PRODUCTION SHARING: U.S. IMPORTS UNDER HARMONIZED TARIFF SCHEDULE SUBHEADINGS 9802.00.60 AND 9802.00.80, 1986—1989

Summary Report

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This report was prepared principally by,
Laura Rodriguez–Archila, Project Leader

Agriculture, Fisheries, and Forest Products Division
Rick Rhodes, Coordinator

Textiles, Leather Products, and Apparel Division
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Services and Electronic Technology Division
John Kitzmiller, Coordinator

Machinery and Equipment Division
Michael Hagey, Coordinator

Minerals and Metals Division
Deborah McNay, Coordinator

General Manufactures Division
Hazel L. Robinson, Coordinator
Christopher Johnson, Josephine Spalding, Stacy Bannister,
Phyllis Boone, Janice Wayne, Brenda Young, and
Ralph J. Watkins, Chief
Miscellaneous Manufactures Branch

under the direction of
Walter S. Trezevant, Chief
General Manufactures Division

with assistance from
the Office of Information Resources Management and
the Office of Tariff Affairs and Trade Agreements

Address all communications to
Kenneth R. Mason, Secretary to the Commission
United States International Trade Commission
Washington, DC 20436

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EXECUTIVE SUMMARY

In this annual report,[1] the Commission conveys the findings of its investigation of recent developments in trade under subheadings 9802.00.60 and 9802.00.80 of the Harmonized Tariff Schedule of the United States (HTS) and analyzes trends in imports by commodity groups and sources during 1986-89. Subheading 9802.00.60 sets forth tariff treatment for certain metal of U.S. origin processed in a foreign location and returned to the United States for further processing; subheading 9802.00.80 provides tariff treatment for eligible imported goods that contain U.S.-made components.[2] The use of these tariff provisions is an integral activity for companies involved in production sharing. This study also examines the use of similar "outward processing" provisions in the European Community (EC) by European firms engaged in production sharing. The principal findings and conclusions of the Commission's investigation are summarized below.

- *During 1986-89, U.S. imports under both subheadings 9802.00.60 and 9802.00.80 doubled to $74.2 billion, expanding at a faster pace than total U.S. imports, which rose by 27 percent to $468 billion, as shown in table A. The combined imports under subheadings 9802.00.60 and 9802.00.80 accounted for 16 percent of total U.S. imports in 1989 compared with 10 percent in 1986. The principal supplying countries were Canada, Japan, and Mexico, which collectively accounted for 75 percent of total imports under these provisions in 1989.*

Table A
U.S. imports under HTS subheadings 9802.00.60 and 9802.00.80 and total imports, 1986 and 1989

Subheading	*1986*	*1989*	*Change, 1989 from 1986*	*Share of total imports under 9802.00.60 and 9802.00.80, 1989*
	Million dollars		*Percent*	
Imports under subheading 9802.00.60:				
Dutiable[1]	157	444	183	1
Nondutiable[1]	308	697	126	1
Total	466	1,141	145	2
Imports under subheading 9802.00.80:				
Dutiable[2]	30,059	54,111	80	73
Nondutiable[2]	5,972	18,921	217	26
Total	36,031	73,032	103	98
Imports under subheading 9802.00.60 and 9802.00.80:				
Dutiable[3]	30,216	54,555	81	74
Nondutiable	6,281	19,618	212	26
Total	36,497	74,173	103	100
Grand total U.S. imports	368,657	468,012	27	—

[1] The dutiable portion of imports under subheading 9802.00.60 is the value added to the imported product by processing in the foreign country. The nondutiable portion is the value of the U.S.-origin metal less the value added resulting from foreign processing.
[2] The dutiable portion of imports under subheading 9802.00.80 is the total value of the imported product less the value of the U.S.-made components. The nondutiable portion is the value of U.S.-made components contained in the imported product.
[3] For products entered under subheading 9802.00.60 and 9802.00.80 solely to avoid the Customs user fee, the rate of duty applied to the "dutiable" (or foreign value added) portion is zero because the MFN rate of duty for the product is "Free."

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

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

[1] A more comprehensive version of this report, which includes separate analyses of production sharing trends for 36 commodity groups and extensive historical statistics, is available on request. Please see "request and comment" insert card.
[2] Throughout this report, the term "U.S. content" will be used interchangeably with "U.S.-origin content," "nondutiable" imports, "U.S.-made components," "U.S.-origin metal," and "duty-free value."

- *The extension of the Customs user fee, first imposed in 1986, continues to motivate many importers of goods covered by subheadings for which the col. 1 rate of duty is free to claim eligibility under HTS subheadings 9802.00.60 and 9802.00.80 to avoid the fee—the U.S. content of articles imported under subheadings 9802.00.60 and 9802.00.80 of the HTS is exempt from the fee. Before the user fee was imposed, there had been no incentive for importers to use these provisions even though they had been eligible. Products so imported, in response to the user fee, accounted for 78 percent of the 103 percent rise in imports under subheadings 9802.00.60 and 9802.00.80 between 1986 and 1989.*

Subtracting imports with an unconditionally "free" most-favored-nation rate of duty from official statistics reveals what the trend in imports under HTS subheadings 9802.00.60 and 9802.00.80 would have been if the user fee had not been imposed.[3] In 1989, imports of products with a free rate of duty under HTS subheadings 9802.00.60 and 9802.00.80 totaled $29.5 billion, or 40 percent of total imports under subheadings 9802.00.60 and 9802.00.80, down slightly from 41 percent of such imports in 1988. Subtracting imports for which the col. 1 rate of duty is free, total imports under subheading 9802.00.80 (the foreign assembly tariff provision) would have risen just 18 percent between 1986 and 1989, from $36 billion to $42.4 billion, instead of climbing 103 percent to $73 billion. Furthermore, imports under the foreign assembly provision would have increased by only 3.5 percent from $42.4 billion to $43.9 billion between 1988 and 1989 were it not for the user fee (figure 9). In addition, Canada would not have replaced Japan as the leading source of such imports, but would have had only a 5 percent, instead of a 35 percent, share of total 9802.00.80 imports. The principal products that were free of duty but were still entered under the assembly provision apparently to avoid the user fee were motor vehicles and parts from Canada (duty-free under the Automotive Products Trade Act of 1965—APTA), semiconductors (most became free of duty in 1985), and internal combustion engines and parts.

- *Imports under subheading 9802.00.80 alone (imports containing U.S.-made components) increased by 103 percent during 1986-89, to $73 billion in 1989, and represented 98 percent of the combined imports under HTS subheadings 9802.00.60 and 9802.00.80 in that year, as well as 96 percent of the duty-free content of both provisions.*

Motor vehicles accounted for 61 percent of the total value of HTS subheading 9802.00.80 imports in 1989. Other important products imported under the foreign assembly provision in 1989 were semiconductors (7 percent of the total); motor-vehicle parts and rail locomotives and cars (6 percent); internal combustion engines (4 percent); and office machines and parts (3 percent). Of these, semiconductors accounted for the fastest growth in such imports during 1986-89, increasing 771 percent from $0.5 billion to $4.8 billion. The growth in subheading 9802.00.80 imports in part reflected a general increase in overall imports of these articles, but more importantly indicated a continuing reaction by importers to the Customs user fee (pp. 39).

- *Canada, Mexico, and Malaysia together supplied $15 billion, or 80 percent, of the duty-free content of U.S. imports under subheading 9802.00.80 in 1989.*

Based on duty-free content (the value of the U.S.-made components), the top imports from Mexico under HTS subheading 9802.00.80 in 1989 were electrical conductors (such as wire harnesses), motor vehicles, parts of motor vehicles, television receivers, articles for making and breaking electrical circuits, motors and generators, and office machines and parts. The fastest growing segment of Mexico's maquiladora industry has been suppliers of parts and subassemblies to the U.S. automobile industry. Import levels of apparel from Mexico, on the other hand, have been stagnant as U.S. apparel producers have chosen to expand sewing operations in the Caribbean rather than in Mexico because labor costs are even lower in the Caribbean. Motor vehicles also dominated imports from Canada, reflecting the decision by importers, chiefly U.S. automobile manufacturers, to claim eligibility under subheading 9802.00.80 for imports of motor vehicles and parts that could alternatively enter free of duty under the APTA. Semiconductors were the principal articles imported from Malaysia under subheading 9802.00.80 in 1989.

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[3] See ch. 2 for a more detailed discussion of the Customs user fee.

- *Subheading 9802.00.60 imports (U.S. metal articles processed abroad and returned for further processing) increased by 145 percent during the period, to $1.1 billion in 1989 (table A). Most of the increase in imports under subheading 9802.00.60 was due to importers of already duty-free products declaring eligibility for entry under subheading 9802.00.60 apparently to bypass the Customs user fee.*

The value of U.S.-origin metal contained in subheading 9802.00.60 imports was $697 million in 1989, representing 61 percent of the total value of imports under the metal processing tariff provision. Aluminum, specifically wrought sheet for making cans, was the most significant product imported under subheading 9802.00.60 during 1986-89 in terms of value of the U.S.-origin metal. However, wrought aluminum's share of the nondutiable content of 9802.00.60 imports dropped from 57 percent in 1986 to 34 percent in 1989. In contrast, the share of the nondutiable content of such imports accounted for by aircraft and spacecraft parts and articles for making or breaking electrical circuits (chiefly printed circuit boards) each escalated from less than 0.1 percent in 1986 to 14 percent in 1989 (table B-4).

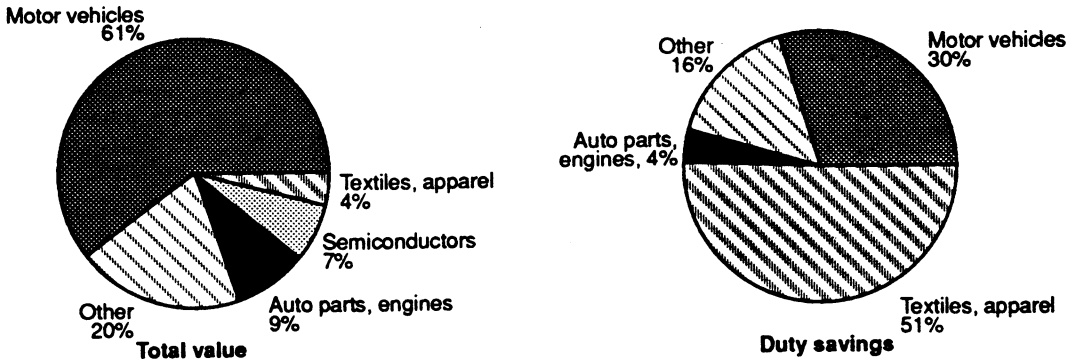
- *Canada, Mexico, and Japan accounted for $635 million, or 91 percent, of the total duty-free content of U.S. imports under subheading 9802.00.60 in 1989.*

Aluminum sheet for making cans, parts of civil aircraft, and printed circuit boards were the principal imports supplied under the metal processing provision from Canada in terms of both total value and duty-free content; wrought aluminum was the principal commodity shipped from Japan; and steel sheets and strips were the leading products entering under subheading 9802.00.60 from Mexico.

