

over the 1986-88 period. The company also

\* \* \*  
\* \* \*

Commission staff collected information concerning employment and production trends from four U.S. producers of watch cases and one producer of dials. \* \* \*

\* \* \*

\* \* \*

\* \* \*

The companies also provided information regarding production trends.

\* \* \*  
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1/ For example, batteries used in watches are considered to be watch parts. Watch batteries reportedly account for a fraction of total production for large battery producers such as \* \* \* \* \* \* \* \* H-2

\* \* \*

Table H-1  
 Watch parts: U.S. assemblers purchases, 1986-88

(In 1,000 dollars)

Item	1986	1987	1988
Watch parts (except bands, straps, and bracelets):			
Produced/assembled in United States.....	***	***	***
Other nonimport purchases.....	***	***	***
Total.....	***	***	***

Source: Compiled from data submitted by \*\*\* firms in response to questionnaires of the U.S. International Trade Commission.

Table H-2  
 Watch parts: U.S. insular possessions assemblers purchases, 1986-88

(In 1,000 dollars)

Item	1986	1987	1988
Watch parts (except bands, straps, and bracelets):			
Produced/assembled in United States.....	***	***	***
Other nonimport purchases.....	***	***	***
Total.....	***	***	***

Source: Compiled from data submitted by \*\*\* firms in response to questionnaires of the U.S. International Trade Commission.

\* \* \*

\* \* \*

. 1/ The U.S. producer of

\* \* \*

employment or production. 2/

1/ Staff interview on Mar. 3 and 4, 1989, with \* \* \*

2/ Nonetheless, a spokesman





APPENDIX I

IMPACT OR POTENTIAL IMPACT ON PRODUCERS' GROWTH, INVESTMENT, AND ABILITY TO  
RAISE CAPITAL IF WATCHES BECOME ELIGIBLE FOR DUTY-FREE TREATMENT UNDER  
THE GENERALIZED SYSTEM OF PREFERENCES

The Commission requested producers to describe and explain the actual and potential negative effects, if any, (if watches become eligible for duty-free treatment under the Generalized System of Preferences, (GSP)) on their existing development and production efforts, growth, investments and ability to raise capital. Respondents were asked to indicate the product, the company, and the impact. Their responses are shown below.

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APPENDIX J

SELECTED U.S. CUSTOMS RULINGS PERTAINING TO WATCHES

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(T.D. 80-146)

**Watches and Watch Movements**

**Tariff treatment under general headnote 3(a), Tariff Schedules of the United States: Change of practice**

**AGENCY:** U.S. Customs Service, Department of the Treasury.

**ACTION:** Change of practice.

**SUMMARY:** This document gives notice that the Customs Service has reviewed the current practice of according duty-free treatment to watches and watch movements pursuant to general headnote 3(a), Tariff Schedules of the United States (TSUS). The Customs Service had ruled that certain watches and watch movements assembled in the insular possessions from foreign watch subassemblies and parts satisfy the general headnote 3(a), TSUS, requirement of having been manufactured or produced in the insular possessions. Watches and watch movements which do not qualify for tariff treatment under general headnote 3(a), TSUS, are dutiable pursuant to subpart E, part 2, schedule 7, TSUS.

The Customs Service also had ruled that watch movements which are cased in the possessions are not considered as single entities, but rather are constructively separated for the purpose of determining whether the movement and the watch case have each been subjected to a level of processing in the insular possessions which would bring the duty-free provision of general headnote 3(a) into operation.

The longstanding practice of the Customs Service is changed in this area in that certain objective measures are established, where none previously existed, by which it can be determined whether a watch or watch movement has become a production or manufacture of the insular possessions. Further, the practice of considering the movement and case separately is changed and watches will be regarded in a unitary fashion, thus making it possible for a cased watch movement to be entered as an entirety.



T.D. 80-146]

310

**DATES:** This change of practice will be effective with respect to merchandise entering the Customs Territory of the United States on or after the 90th day following publication of this notice in the Federal Register, except that it is effective on publication with respect to the change of practice regarding the casing of watch movements.

**FOR FURTHER INFORMATION CONTACT:** Larry L. Burton, Classification and Value Division, U.S. Customs Service, 1301 Constitution Avenue NW., Washington, D.C. 20229; 202-566-5727.