- *The industries producing apparel and electronic components used a higher percentage of U.S.-made components in their foreign assembly facilities than other industries (table 7). Although motor vehicles imported under subheading 9802.00.80 comprised the largest share of such imports, they had a relatively low proportion of U.S.-origin content. Since the rates of duty applicable to apparel are generally much higher than for most other articles, the duty savings from use of subheading 9802.00.80 is more significant for that group of industries than for other industries.*

Dividing all U.S. industries into 22 categories, the industries with the highest ratio of the value of U.S.-made components to total value of imports under subheading 9802.00.80 in 1989 were agricultural and forest products, chiefly disposable paper garments (68 percent); body-supporting garments (67 percent); trousers, slacks, and shorts (64 percent); other textiles and apparel (62 percent); shirts and blouses (59 percent); other electrical articles (57 percent); motors, generators, and transformers (55 percent); and semiconductors (54 percent) (table 7). Most of these products are imported from U.S.-owned or contracted assembly or sewing facilities in Mexico and the Caribbean. On the other hand, U.S.-made components accounted for only 17 percent of the value of motor vehicles imported under subheading 9802.00.80. Manufacturers in Japan, West Germany, and Sweden supplied almost half (47 percent) of these imports. Because the trade-weighted-average rate of duty on apparel was 15.2 percent ad valorem in 1989, compared with 1.9 percent for all other products imported under subheading 9802.00.80, apparel accounted for 51 percent of the duty savings accrued from the use of that tariff provision despite accounting for only 4 percent of the total trade under the provision. In contrast, because the rate of duty on semiconductors was zero in 1989, semiconductors accounted for none of the duty savings despite providing 7 percent of the total trade under the production sharing assembly provision (fig. A).

Figure A
U.S. imports under HTS subheading 9802.00.80: Shares of total value and duty savings, by selected industries, 1989



Source: Based on official statistics of the U.S. Department of Commerce.

- *Imports under subheading 9802.00.80 from less developed countries (LDCs) doubled during 1986-89 in terms of both total value and value of U.S.-made components contained in subheading 9802.00.80 imports. The share of subheading 9802.00.80 imports accounted for by LDCs increased from 28 to 30 percent in terms of total value, but dropped from 77 to 51 percent in U.S. content as imports of motor vehicles from Canada inflated the share of total imports from developed countries accounted for by U.S. content.*

Imports of motor vehicles and parts from Canada, which apparently entered under subheading 9802.00.80 in 1989 to avoid the user fee, accounted for $19.6 billion (76 percent) of the $25.6 billion expansion in such imports from developed countries during 1986-89. U.S.-made components accounted for only 1 percent of the collective value of motor vehicle imports in 1989 under subheading 9802.00.80 from Japan, West Germany, and Sweden compared with 34 percent from Canada.

Subheading 9802.00.80 imports from Mexico, the largest less-developed country (LDC) supplier of imports under that category, climbed by 85 percent in total value during 1986-89 (from $6.4 billion to $11.8 billion) and 79 percent in U.S.-made content (from $3.3 billion to $6.0 billion). The total value of subheading 9802.00.80 imports from other LDCs grew by 155 percent, and the duty-free content of such imports from other LDC's increased by 189 percent. Much of these increases can be attributed to a substantial rise in imports of motor vehicles from Korea, office machines and parts from Singapore, semiconductors from Malaysia, and apparel from Caribbean countries during 1986-88. However, this rise leveled off between 1988 and 1989 because of a $1.3 billion decline in motor vehicle imports from Korea. In 1989, U.S.-made components made up 51 percent of subheading 9802.00.80 imports from Mexico, but only 37 percent of such imports from other LDCs (table B-3). The strong growth in the volume of imports from Mexico under subheading 9802.00.80, reflects the expansion in the use of Mexico's maquiladora industry by U.S. producers during 1986-89. Peso devaluations during 1986-87 resulted in lower average hourly earnings by manufacturing workers in Mexico than in competing assembly locations, such as Taiwan, Korea, and Singapore, as measured in U.S. dollars (table 9).

- *The potential exists for apparel imports under subheading 9802.00.80 to continue to increase substantially during the beginning of the 1990s as a result of actions by the United States to liberalize quotas on such imports from the major suppliers.*

Within the last few years, the United States has introduced special quota programs for Caribbean countries and Mexico that grant them greater access to the U.S. market for apparel and made-up textiles assembled from fabric that has been both produced and cut in the United States. The "special access program" for Caribbean countries establishes guaranteed access levels (GALs) for goods made of such fabric that are separate from, and usually higher than, quotas on nonqualifying products. This program permits Caribbean countries virtually unlimited market access for qualifying goods since the GALs may be increased on request by

the exporting country. Imports under the Caribbean program in 1987, the first full year of this so-called 807-A plan, totaled $79 million and then rose to $384 million in 1989. Under the "special regime" for Mexico, products of both U.S. and foreign fabrics are combined under the same quota, but a major portion of the quotas is set aside for goods of U.S.-made and U.S.-cut fabric.

- *U.S. imports from Caribbean Basin Economic Recovery Act (CBERA) designated countries comprised a minor but expanding share of total U.S. imports under subheading 9802.00.80.*

U.S. imports under subheading 9802.00.80 from CBERA designated countries almost doubled from $874 million in 1986 to $1.6 billion in 1989. The loss of GSP status for Taiwan, Hong Kong, Singapore, and Korea in 1989 and the rising wage rates in those countries have induced a growing number of U.S. companies to move their electronic and other types of manufacturing from the Far East to the Caribbean. The passage of the Customs and Trade Act of 1990, which establishes duty-free treatment for goods (except textile and apparel articles or petroleum products) that contain U.S. content and are assembled or processed in CBERA designated countries, could further boost use of production sharing operations in these countries.

- *U.S. imports under subheading 9802.00.80 accounted for 44 percent of Mexico's exports to the United States in 1989 and 29 percent of Canada's exports, compared with only 18 percent for Japan, 10 percent for Korea, and 4 percent for Taiwan.*

The significance of the maquiladora program in generating exports from Mexico is even more striking if the sectors for which foreign assembly does not apply (agricultural, petrochemical, and steel) are subtracted from the analysis. In doing so, exports from the maquiladora industry (which accounts for almost all U.S. imports under subheading 9802.00.80 from Mexico) accounted for 78 percent of Mexican exports to the United States. A similar analysis for Canada shows the importance of proximity in the use of U.S.-made components, as subheading 9802.00.80 trade accounted for 62 percent of Canada's exports to the United States. By contrast, subheading 9802.00.80 is less significant to distant Asian suppliers; this tariff provision (after discounting for agriculture, petrochemicals, and steel) accounted for only 21 percent of Japan's exports to the United States in 1989, 12 percent of Korea's, and 6 percent of Taiwan's.

- *European Community customs laws contain production sharing provisions similar to those provided in HTS subheading 9802.00.80. These provisions, known as "outward processing relief arrangements," allow EC goods to be temporarily exported from the customs territory of the EC for additional processing or assembly.*

During 1985-88, EC imports after outward processing rose by 24 percent to $5.3 billion. This amount was a little over 7 percent of the level of corresponding U.S. imports under subheading 9802.00.80 in 1988. West Germany and France were the principal users of outward processing arrangements in 1988, together accounting for two-thirds of EC imports under such provisions. Over 45 percent of EC imports after outward processing in 1988 were accounted for by textiles, apparel, and footwear. Semiconductors and office machines were the next most important individual categories of products imported under EC production-sharing provisions in 1988.

EC production sharing was concentrated in Yugoslavia and other Eastern European countries, which accounted for 42 percent of total EC imports after outward processing. North African countries, such as Tunisia, were also an increasingly important source of production-sharing imports in the EC. Certain EC firms, especially those in the textiles and apparel industry, have been seeking low cost labor to remain competitive and have been guided, as have U.S. firms, to locate a large number of their foreign processing and assembly operations close to their own markets.

Both United States and European importers of products from developed countries take advantage of subheading 9802.00.80 and outward processing provisions to reduce their tariff obligations on goods that contain U.S.-made or European-made components, respectively. Developed countries accounted for 70 percent of total U.S. imports under 9802.00.80 in 1988 and 50 percent of EC imports after outward processing in 1988, with the United States supplying 19 percent of total European imports after outward processing.

Chapter 1
Introduction

Trends in Imports Under HTS Subheadings 9802.00.60 and 9802.00.80

Firms have several incentives for using production sharing and/or the provisions of subheadings 9802.00.60 and 9802.00.80: (1) to improve the price competitiveness of products by shifting labor-intensive assembly operations to low-wage-rate countries; (2) to reduce the cost of cross-border transfers of both in-process materials and final goods; (3) to allow companies to rationalize[1] production involving establishments in the United States and foreign countries; (4) to escape stringent environmental regulations; (5) to allow foreign companies that use U.S.-made components to reduce the price (or increase the profitability) of their goods in the U.S. market; (6) to penetrate foreign markets; and (7) to avoid the Customs user fee that was established in December 1986.[2]

Two of these incentives have strongly influenced recent trends in imports under HTS subheadings 9802.00.60 and 9802.00.80: the declining wage rates (incentive 1, above) in Mexico and the Customs user fee (incentive 7, above). The depreciation of the peso led to a significant decline in average hourly U.S. dollar-valued earnings for Mexican manufacturing workers during 1984–87, and contributed to an increase in the use of HTS subheading 9802.00.80 for imports from that country. In addition, as analyzed in chapter 2 of this report, the establishment of the Customs user fee, in December 1986, motivated many firms that were importing articles with a free rate of duty to claim eligibility under subheadings 9802.00.60 and 9802.00.80 to avoid the fee.

By 1988, however, the peso had stabilized relative to the U.S. dollar and importers had adjusted to the user fee, leading to only an 8-percent growth in imports during 1987-89 after the 88-percent surge in 1986-87. Were it not for a sharp drop in imports of motor vehicles from Korea, growth in imports of dutiable products[3] under 9802.00.80 would have equaled the 7-percent rise in total imports in 1989 over 1988.