**SUPPLEMENTARY INFORMATION:**

**BACKGROUND**

Under a uniform and established practice, the Customs Service accords duty-free treatment to importations of certain watches and watch movements from the insular possessions, pursuant to general headnote 3(a), TSUS.

**GENERAL HEADNOTE 3(a), TSUS**

Under general headnote 3(a), TSUS, watches and watch movements imported from an insular possession may enter the Customs territory of the United States free of duty if they:

- (1) Are manufactured or produced in the possession;
- (2) Do not contain foreign materials which represent more than 70 percent of their total value; and
- (3) Come directly to the Customs territory of the United States from the possession.

In order to satisfy the manufactured or produced requirements of general headnote 3(a), TSUS, a new and different article of commerce must result from the operations performed in the insular possession.

The insular possessions include the Virgin Islands, American Samoa, and Guam. The Customs territory of the United States includes the 50 States, the District of Columbia, and Puerto Rico.

General headnote 3(a), TSUS, embodies a legislative intent to promote the growth of the economies of the insular possessions by stimulating the development of light industry, such as watch assembly. (S. Rept. No. 94-273, 94th Cong., 1st sess. (1975), reprinted in 1975 United States Code Cong. Ad. News at 884, et seq.)

Because of concern that the legislative intent was not being given full effect, a notice was published in the December 11, 1978, Federal Register (43 F.R. 57921) stating that the Customs Service was considering a change in the practice of affording duty-free entry to watches and watch movements imported from the insular possessions. Of particular concern were so-called "low labor" watches and watch movements which were subjected to minimal assembly processes in the

possessions. The threshold question was whether a product or manufacture of the possessions resulted from the limited assembly operations.

Comments were received and considered and on September 17, 1979, a proposed change of practice was published in the Federal Register (44 F.R. 53759), wherein the comments were summarized and a framework for watch assembly requirements was presented. The purpose of the outlined formula presented was to provide the basis for establishment of objective measures, by which the sufficiency of assembly operations could be gauged in light of the congressional intent behind general headnote 3(a), TSUS.

#### DISCUSSION OF COMMENTS

The Customs Service has received 15 submissions commenting upon the September 17, 1979, Federal Register notice. The commenters generally support any effort on the part of Customs to further the legislative intent. Some commenters give wholehearted endorsement to the program as it appeared in the Federal Register notice. The majority, however, indicate that if the Customs Service instituted a change, the requirements would have to be much more detailed and extensively explained than the rather attenuated outline which was published for comment. Nine of the commenters state full support for any move to treat a cased movement as a single entity for tariff purposes. The remaining commenters do not address the cased movement issue. Finally, several of them urge watch assembly alternatives in the form of substitute operations which would require the same or even an increased degree of labor input in the possessions as contemplated in the formula outlined in the September 17, 1979, publication, but which would lend a certain flexibility to the requirements. This would be especially helpful to assemblers in the possessions who receive component parts in configurations which may not conform to the Customs guidelines. By using the guidelines, it will be determined whether a particular watch or watch movement is a manufacture or production of the possessions.

In responding to the comments, we wish to make it clear that the need for detailed requirements is recognized, and we believe that the guidelines which follow will adequately address the need perceived by the commenters. On the matter of substitute assembly operations, we too believe that the inclusion of such a provision would help create a more flexible program, especially for assemblers whose suppliers provide them with component parts in configurations which do not conform to the guidelines set forth. We recognize that parts suppliers provide components to assemblers in a multitude of configurations. We believe that providing for assembly alternatives will make it less burdensome for parties to conform to the new standards without major changes in shipment practices.

## CHANGE OF PRACTICE

The Customs Service will be guided by the following objective measures in determining whether a watch movement assembled in the insular possessions has been subjected to a sufficient process of manufacture.

A. For conventional balance wheel and hairspring watch movements, of the following four major assembly operations, no fewer than two must be performed in the insular possessions as set forth below, with the exception that alternative assembly operations may be permitted as indicated:

1. Assembly of escapement from:
  - a. Balance assembly consisting of:
    - (1) Balance subassembly (fully preassembled is acceptable).
    - (2) Balance cock screws.
  - b. Escapement subassembly consisting of:
    - (1) Pallet.
    - (2) Pallet cock.
    - (3) Pallet cock screws.
2. Assembly of gear train from:
  - (1) Third wheel.
  - (2) Fourth wheel.
  - (3) Center wheel.
  - (4) Train wheel bridge.
  - (5) Escape wheel.
  - (6) Bridge screws.
3. Assembly of winding and setting mechanism from:
  - (1) Winding stem.
  - (2) Winding pinion.
  - (3) Setting lever.
  - (4) Clutch lever (yoke).
  - (5) Setting lever spring.
  - (6) Clutch wheel.
  - (7) Setting wheel.
  - (8) Setting lever screw.
  - (9) Minute wheel or minute pinion.
4. Assembly of barrel mechanism from:
  - a. Barrel subassembly consisting of:
    - (1) Barrel.
    - (2) Barrel arbor.
    - (3) Mainspring.
    - (4) Barrel cover.

## b. Barrel bridge subassembly consisting of:

- (1) Barrel bridge.
- (2) Crown wheel.
- (3) Crown wheel ring.
- (4) Crown wheel screw.
- (5) Click.
- (6) Click spring.
- (7) Ratchet wheel.
- (8) Ratchet wheel screw.
- (9) Barrel bridge screw(s).

## c. Joining barrel and barrel bridge subassemblies.

*Alternative assembly operations*

As an alternative to completion of two of the four major operations listed above, an assembler may choose to complete one such operation, and in addition complete a minimum of two of the following operations as a substitute for one major operation; provided, however, that no manufacturing process shall be deemed sufficient if, in the judgment of the appropriate Customs officer, it does not involve processing in the insular possessions at a level at least equal to that entailed in the completion of two of the four major assembly operations listed above. The alternative operations are:

## 1. Dialing and handing completed from:

- (1) Dial.
- (2) Minute hand.
- (3) Hour hand.
- (4) Hour wheel.
- (5) Hour wheel washer.
- (6) Dial screws.

## 2. Automatic mechanism assembly completed from:

## (a) Automatic mechanism subassembly consisting of:

- (1) Framework.
- (2) Framework screw.
- (3) Stop click.
- (4) Stop click screw.
- (5) Reduction gear.
- (6) Transmission wheel.
- (7) Pinion.
- (8) Bridge.
- (9) Bridge screw.

## (b) Combining subassembly "a" with:

- (1) Oscillating weight.
- (2) Gib.
- (3) Gib screw.

3. Day/Date Calendar Assembly completed from:

a. Calendar plate subassembly consisting of:

- (1) Date jumper.
- (2) Date jumper spring.
- (3) Date dial guard.
- (4) Date dial guard screws.
- (5) Day jumper.
- (6) Day jumper screw.
- (7) Day jumper spring.
- (8) Date dial.

b. Combining subassembly "a" with:

- (1) Day/date driving wheel.
- (2) Day star with disc.
- (3) Calendar plate screws.

4. Possibly casing (see below).

B. For electronic quartz watch movements (analog) of the following major assembly operations, no fewer than two must be performed in the insular possessions as set forth below, with the exception that alternative assembly operations may be permitted as indicated.

Further, if assembly of the power source is performed as one of the major assembly operations, one alternative assembly operation must be performed in addition to the two major assembly steps undertaken. Alternative operations are designated after the following description of the four major assembly operations.

1. Assembly of coil support and circuit from:

- (1) Circuit (fully preassembled is acceptable).
- (2) Coil support screws.

2. Assembly of train from:

- (1) Center tube.
- (2) Rotor.
- (3) Train wheels.
- (4) Train wheel bridge seats.
- (5) Stop lever.
- (6) Train wheel bridge.
- (7) Train bridge screws.

3. Assembly of function control, dial-side train assembly, and setting mechanism from:

- (1) Minute wheel.
- (2) Hour wheel.
- (3) Setting wheel.
- (4) Minute train cover.
- (5) Minute train cover screws.
- (6) Yoke setting lever.
- (7) Yoke spring.

- (8) Setting level jumper.
  - (9) Setting lever screws.
4. Assembly of power source from:
- (1) Battery.
  - (2) Bridle.
  - (3) Bridle screw(s).

*Alternative assembly operations*

As an alternative to completion of two of the four major operations listed above for analog quartz watch movements, an assembler may choose to complete only one such operation and, in addition thereto, complete two of the operations which follow as a substitute for one major operation. Provided, however, that no manufacturing process shall be deemed sufficient if, in the judgment of the appropriate Customs officer, it does not involve processing in the insular possessions at a level at least equal to that entailed in the completion of two of the four major assembly operations listed above. However, assembly of the power source will not be permitted to constitute the sole major assembly operation employed. The alternative assembly operations are:

- (1) Dialing and handing (completed as for conventional watch movements).
- (2) Day/Date calendar assembly (completed as for conventional watch movements).
- (3) Possibly casing (see below).