The following tabulation and figures 1 and 2 show the value in U.S. imports under HTS subheadings 9802.00.60 and 9802.00.80 during 1986-89 in billions of dollars and share of total U.S. imports. The share of the value of total U.S. imports accounted for by the imports under examination rose from 10 percent in 1986 to 16 percent in 1989. The combined value jumped from $36.5 billion in 1986 to $73.7 billion in 1988 and $74.2 billion in 1989. Imports under these provisions doubled between 1986 and 1987, as importers reacted to the Customs user fee and as use of assembly facilities in Mexico grew.

	1986	*1987*	*1988*	*1989*
Value ($ billion)	36.5	68.5	73.7	74.2
Share (percent)	10	17	17	16

Imports under subheading 9802.00.80 are much greater than those under subheading 9802.00.60, accounting for over 98 percent of the combined total value in 1989 and 96 percent of the duty-free content of imports under both provisions (app. B, table B-1). The duty-free value (U.S.-origin content) of the combined imports under subheadings 9802.00.60 and 9802.00.80 was 26 percent of the total value of imports under these provisions in 1989, up from 17 percent in 1986 (table A). Although there were increases in the U.S. content of imports under 9802.00.80 for most product categories, much of the increase in the share accounted for by the duty-free portion of imports is attributable to the escalation of the duty-free value of subheading 9802.00.80 imports of motor vehicles from only $930 million in 1986 to $7.5 billion in 1989. The corresponding ratio of duty-free value to total value of subheading 9802.00.80 imports of motor vehicles more than quadrupled, from 4 percent to 17 percent during the same period (table 7).[4]

As shown in the following tabulation, in billions of dollars, imports under subheadings 9802.00.60 and 9802.00.80 from both developed and less developed countries (LDCs) more than doubled during 1986-89, with imports from LDCs rising from $10.3 billion to $21.8 billion during 1986-89 (also see tables B-2 and B-3).

	1986	*1989*
Developed countries	26.2	52.4
LDCs	10.3	21.8
Total	36.5	74.2
Percent of total		
Developed countries	72	71
LDCs	28	29
Total	100	100

[1] Companies "rationalize" production by consolidating the manufacture of a particular product or component to a limited number of locations. Plants that may have diversified products become specialized in the production of fewer goods. This can lead to greater efficiency and economies of scale. It also involves interdependency between plants and requires coordination of production planning. Rationalization of production across international boundaries is increasingly a common practice for multinational corporations.

[2] The user fee does not apply to the *nondutiable portion* of U.S. imports under subheadings 9802.00.60 and 9802.00.80 or imports under the other subheadings of chapter 98 of the HTS. See ch. 2 for a discussion of the user fee.

[3] Articles with a duty higher than "free."

[4] See ch. 3 for a description of import trends under subheading 9802.00.80 for motor vehicles and other transportation equipment. Use of subheading 9802.00.80 by U.S. auto manufacturers with plants in Canada increased sharply after imposition of the user fee. Since the U.S.-origin content of motor vehicles from Canada is much higher than the U.S. content of motor vehicles from Japan and other major foreign motor vehicle suppliers, the ratio of duty-free content to total value of subheading 9802.00.80 imports of motor vehicles increased as Canada's share of such imports rose during 1986-89.

Figure 1
Trends of total U.S. imports and imports under 9802.00.60 and 9802.00.80, 1970-89

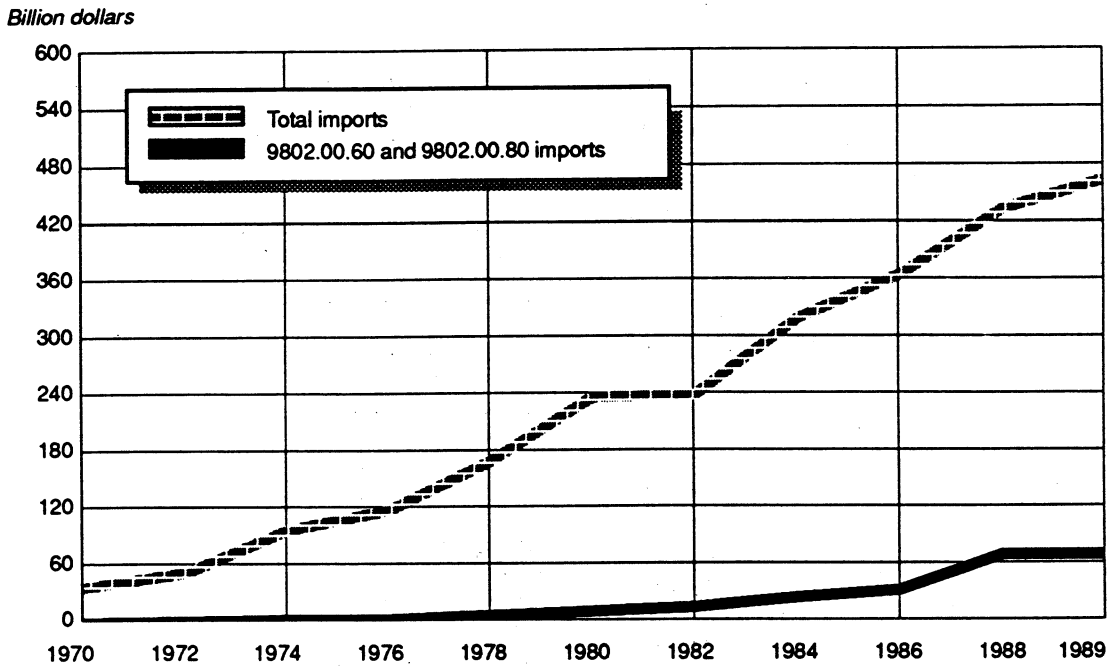


Figure 2
Subheadings 9802.00.60 and 9802.00.80: Dutiable and duty-free imports compared with other U.S. imports for consumption, 1986-89

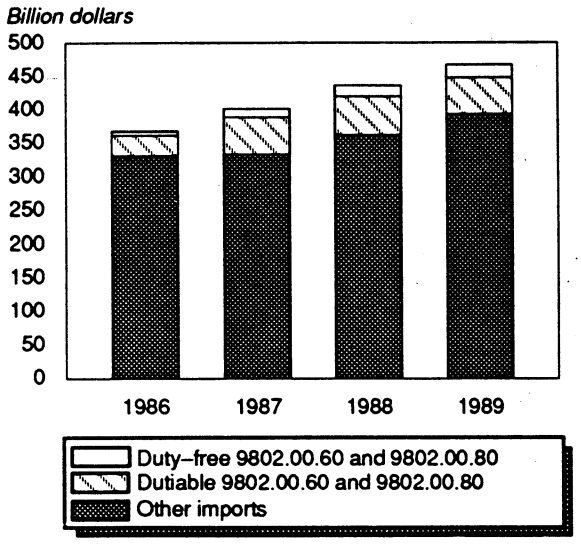
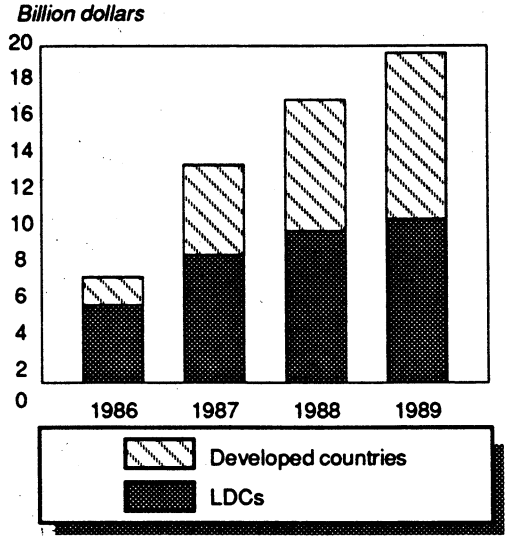


Figure 3
U.S. imports under subheadings 9802.00.60 and 9802.00.80: Duty-free portion accounted for by developed and less developed countries, 1986-89



Note.—These figures correspond to figures 1-1 to 1-3 of the Full Report.
Source: Based on official statistics of the U.S. Department of Commerce.

In turn, the share of total 9802.00.60/80 imports accounted for by LDCs increased slightly from 28 percent in 1986 to 29 percent in 1989. Most of this increase is attributable to growing imports under 9802.00.80 of electronic goods and auto parts from Mexico; semiconductors from Korea, Malaysia, and Singapore; and apparel from the Caribbean. Conversely, the share of imports under the metal processing and assembly provisions from developed countries dropped slightly from 72 percent in 1986 to 71 percent in 1989.

A $17.8 billion increase in subheading 9802.00.80 imports of motor vehicles from Canada (all of which entered free of ordinary customs duty under the Automotive Products Trade Act of 1965 (APTA) but were also entered under HTS 9802.00.80 because of the user fee) accounted for 48 percent of the $37.0 billion increase in total 9802.00.80 imports during 1986-89; a $4.4 billion growth in subheading 9802.00.80 imports of motor vehicles from Japan, Mexico, and Sweden accounted for 12 percent of the increase. In terms of duty-free content, imports under subheadings 9802.00.60 and 9802.00.80 from LDCs more than doubled during 1986-89, but their share of the U.S. content of total imports under these provisions dropped from 74 percent to 50 percent (fig. 3).

Trends in Imports Under HTS Subheading 9802.00.60

Imports under HTS subheading 9802.00.60 more than doubled in 1987 over 1986, to $954 million from $466 million, as importers of products entitled to MFN duty-free treatment entered goods under subheading 9802.00.60 to avoid the Customs user fee, which became effective in December 1986 (table 1). Imports under subheading 9802.00.60 rose another 20 percent during 1987-89 to $1.1 billion. Despite the increase in use of subheading 9802.00.60 during the period, the ratio of subheading 9802.00.60 imports to total imports was less than 0.5 percent in each year during 1986-89 (table 2).

The duty-free content of imports under subheading 9802.00.60 increased by 126 percent during 1986-89, to $697 million; the ratio of the duty-free content to total value of imports under subheading 9802.00.60 averaged 54 percent annually during 1986-89 (table 2). U.S.-origin content accounted for a relatively high 86 percent of the value of aluminum imported under 9802.00.60 in 1989, compared with only 28 percent of the parts of aircraft and spacecraft.

The nominal trade-weighted average and effective rates of duty for all imports under subheading 9802.00.60 both decreased during the period, from 4.9 percent to 2.2 percent and from 1.7 percent to 0.9 percent, respectively. Total duty savings fluctuated during the period, dropping from $15.1 million in 1986 to $9.2 million in 1987, then increasing to $15.3 million in 1989 (table 3 and fig. 4).

Table 1
U.S. imports for consumption, total and under HTS subheading 9802.00.60, 1986-89

Year	Total imports	9802.00.60 imports	Duty-free value of 9802.00.60 imports
	Value (million dollars)		
1986	368,657	466	308
1987	402,066	954	416
1988	437,140	929	470
1989	468,012	1,141	697
	Change (percent)		
1989 from 1986	27	145	126
Average annual 1989 from 1986	8	35	31

Note.—Table 1 corresponds to table 8–1 of the Full Report.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Table 2
Nominal and effective rates of duty under HTS subheading 9802.00.60 and duty savings, 1986-89

Year	9802.00.60 imports to total imports	Duty-free 9802.00.60 to total 9802.00.60 imports	Rate of duty		Total duty savings
			Nominal	Effective	
	Percent				Million dollars
1986	(1)	66	4.9	1.7	15.1
1987	(1)	44	2.2	1.2	9.2
1988	(1)	51	2.2	1.1	10.3
1989	(1)	61	2.2	0.9	15.3

[1] Less than 0.5 percent.

Note.—Table 2 corresponds to table 8–2 of the Full Report.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Table 3
U.S. imports under HTS subheading 9802.00.60, total and duty free, by industry groups, 1986 and 1989

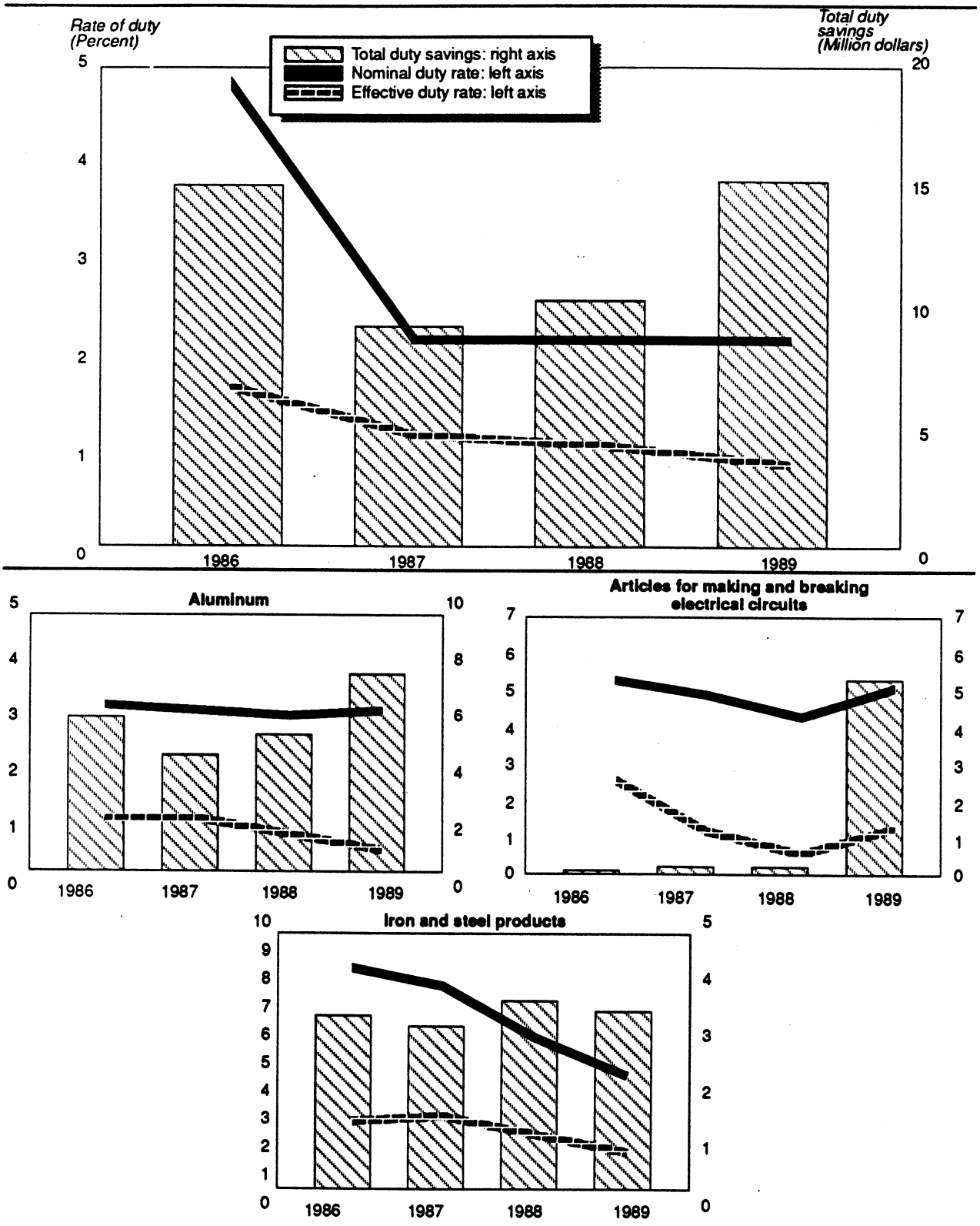
Industry group	Duty-free value		Change, 1989 from 1986	Average annual change, 1989 from 1986	Share of total	Ratio of duty-free value to total value		Total value		Change, 1989 from 1986	Average annual change, 1989 from 1986	Share of total
	1986	1989			1989	1986	1989	1986	1989			1989
	1,000 dollars		Percent					1,000 dollars		Percent		
Agricultural and forest products	1	0	-100	(1)	(2)	(3)	(1)	1	0	-100	(1)	0
Textiles, apparel, and footwear	4	0	-100	(2)	(2)	80	(1)	5	0	-100	(1)	0
Chemicals, coal petroleum, natural gas, and related products	5,810	11,692	101	26	2	59	62	9,865	18,848	91	24	2
Minerals and metals	276,846	364,777	32	10	52	67	78	412,466	469,261	14	4	41
Internal combustion engines and parts	972	13,649	1,304	141	2	84	56	1,154	24,300	2,006	176	2
Office machines and parts	108	285	164	38	(2)	37	66	295	433	47	14	(2)
Motors, generators, transformers, and related equipment	6,706	13,908	107	28	2	71	77	9,422	18,143	93	24	2
Radio and telephone equipment and parts	337	21	-94	-60	(2)	65	27	522	77	-85	-47	(2)
Semiconductors	117	1,335	1,041	125	(2)	84	54	140	2,458	1,656	160	(2)
Other electrical articles	5,210	98,210	1,785	166	14	63	71	8,280	137,797	1,564	155	12
Motor-vehicle parts, industrial vehicles, non-self-propelled vehicles, motorcycles, rail locomotives, and rolling stock	1,556	14,164	810	109	2	78	73	2,006	19,483	871	113	2
Other machinery and equipment	9,604	120,420	1,154	132	17	49	31	19,511	384,394	1,870	170	34
Miscellaneous manufactures	1,160	58,646	4,956	270	8	62	89	1,875	66,139	3,427	228	6
Total	308,431	697,107	126	31	100	66	61	465,542	1,141,333	145	35	100

[1] Not applicable.
[2] Less than 0.5 percent.
[3] Not available.

Note.—Table 3 corresponds to table 6–3 in the Full Report.

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

Figure 4
U.S. imports under HTS subheading 9802.00.60: U.S. rate of duty and total duty savings, 1986-89



Note.—These figures correspond to figures 8-1 and 8-3 to 8-5 of the Full Report.
Source: Based on official statistics of the U.S. Department of Commerce.

Articles in the minerals and metals category, chiefly articles of aluminum and, to a lesser extent, iron and steel, accounted for 52 percent of all imports under subheading 9802.00.60 in terms of the value of the U.S.-origin content in 1989 (table 3). Although these imports grew by 32 percent during 1986-89 (to $365 million), the share in 1989 was significantly less than the 90-percent share of the total in 1986. Most of the 126 percent increase in the U.S.-origin content of subheading 9802.00.60 imports during 1986-89 was accounted for by categories in which products with a free rate of duty played a significant role. Aircraft parts entering free of duty under the Agreement on Civil Aircraft but also entering under subheading 9802.00.60 to avoid the Customs user fee were chiefly responsible for imports in the "other" machinery and equipment category jumping from $20 million to $384 million during 1986-89. Similarly, imports of internal combustion engines and parts, in terms of the U.S.-origin content entering under subheading 9802.00.60, climbed from $972,000 to $13.6 million during 1986-89. Most of these imports were accounted for by engines and parts already entering free of duty under either the APTA or the Agreement on Civil Aircraft.

Aluminum, specifically wrought sheet for making cans, was the most significant product imported under subheading 9802.00.60 during 1986-89 in terms of the value of the U.S.-origin metal being processed. Wrought aluminum accounted for 59 percent of the duty-free content of total imports under subheading 9802.00.60 in 1986; by 1989, this share dropped to 34 percent, despite a 33 percent increase in value to $240 million (table B-4). The growth in the nondutiable content of imports of wrought aluminum during this period was eclipsed by a rise in imports of aircraft and spacecraft parts from $205,000 to $100 million. The appreciation of the yen relative to the U.S. dollar decreased the competitive position of Japanese rolled sheet in the U.S. market, but the drop in imports of rolled sheet from Japan was replaced by increased imports from Canada.

The shift in the usage of subheading 9802.00.60 is even more dramatic if the total value (dutiable and nondutiable) is considered. By this measure, imports of wrought aluminum during 1986-89 rose by only 2 percent, from $274 million to $280 million (24 percent of the total in 1989) and imports of aircraft and spacecraft parts under subheading 9802.00.60 increased from $280,000 to $354 million (31 percent of the 1989 total). Subheading 9802.00.60 provides little incentive for the use of U.S.-origin metal in foreign-processed aircraft and spacecraft parts. Virtually all of these parts have a bound rate duty of "free;" the dutiable portion (value added by the foreign processing of U.S.-origin metal) enters free of duty as does the nondutiable content. Thus, the only incentive for using subheading 9802.00.60 when entering aircraft and spacecraft parts is to avoid the Customs user fee.