*Casing of watch movements (conventional and analog)*

The Customs Service will regard cased watch movements (watches) from the insular possessions as single entities for tariff purposes. The watch, viewed in a unitary fashion, must meet the general headnote 3(a) TSUS, criteria for duty-free entry as detailed earlier in this document. Watch movements which meet the assembly criteria set forth above may be placed in watch cases which arrive in the insular possessions in any degree of preassembly, or if the watch case is assembled in the insular possessions from at least seven discrete components, the case assembly process will be regarded as an additional alternative assembly step which may be freely substituted for major assembly operations, subject only to the same limitations which apply to the other alternative steps.

**DRAFTING INFORMATION**

The principal author of this notice was Larry L. Burton, Office of Regulations and Rulings, U.S. Customs Service. However, personnel from other Federal agencies as well as other offices of the U.S. Customs



J-9  
DEPARTMENT OF THE TREASURY  
U.S. CUSTOMS SERVICE



WASHINGTON  
Dec 5 9 22 AM '80

DEC 1 1980

REFER TO  
MAR-02 RRUEE  
714322 FUG

AREA DIRECTOR'S OFFICE

Area Director of Customs  
J.F.K. Airport  
New York, New York 11430

*J. M. ...*

*12/15/80*

Dear Sir:

This is in response to your telex received by this office on September 18, 1980, in which you requested clarification of external country of origin marking requirements under 19 U.S.C. 1304 and 19 C.F.R. 134.11 with regard to watches. You present various practices to us with regard to marking that your office finds acceptable. In order to have uniformity in marking, you request our evaluation of your current practices in this area. You ask for this clarification in light of the change, as of January 1, 1980, in Schedule 7, Part 2, Subpart C, Headnote 4, permitting importers the option of marking the face of the watch or reverse side of the dial with the country of origin.

With regard to conventional watches, if the dial and movement are produced and the watch is assembled in the same country, we would accept either marking on the face of the dial or the outside back cover of the watch case. If the dial and movement are produced in two different countries and assembled in a third country, we would agree that the place of final assembly of a watch movement is the country of origin of watches. The country of origin should be indicated as such on the outside back cover of the watch case or the face of the dial, in addition to the other required markings for the movement and the dial.

Customs considers the country of origin to be the country of manufacture of the watch movements, or in the case of solid state modules, the country of manufacture of the modules. In the place of final assembly of the movements, a substantial transformation takes place. There is no further substantial transformation for purposes of 19 U.S.C. 1304 by the addition of the case, dial hands and watchband. The hands of a watch add definition to a time piece, but do not change the character or use of the watch movement which is the "guts" of the watch.

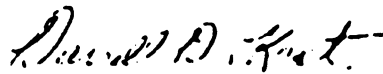
29

-2-

This office agrees with your position that on nonconventional watches it is acceptable to mark the digital frame or the outside back cover of the watch case to indicate the country of origin.

Headnote 4 of Schedule (7), Tariff Schedules of the United States (TSUS), sets out the methods of marking movements, case or dial to be cutting, die-sinking, engraving, or stamping. Those are the only acceptable methods, therefore, gummed labels are unacceptable.

Sincerely,

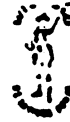


Darrell D. Kast  
Chief, Entry, Licensing and  
Restricted Merchandise Branch





DEPARTMENT OF THE TREASURY  
U.S. CUSTOMS SERVICE  
WASHINGTON



NOTE TO  
R:CV:S JLJ  
055687

This ruling concerns certain electrolytes and anodes used in an electroplating process in a beneficiary developing country (BDC) and asserted to be substantially transformed constituent materials or direct costs of processing operations under the Generalized System of Preferences (GSP).

**ISSUES:** 1. Are potassium gold cyanide, nickel chloride, and nickel anodes substantially transformed into new and different articles of commerce during an electroplating process so as to be materials produced in a BDC within the meaning of section 503(b)(2)(A)(i) of the Trade Act of 1974?