The third leading product category in 1989, in terms of nondutiable content, was articles for making and breaking electrical circuits (especially printed circuit boards), which accounted for 14 percent of the total. Such imports increased from $1 million in 1986 to $98 million in 1989 (table B-4).

Canada was the principal supplier of articles imported under subheading 9802.00.60 based on duty-free content, accounting for 64 percent of such imports in 1989, followed by Mexico and Japan, with shares of 20 percent and 6 percent, respectively (table 4, fig. 5). Developed countries supplied 75 percent of the duty-free content of imports under subheading 9802.00.60, and the LDCs, led by Mexico, provided 25 percent. The primary imports supplied under subheading 9802.00.60 from Canada were parts of aircraft and spacecraft, wrought aluminum, and articles for making and breaking electrical circuits. Wrought aluminum accounted for the majority of subheading 9802.00.60 imports from Japan. Mexico supplied the bulk of iron and steel sheets and strips, and West Germany supplied almost half of the wrought copper imported into the United States under subheading 9802.00.60 in 1989.

Table 4
Duty-free value of U.S. imports for consumption under HTS subheading 9802.00.60, by principal sources, 1986-89

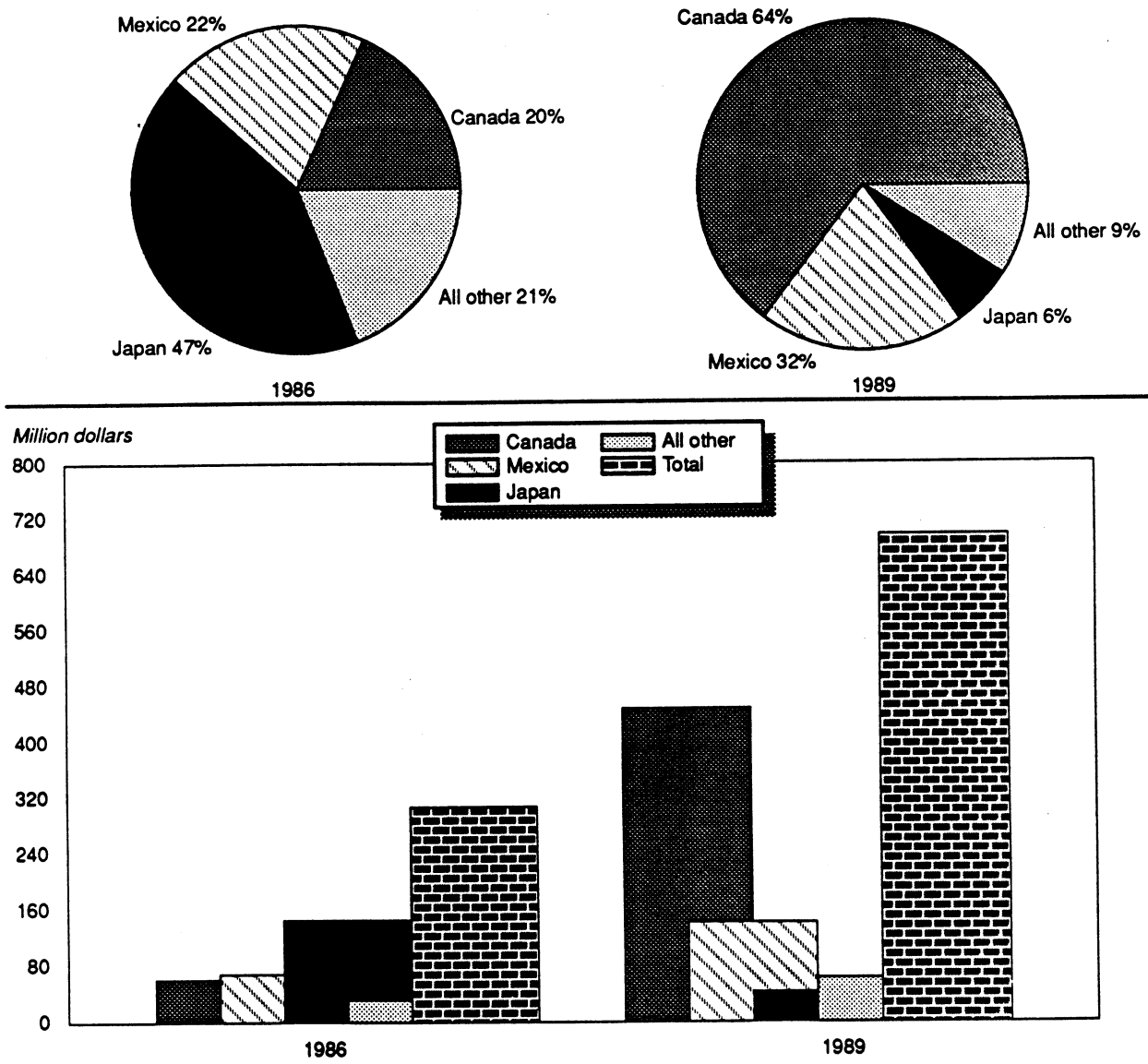
Source	1986	1987	1988	1989	Change in value of duty-free content, 1989 from 1986	Share of total duty-free value	
						1986	1989
	Million dollars				Percent	Percent	
Canada	61	200	264	449	640	20	64
Mexico	69	76	104	142	106	22	20
Japan	146	107	59	43	-70	47	6
West Germany	12	8	16	26	109	4	4
Dominican Republic	0	0	0	17	(1)	0	2
Argentina	0	0	0	7	(1)	0	1
France	2	1	16	4	79	1	1
All others	18	23	11	7	-60	6	1
Total	308	416	470	697	126	100	100

[1] Not applicable.

Notes.—Table 4 corresponds to table 8–4 of the Full Report. Because of rounding, figures may not add to the totals shown.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Figure 5
HTS subheading 9802.00.60: Non-dutiable portion of imports from leading sources, by share of total and by value, 1986 and 1989



Note.— Figure 5 corresponds to figure 8-2 of the Full Report.
Source: Based on official statistics of the U.S. Department of Commerce.

Canada accounted for 71 percent ($809 million) of the total value of imports under subheading 9802.00.60 in 1989, and Mexico accounted for 16 percent ($181 million). By the apparent use of 9802.00.60 to avoid the Customs user fee, imports from Canada climbed almost ninefold, from $83 million in 1986, in contrast to the 71-percent drop in imports from Japan, from $231 million to $67 million. Imports of articles with an MFN-free rate of duty together with goods entered free under the APTA and the Agreement on Civil Aircraft accounted for 47 percent of imports from Canada ($382 million) in 1989, but none of the imports from Japan. Furthermore, MFN-free articles from Canada accounted for 97 percent of the U.S.-origin metal of such products in this grouping under subheading 9802.00.60 in 1989. Such duty-free articles, entering under subheading 9802.00.60 from Canada apparently to avoid the Customs user fee, were predominantly composed of aircraft and spacecraft parts, motor-vehicle parts, and parts for agricultural equipment.

Contact Hazel L. Robinson at 205-3496

Trends in Imports Under Subheading 9802.00.80

U.S. imports under HTS subheading 9802.00.80 climbed 103 percent during 1986-89, from $36 billion to $73 billion, far exceeding the rate of growth for total U.S. imports, which rose by 27 percent (table 5). Most of this increase occurred between 1986 and 1987 when subheading 9802.00.80 imports almost doubled. The dramatic surge in subheading 9802.00.80 imports during that year (predominantly motor vehicles and parts from Canada and semiconductors from Malaysia--fig. 6) can be attributed primarily to the establishment of a U.S. Customs user fee in late 1986, from which the U.S.-content of such imports entering under subheadings in chapter 98 of the HTS is exempt. To avoid the fee, many importers of duty-free goods claimed eligibility under subheading 9802.00.80, which caused these imports to increase and consequently the ratio of subheading 9802.00.80 imports to total imports to jump from 10 percent in 1986 to 17 percent in 1987 and 1988. However, the ratio of subheading 9802.00.80 imports to total imports dropped slightly to 16 percent in 1989 (table 6). The U.S.-origin content of subheading 9802.00.80 imports more than tripled during 1986-89, rising to $18.9 billion. The ratio of the U.S. content to total value of imports under subheading 9802.00.80 rose from 17 percent to 26 percent during the same period. Total duty savings for 9802.00.80 imports jumped from $257 million in 1986 to $454 million in 1989 (table 6, fig. 7).

Principal products

Much of the increase in imports under subheading 9802.00.80 in terms of U.S.-origin content can be attributed to a jump in imports of motor vehicles during 1986-89, from $930 million to $7.5 billion in response to the user fee. Of this increase, $6.2 billion, or 94 percent, came from subheading 9802.00.80 imports of motor vehicles from Canada.

Increases in the duty-free value of 9802.00.80 imports of several other commodity groups also contributed to the rise in the ratio of U.S. content to total value of imports under subheading 9802.00.80 during 1986-89; namely, the U.S. content of imports of semiconductors rose from $293 million to $2.6 billion, that of motor-vehicle parts and rail locomotives and cars climbed from $345 million to $1.4 billion, and the U.S. content of 9802.00.80 imports of other machinery and equipment doubled from $501 million to $1.1 billion (table 7).

Table 5
HTS subheading 9802.00.80: U.S. imports for consumption, total and under HTS subheading 9802.00.80, 1986-89

Year	*Total imports*	*9802.00.80 imports*	*Duty-free value of 9802.00.80 imports*
	Value (million dollars)		
1986	368,657	36,031	5,972
1987	402,066	67,595	12,527
1988	437,140	72,803	16,354
1989	468,012	73,032	18,921
	Change (percent)		
1989 from 1986	27	103	217
Average annual 1989 from 1986	8	27	47

Note.—Table 5 corresponds to table 1-3 in the Full Report.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

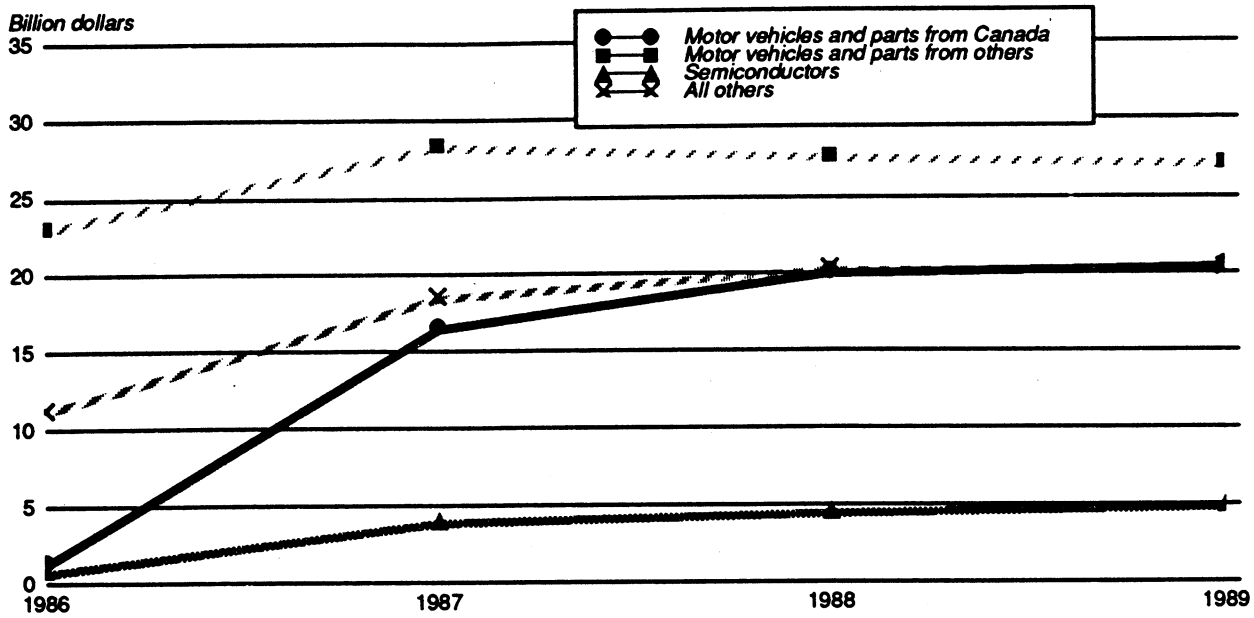
Table 6
HTS subheading 9802.00.80: Nominal and effective rates of duty under HTS subheading 9802.00.80 and duty savings, 1986-89

Year	*9802.00.80 imports to total imports*	*Duty-free 9802.00.80 to total 9802.00.80 imports*	*Rate of duty*		*Total duty savings*
			Nominal	*Effective*	
1986	10	17	4.3	3.6	257
1987	17	19	2.6	2.1	326
1988	17	22	2.5	1.9	409
1989	16	26	2.4	1.8	454

Note.—Table 6 corresponds to table 1-4 in the Full Report.

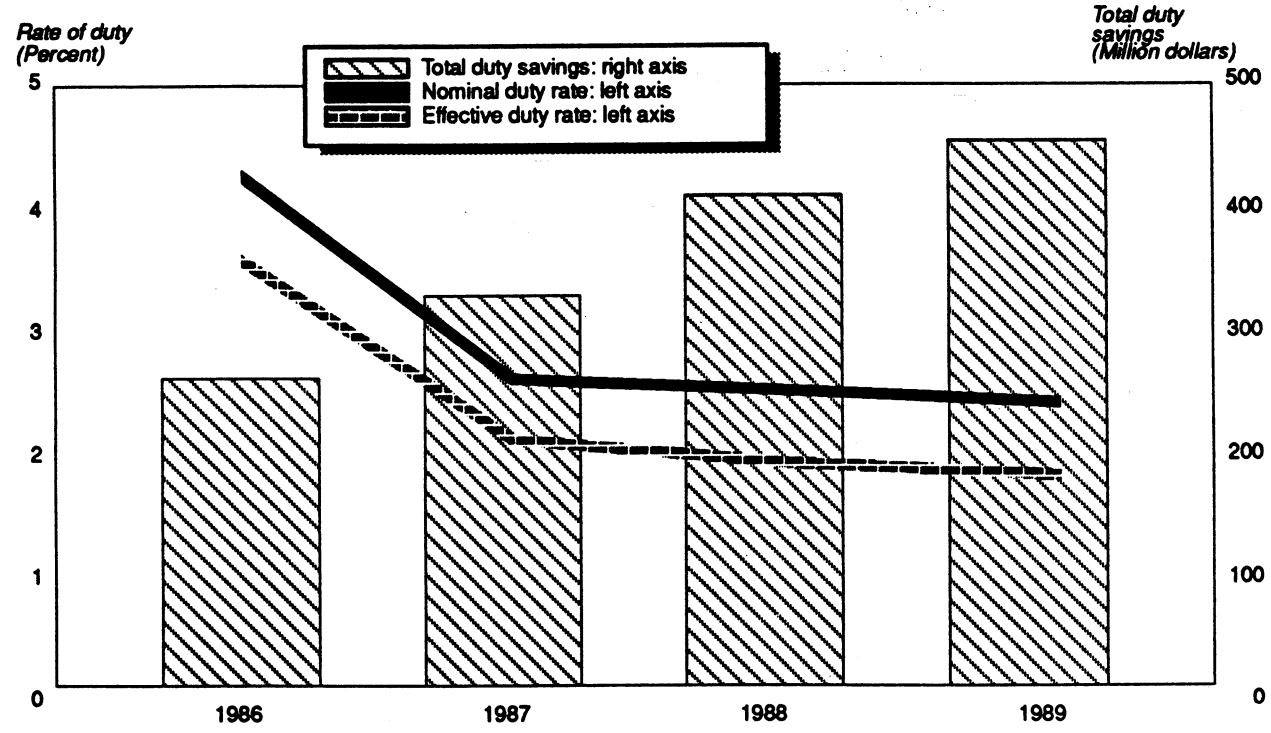
Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Figure 6
U.S. imports under subheading 9802.00.80: Motor vehicles and parts and semiconductors, 1986-89



Note.—Figure 6 corresponds to Figure 1-4 of the Full Report.
Source: Based on official statistics of the U.S. Department of Commerce

Figure 7
HTS subheading 9802.00.80: U.S. rate of duty and total duty savings under HTS subheading 9802.00.80, 1986-89



Note.—Figure 7 corresponds to Figure 1-5 of the Full Report.
Source: Based on official statistics of the U.S. Department of Commerce

Table 7
U.S. imports under HTS subheading 9802.00.80, total and duty free, by industry groups, 1986 and 1989

Industry group	Duty-free value		Change, 1989 from 1986	Average annual change, 1989 from 1986	Share of total	Ratio of duty-free value to total value		Total value		Change, 1989 from 1986	Average annual change, 1989 from 1986	Share of total
	1986	1989			1989	1986	1989	1986	1989			1989
	1,000 dollars		Percent					1,000 dollars		Percent		
Agricultural and forest products	101,925	156,263	53	15	1	59	68	171,446	230,598	34	10	(1)
Shirts and blouses	122,882	231,394	88	23	1	52	59	235,045	393,315	67	19	1
Trousers, slacks, and shorts	232,387	499,657	114	29	3	72	64	323,847	776,466	140	34	1
Body-supporting garments	105,465	171,806	63	18	1	66	67	158,937	255,627	61	17	(1)
Footwear	73,740	90,458	23	7	(1)	43	18	173,380	499,584	188	42	1
Other textiles and apparel	371,788	517,529	39	12	3	68	62	542,393	831,572	53	15	1
Chemicals, coal petroleum, natural gas, and related products	41,061	54,075	32	10	(1)	62	48	66,008	111,530	69	19	(1)
Minerals and metals	109,804	168,865	54	15	1	42	41	259,331	411,646	59	17	1
Internal combustion engines and parts	244,076	316,664	30	9	2	23	12	1,076,992	2,581,791	140	34	4
Office machines and parts	148,243	470,711	218	47	2	24	25	624,590	1,861,481	198	44	3
Motors, generators, transformers, and related equipment	238,401	358,177	50	15	2	48	55	494,284	653,656	32	10	1
Television apparatus and parts, other than cameras and picture tubes	204,444	347,968	70	19	2	22	23	928,169	1,517,424	63	18	2
Radio and telephone equipment and parts	215,612	246,782	14	5	1	32	24	678,795	1,024,176	51	15	1
Tape recorders, record players, and related equipment	120,397	18,613	–84	–46	(1)	31	11	385,470	170,899	–56	–24	(1)
Semiconductors	292,794	2,588,245	784	107	14	54	54	545,461	4,753,277	771	106	7
Other electrical articles	1,169,541	1,772,566	52	15	9	58	57	2,016,045	3,106,182	54	15	4
Motor vehicles, including automobile truck and truck tractors, motor buses, passenger automobiles	929,741	7,532,368	710	101	40	4	17	23,397,928	44,231,079	89	24	61
Motor-vehicle parts, industrial vehicles, non-self-propelled vehicles, motorcycles, rail loco-motives, and rolling stock	344,831	1,416,195	311	60	7	28	34	1,225,020	4,176,364	241	51	6
Other machinery and equip-ment	500,637	1,122,025	124	31	6	27	32	1,828,812	3,522,851	93	24	5
Scientific instruments and apparatus	160,716	345,862	115	29	2	57	50	281,692	684,889	143	34	1
Furniture, mattresses and pillows	36,151	180,077	398	71	1	22	33	160,932	553,632	244	51	1
Other miscellaneous manufactures	207,450	314,951	52	15	2	45	46	456,823	683,742	50	14	1
Total	5,972,084	18,921,252	217	47	100	17	26	36,031,399	73,031,783	103	27	100

[1] Less than 0.5 percent.

Note.—Table 7 corresponds to table 1–2 in the Full Report.

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

The value of U.S.-made components contained in imports under 9802.00.80 rose by 16 percent in 1989 over 1988, from $16.4 billion to $18.9 billion. The chief contributors to this rise were motor vehicles, motor-vehicle parts, apparel, semiconductors, rail locomotives and cars, television receivers, and electrical conductors, as shown in the following tabulation (in millions of dollars):

Product	1988	1989	Increase in 1989 over 1988
Motor vehicles	5,839	7,533	1,694
Motor-vehicle parts	922	1,156	234
Apparel	1,312	1,511	199
Semiconductors	2,396	2,588	192
Rail locomotives and cars	85	261	175
Television receivers	189	311	122
Electrical conductors	748	854	106
All other	4,863	4,708	155
Total	16,354	18,921	2,567

Almost all of the increase in the U.S.-content of motor vehicles, semiconductors, and rail locomotives and cars came from Canada; nearly all of the increase for motor-vehicle parts, television receivers, and electrical conductors came from Mexico; and the growth in apparel came from the Dominican Republic and other Caribbean countries. Motor vehicles accounted for 40 percent of the U.S. content of imports under subheading 9802.00.80 in 1989; semiconductors, 14 percent; other electrical articles, 9 percent; motor-vehicle parts, 7 percent; and other machinery and equipment, 6 percent.