2. Are hydrochloric acid, potassium citrate, and platinum-clad titanium anodes direct costs of processing operations in a BDC within the meaning of section 503(b)(2)(A)(ii) of the Trade Act of 1974 if such materials are consumed in an electroplating process without becoming part of the finished product?

**FACTS:** An article eligible for duty-free treatment under the GSP will be electroplated in a BDC with the use of nickel chloride, nickel anodes, potassium gold cyanide, hydrochloric acid, potassium citrate, and platinum-clad titanium anodes. All of these materials will be imported into the BDC. The processing to be performed in the BDC is described as follows: cleaning of the article to be plated, rinsing twice with water, dipping in hydrochloric acid, rinsing twice more with water, electroplating with nickel, rinsing three times with water, electroplating with gold, and rinsing and drying.

The pure nickel deposit will provide a suitable base for the 22-karat gold plating. The source of the nickel plating will be the nickel chloride and nickel anodes, and the source of the gold plating will be the potassium gold cyanide. The hydrochloric acid, potassium citrate, and platinum-clad titanium anodes will be consumed in the processing and will not become part of the plated article.

**LAW & ANALYSIS:**

Under section 503(b)(2)(A)(i), Trade Act of 1974, the cost or value of materials used in the production of a GSP-eligible article is includable in the 35 percent value-added requirement for that article if the materials are produced in the BDC which manufactures the eligible article. To be such materials, section 10.177(a) of the Customs Regulations (19 CFR 10.177(a)) requires that materials which are not wholly the growth, product, or manufacture of the BDC must be substantially transformed in the BDC into new and different articles of

- 2 -

commerce prior to being used in the manufacture of the eligible article.

The gold or nickel salts are chemical compounds which, when placed into an electrolytic solution, are dissociated into positive and negative ions. The positive gold or nickel ions are then plated out as free metal onto an article by passing an electric current through the solution. Similarly, the nickel anode is soluble in the electrolyte and is a source of ionic nickel which is then plated out as a free metal during the nickel plating process.

The Customs Service is of the opinion that there are no constituent materials which come into existence as intermediate entities. Under 19 CFR 10.177(a)(2) it is presupposed that the constituent materials, which are new and different articles of commerce produced by a substantial transformation, have a separate existence apart from their imported condition and from the exported article. The imported materials in question are deposited directly by the electroplating process onto the eligible article. They do not become intermediate products having a separate existence apart from their condition as materials imported into the BDC or as integral parts of the eligible article.

To hold otherwise would invite clearly unacceptable analogous arguments such as the argument that foreign-made paint, for example, becomes a substantially transformed constituent material by virtue of the chemical changes associated with drying and curing after application to a product of a BDC.

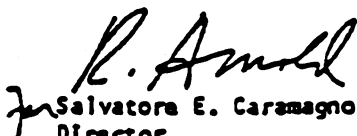
As to the second issue, section 503(b)(2)(A)(ii) of the Trade Act of 1974 provides that direct costs of processing operations are includable in the 35 percent value-added requirement under the GSP. Section 10.178(a) of the Customs Regulations (19 CFR 10.178(a)) states that "direct costs of processing operations" means those costs either directly incurred in, or which can be reasonably allocated to, the growth, production, manufacture, or assembly of the specific merchandise under consideration.

The hydrochloric acid, potassium citrate, and platinum-clad titanium anodes are consumed in the electroplating process without becoming part of the eligible article. However, these materials are essential to the processing operation. Consequently, the costs of such materials or supplies, whether imported or domestic, are costs directly incurred in the process by which the eligible article is electroplated in the BDC.

**HOLDINGS:** 1. The electroplating process by which the metals contained in nickel chloride, potassium gold cyanide, and nickel anodes are plated out as free metal on a GSP-eligible article does not result in substantially transformed constituent materials within the law and regulations of the GSP.

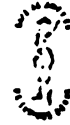
- 3 -

2. The costs of the hydrochloric acid, potassium citrate, and platinum-clad titanium anodes which are consumed during the electroplating of an eligible article are direct costs of processing operations within the law and regulations of the GSP.

  
for Salvatore E. Caramagno  
Director  
Classification & Value Division



DEPARTMENT OF THE TREASURY  
U.S. CUSTOMS SERVICE  
WASHINGTON



MAR 31 1980

REF TO  
CLA-2-RRUCV BS  
542092

[REDACTED]

Dear [REDACTED]

This is in reference to your letter dated February 12, 1980, in which you requested a ruling with regard to the eligibility of certain articles for duty free treatment under the Generalized System of Preferences (GSP).