Principal sources

Canada and Mexico were the leading suppliers of subheading 9802.00.80 imports in 1989 in terms of U.S. content, accounting for 45 percent and 32 percent of the total, respectively. Malaysia was a distant third, accounting for 3 percent (table 8, fig. 8). Canada's share of duty-free HTS subheading 9802.00.80 imports expanded substantially during 1986-89, from 14 percent to 45 percent. However, the sharp rise in the value of the duty-free portion of subheading 9802.00.80 imports from Canada does not indicate an increase in the use of U.S.-made components in Canadian manufacturing operations. Instead, it shows that to avoid the Customs user fee, U.S. importers claimed subheading 9802.00.80 eligibility for duty-free articles from Canada that contain U.S.-made parts.[5] In 1989, of the duty-free

[5] See ch. 2 for an analysis of the impact of the user fee on the use of the foreign assembly provision. The principal reasons why articles from Canada enter the United States free of duty are (1) the articles have an MFN rate of "free," (2) the articles are free under the United States-Canada Free-Trade Agreement, (3) the APTA, and (4) the Agreement on Civil Aircraft.

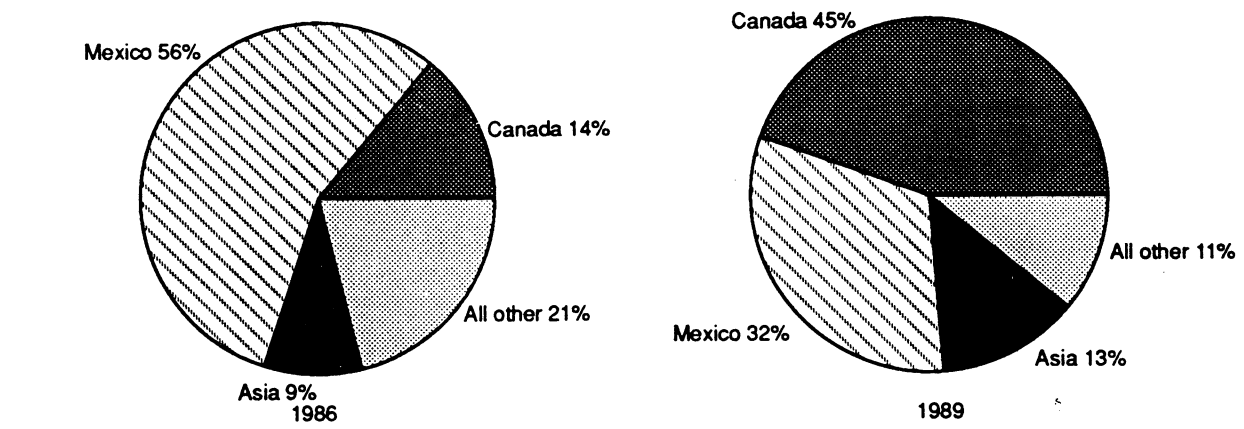
Table 8
HTS subheading 9802.00.80: Duty-free value of U.S. imports for consumption, by principal sources, 1986-89

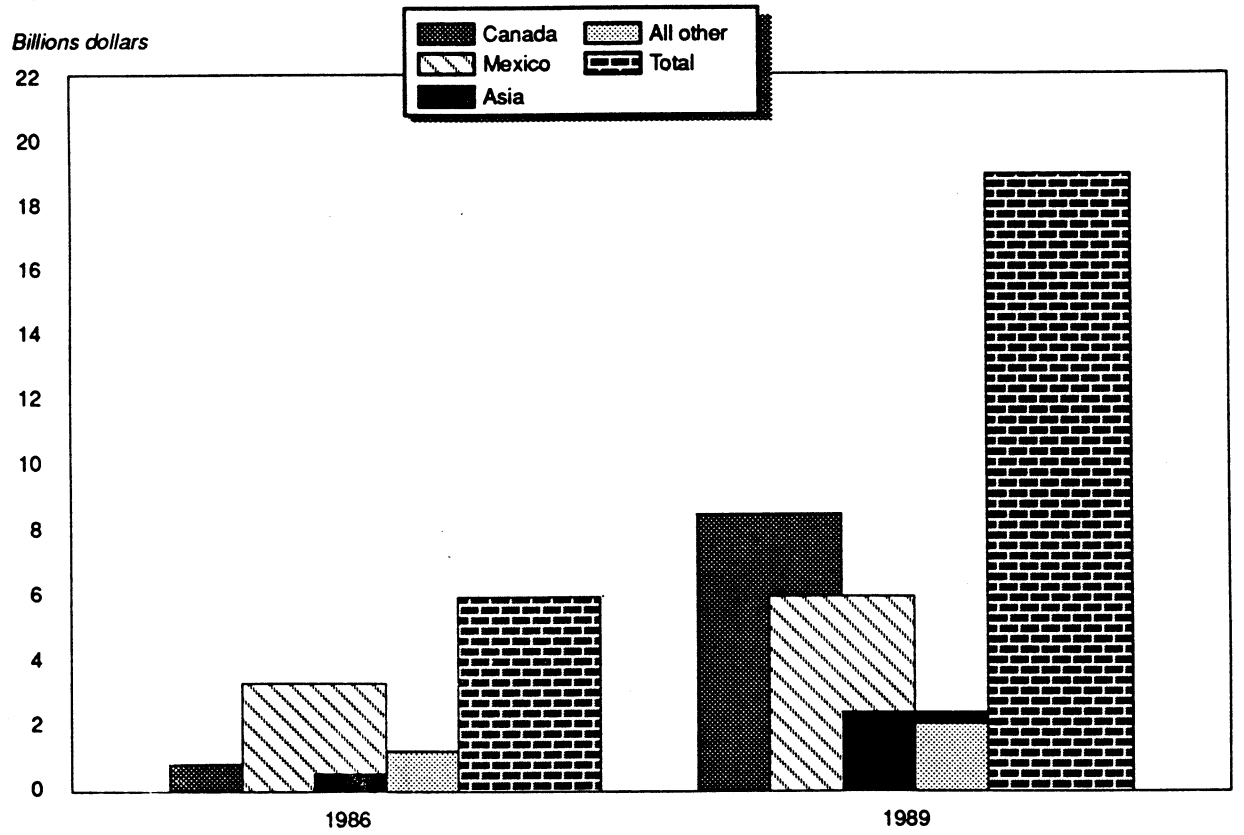
Source	1986	1987	1988	1989	Change in value of duty-free content, 1989 from 1986	Share of total duty-free value	
		Million dollars			Percent	1986	1989
						Percent	
Canada	853	3,783	6,518	8,478	894	14	45
Mexico	3,332	4,417	5,300	5,969	79	56	32
Malaysia	85	622	656	596	601	1	3
Korea	66	391	544	574	770	1	3
Dominican Republic	236	294	381	456	93	4	2
Japan	174	379	257	392	125	3	2
Singapore	72	386	442	342	375	1	2
Taiwan	91	234	239	260	186	2	1
Philippines	66	322	295	248	276	1	1
Costa Rica	92	97	140	188	104	2	1
All others	905	1,601	1,582	1,418	57	15	7
Total	5,972	12,527	16,354	18,921	217	100	100

Notes.—Table 8 corresponds to table 1–5 in the Full Report. Because of rounding, figures may not add to the totals shown.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Figure 8
HTS subheading 9802.00.80: U.S.-made components contained in imports from leading sources, by share of total and by value, 1986 and 1989





Note.—Figure 8 corresponds to figure 1-6 of the Full Report.
Source: Based on official statistics of the U.S. Department of Commerce.

content of subheading 9802.00.80 imports from Canada, 76 percent was accounted for by motor vehicles ($6.4 billion), all of which already qualified for duty-free treatment under the APTA; 7 percent was accounted for by semiconductors ($574 million); and 6 percent was accounted for by motor-vehicle parts ($495 million).

Although Mexico's share of total U.S. content contained in 9802.00.80 imports dropped from 56 percent in 1986 to 32 percent in 1989, Mexico continues to be an attractive location for subheading 9802.00.80 activity because of low labor costs and proximity to the United States. Mexico's attractiveness relative to other countries as an assembly location for U.S. producers was reinforced by an increase in wage rates in competing countries such as Taiwan, Korea, Hong Kong, and Singapore. In 1989, earnings in Mexico were 35 percent below those in Korea, 17 percent below those in Hong Kong, 34 percent below those in Taiwan, and 25 percent below those in Singapore (table 9). Based on duty-free content, the top imports under subheading 9802.00.80 from Mexico in 1989 were electrical conductors (chiefly ignition wiring sets for motor vehicles), accounting for 13 percent ($795 million); motor vehicles, 12 percent ($705 million); and motor-vehicle parts, 10 percent ($613 million).

Table 9
Average hourly compensation costs[1] for manufacturing employees in selected countries, 1986-89

Region/country	*1986*	*1987*	*1988*	*1989*	*Change in 1989 from 1986[2]*
	In U.S. dollars				*Percent*
United	13.21	13.40	13.85	14.31	8
EC					
Denmark	11.08	14.56	15.86	15.16	37
Belgium	12.31	15.04	15.54	15.18	23
West Germany	13.29	16.91	18.11	17.58	32
Luxembourg	10.63	13.03	13.88	[3]	[4]
Ireland	7.81	9.08	9.74	9.42	21
United Kingdom	7.54	8.97	10.46	10.44	38
France	10.27	12.42	12.96	12.72	24
Spain	6.43	7.86	8.81	9.10	42
Greece	4.07	4.61	5.22	5.48	35
Netherlands	12.57	15.60	16.22	15.54	24
Italy	9.91	12.14	12.87	13.23	34
Portugal	2.08	2.51	2.67	2.77	33
Eastern Europe					
Yugoslavia	1.32	1.40	[3]	[3]	[4]
Hungary	0.78	0.83	[3]	[3]	[4]
North Africa					
Morocco[5]	[3]	.52	.58	.60	[4]
Tunisia[6]	.69	.74	.91	[3]	[4]
Asia					
Japan	9.31	10.83	12.80	12.63	36
Hong Kong	1.88	2.09	2.40	2.79	48
Korea	1.45	1.78	2.50	3.57	145
Singapore	2.23	2.31	2.67	3.09	39
Taiwan	1.73	2.26	2.82	3.53	104
Others					
Switzerland	13.76	17.08	17.98	16.70	21
Canada	11.00	11.95	13.53	14.72	34
Costa Rica	[3]	1.32	[3]	[3]	[4]
Mexico	1.50	1.57	1.99	2.32	55

[1] Hourly compensation is defined as (1) all payments made directly to the worker, before payroll deductions of any kind, and (2) employer social insurance expenditures.
[2] These changes are in terms of U.S. dollars. Because of the depreciation of the U.S. dollar against many European currencies during 1986-89, these figures overstate the increase in European earnings in terms of local currencies.
[3] Not available.
[4] Not applicable.
[5] Estimated by the economic section of the Embassy of Morocco.
[6] Estimated from data provided by the International Finance Corporation.