In our ruling of August 20, 1979, copy enclosed, we held the following:

1. The electroplating process by which the metals contained in nickel chloride, potassium gold cyanide, and nickel anodes are plated out as free metals in a GSP-eligible article does not result in substantially transformed constituent materials within the law and regulations of the GSP;
2. The costs of the hydrochloric acid, potassium citrate, and platinum-clad titanium anodes which are consumed during the electroplating of an eligible article are direct costs of processing operations within the law and regulations of the GSP.

You now advise that part of the operation, previously performed by the exporting manufacturer, will be subcontracted to an independent producer also located in the beneficiary developing country ("bdc"). This subcontractor will be required to purchase and import the nickel chloride, potassium gold cyanide, and nickel anodes.

In your opinion, this change should justify a different decision than contained in our prior ruling, for the reason that when the electroplating is performed by a subcontractor, the full price charged should be considered a direct cost of processing operation of the exporting manufacturer. You believe that these materials should be treated similarly to assists, since we have held in prior rulings that there is no

REF TO: COMMISSIONER OF CUSTOMS, WASHINGTON, D.C. 20229

- 2 -


beneficiary developing country of origin requirement for dies, molds, tooling, etc., which are furnished free of charge (or at a reduced value) to the manufacturer.

Under section 10.178(a), Customs Regulations, the "direct costs of processing operations" means those costs either directly incurred in, or which can be reasonably allocated to, the growth, production, manufacture, or assembly of the specific merchandise under consideration. Included among these costs are dies, molds, tooling and depreciation on machinery and equipment which are allocable to the specific merchandise.

We have previously held that if an assist is otherwise a direct cost of processing operations, it is not required that the cost of such item be incurred within the bdc. However, assists in the form of materials, unless consumed in the manufacturing process, are part of the manufactured article, and therefore are not direct costs of processing operations. The eligibility of these materials for use in determining whether the 35 percent requirement is satisfied depends on whether the bdc is the country of production. In this regard, it makes no difference whether the materials were furnished at less than full value. Furthermore, we find no difference whether the work is subcontracted to an independent producer in the bdc, or performed by the primary manufacturer.

Under the circumstances, we find that whether the electroplating process is performed by the independent contractor or the primary manufacturer, the cost or value of the potassium gold cyanide, nickel chloride, and nickel anodes is not a direct cost of processing operations performed in the bdc. On the other hand, the materials that are consumed in the electroplating process are direct costs of processing operations.

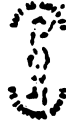
Sincerely,

*for*   
Salvatore E. Caramagno  
Director  
Classification and Value Division

Enclosure



DEPARTMENT OF THE TREASURY  
U.S. CUSTOMS SERVICE  
WASHINGTON



MAY 14 1980.

CLA-2: RRCS  
063752 LLB



Dear [Redacted]

In your letter of May 1, 1980, you request a ruling regarding the qualification of a certain component for treatment under the Generalized System of Preferences (GSP).

You state that gold will be mined in a Beneficiary Developing Country (BDC), for eventual use in electroplating a GSP eligible article. The gold, as mined, will be shipped to a non-BDC for electrolytic conversion to potassium gold cyanide.

The cyanide is then returned to the BDC in which the gold was mined, and is used to electroplate the GSP eligible item. You urge that the purchase price of the gold, as mined, should be considered local content of the BDC.

We are of the opinion that the gold-bearing material electroplated onto the qualifying articles is so radically changed from the gold as initially mined and purchased, as to constitute an entirely different commodity. Such a substantial conversion takes place in the non-BDC, that the potassium gold cyanide becomes a product of that country and cannot be considered local content for GSP valuation purposes.

Sincerely,

Russell Arnold  
Chief  
Special Classification Branch

APPENDIX K

IMPACT ON MARKET SHARE, PROFITS, AND GENERAL COMPETITIVENESS IF WATCHES  
BECOME ELIGIBLE FOR DUTY-FREE TREATMENT UNDER THE GENERALIZED SYSTEM  
OF PREFERENCES

The Commission requested questionnaire respondents to describe and explain the effect, if any, on their market share, profits, and general competitiveness if watches become eligible for duty-free treatment under the Generalized System of Preferences. Their responses are shown below:

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