Note.—Table 9 corresponds to table 1-6 in the Full Report.

Source: Compiled by the U.S. International Trade Commission from statistics in the *1988 Yearbook of Labor Statistics*, International Labor Office, Geneva, 1988; *International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing, 1975, 1980 and 1982-89*, April 1990, U.S. Department of Labor; and information provided from foreign embassies in Washington, DC. Some exchange rates were ascertained from *International Financial Statistics*, International Monetary Fund, Washington, DC, June 1989.

As the third largest supplier of subheading 9802.00.80 imports based on duty-free content, Malaysia supplied $596 million in imports, up sharply from $85 million in 1986. Semiconductors, most of which have a free MFN rate of duty, accounted for 98 percent ($584 million) of articles imported under subheading 9802.00.80 from Malaysia in 1989 in terms of U.S. content. The dramatic surge in duty-free subheading 9802.00.80 imports from Malaysia between 1986 and 1989 can be attributed to efforts by U.S. semiconductor manufacturers with assembly facilities in Malaysia to avoid the Customs user fee.

Duty savings

The apparel industry has by far the greatest incentives of any industry group to use the tariff advantages of subheading 9802.00.80 because high U.S. tariffs on imported apparel and the high proportion of the value of apparel from the Caribbean accounted for by U.S.-origin content lead to the greatest amount of duty savings of any industry group. Of the 22 industry categories examined, except for agricultural and forest products, apparel industries tended to have the highest ratios of U.S. content to total value (table 7). For example, HTS subheading 9802.00.80 imports of body-supporting garments and trousers had among the highest ratios of U.S. content to total value (67 percent and 64 percent, respectively) in 1989, whereas tape recorders, record players, and related equipment; internal combustion engines and parts; and motor vehicles had the lowest ratios (11 percent, 12 percent, and 17 percent, respectively). The high U.S. content of apparel, combined with significantly higher duties on these products, provided duty savings under subheading 9802.00.80 of $230 million in 1989. Despite supplying only 4 percent of total imports under subheading 9802.00.80 in 1989, the apparel industry accrued 51 percent of the duty savings. Motor vehicles, on the other hand, accounted for 61 percent of total 9802.00.80 imports, but only 30 percent ($135 million) of the duty savings.

Imports from LDCs

Imports from LDCs accounted for 30 percent of total subheading 9802.00.80 imports in 1989, up from 28 percent in 1986 (table B-3). The total value of subheading 9802.00.80 imports from LDCs increased from $10.2 billion in 1986 to $21.6 billion in 1989.

Mexico was the primary source of HTS subheading 9802.00.80 imports from LDCs in 1989, providing 54 percent of the imports from all LDCs, followed by Korea with 9 percent; Singapore and Malaysia each had shares of 6 percent. The major products imported from Mexico under subheading 9802.00.80 were motor vehicles, electrical conductors, and television receivers. Semiconductors accounted for most of subheading 9802.00.80 imports from Malaysia. Semiconductors and office machines were the leading products imported from Singapore. Semiconductors were the leading subheading 9802.00.80 import category from Korea, followed by motor vehicles. U.S.-made components accounted for 40 percent of the motor vehicle imports under subheading 9802.00.80 from Mexico, but only 4 percent of such imports from Korea.

Significance of 9802.00.80 Trade to Source Countries

The leading suppliers of subheading 9802.00.80 imports, in 1989, were Canada ($25.7 billion), Japan ($16.8 billion), and Mexico ($11.8 billion) (table 10). However, Mexico, Sweden, and Canada had the largest ratios of 9802.00.80 imports to total imports. Imports under this provision accounted

Table 10
HTS subheading 9802.00.80: Principal suppliers, total U.S. imports, 9802.00.80 imports, U.S. content of 9802.00.80 imports, share of total imports accounted for by 9802.00.80 imports, and share of 9802.00.80 imports accounted for by U.S. content, 1989

Source	Total U.S imports	Total imports under HTS subheading 9802.00.80	U.S. content of 9802.00.80 imports	Share of total U.S imports accounted for by 9802.00.80	Share of 9802.00.80 imports accounted for by U.S. content
	Million dollars			Percent	
Canada	87,988	25,726	8,478	29	33
Japan	91,842	16,838	392	18	2
Mexico	26,557	11,767	5,969	44	51
West Germany	24,774	3,933	65	16	2
Korea	19,567	1,978	574	10	29
Sweden	4,860	1,761	39	36	2
Singapore	8,886	1,377	342	16	25
United Kingdom	17,924	1,320	146	7	11
Malaysia	4,669	1,316	596	28	45
Taiwan	24,203	1,062	260	4	24
All others	156,742	5,954	2,060	4	35
Total	468,012	73,032	18,921	16	26

Note.—Table 10 corresponds to table 7 in the Full Report.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

for 46 percent of total U.S. imports from Mexico in 1989, 38 percent of imports from Sweden, and 31 percent of imports from Canada (table 10).

The role of the maquiladora industry in exports of manufactured goods from Mexico becomes even more significant if the agricultural, petrochemical, and steel sectors are subtracted from the analysis. Without these sectors, to which foreign assembly provisions do not apply, imports under subheading 9802.00.80 accounted for 78 percent of total U.S. imports of $14.5 billion from Mexico in 1989. This high proportion of total imports accounted for by imports under subheading 9802.00.80 can be attributed to the use by U.S. firms of maquiladora operations in Mexico, which take advantage of low cost labor in assembly operations to improve their competitiveness. In 1989, subheading 9802.00.80 trade dominated Mexican exports to the United States in each of the following commodities: electrical articles (88 percent), motor vehicles (93 percent), television apparatus and parts (95 percent), and motor-vehicle parts (78 percent).

For Canada, as with Mexico, if agricultural, petrochemical, and steel were excluded from analysis, subheading 9802.00.80 trade would have accounted for 62 percent of Canada's exports to the United States in 1989 ($25.5 billion of $41 billion). This reflects the rationalization of production across the U.S.-Canada border. By contrast, with the same exclusions, imports under subheading 9802.00.80 would have accounted for 21 percent of total U.S. imports from Japan ($17 billion of $81 billion), 12 percent from Korea ($2 billion of $17.1 billion), and 6 percent from Taiwan ($1.1 billion of $18.8 billion).

Contact Laura V. Rodriguez-Archila at 205-3486

Chapter 2

Summary of the Impact of the Customs User Fee on the Use of Subheadings 9802.00.60 and 9802.00.80

The overall use of U.S.-made components in foreign manufacturing and assembly operations cannot be measured solely by the level of duty-free content of imports under HTS subheadings 9802.00.60 and 9802.00.80. Until recently, importers of products that entered free of duty under various provisions, such as the Generalized System of Preferences (GSP), Caribbean Basin Economic Recovery Act (CBERA), APTA, Agreement on Civil Aircraft, and U.S.-Israel Free-Trade Agreement,[1] or that had an unconditional, most-favored-nation (MFN) duty rate of "free," such as transistors, diodes, agricultural equipment, lift trucks, outboard marine motors, and most semiconductors, had no incentive to attempt to enter goods under subheadings 9802.00.60 or 9802.00.80. However, since December 1986, many importers of duty-free articles, except for those entered under the GSP and CBERA, have been entering these goods containing U.S.-origin parts or metal under subheadings 9802.00.60 and 9802.00.80 to avoid paying a user fee[2] established by the U.S. Congress. Consequently, for the duration of the user fee, the duty-free portion of imports under subheadings 9802.00.60 and 9802.00.80 will more closely represent full use of U.S.-origin components and metal in foreign manufacturing operations.

Effective December 1, 1986, U.S. Customs regulations were amended to reflect the ad valorem user fee for merchandise processing (see Treasury Decision 86-205) authorized by the Omnibus Budget Reconciliation Act of 1986 (sec. 8101 of Public Law 99-509). The amended regulations require that merchandise formally entered or withdrawn from warehouse for consumption be subject to an ad valorem fee based on the appraised customs value of the merchandise. This fee was 0.22 percent ad valorem between December 1986 and September 1987, and 0.17 percent ad valorem since October 1987, and is to be used to offset customs appropriations for salaries and expenses incurred in conducting commercial operations.[3]

There are several exceptions to the fee created by section 8101, however, including exemption from the fee for articles provided for in chapter 98 of the HTS. (See 19 CFR 24.23(b)(1) (1987).) Section 8101 exempted both the dutiable and duty-free portions of articles provided for in subheadings 9802.00.60 and 9802.00.80 from this user fee. However, section 9501 of Public Law 100-203 (Omnibus Trade and Reconciliation Act of 1987) amended the user fee by removing the exemption from the fee for the dutiable portion of the value of imports under HTS subheadings 9802.00.60 and 9802.00.80 effective January 6, 1988.

Traditional imports under subheadings 9802.00.60 and 9802.00.80 combined grew from $36.5 billion in 1986 to $44.7 billion in 1989, or by 22 percent. However, the addition of $29.5 billion in imports with a free rate of duty to escape the user fee raises the 1989 total to $74.2 billion. This indicates a 103-percent rise in the use of these provisions in 1989 over those in 1986. However, products imported in response to the user fee accounted for 78 percent of the $37.7 billion growth in total imports under 9802.00.60 and 9802.00.80 during 1986-89 (figures 9 and 10).[4]

Contact Ralph Watkins at 205-3492

[1] See app. C for a description of these provisions.

[2] This fee is also known as a merchandise processing fee.

[3] From Oct. 1, 1987, through Sept. 30, 1990, the user fee was set at 0.17 percent ad valorem. This user fee was reauthorized by the Omnibus Budget Reconciliation Act of 1990. This Act extended the effective period for application of the fee through Sept. 30, 1995, and gave the Secretary of the Treasury authority to adjust the ad valorem rate of the fee to an amount not greater than 0.19 percent nor less than 0.15 percent.

[4] The purpose of drawing the distinction between "traditional" imports under the production sharing provisions and "free rate" imports is to explain the sharp rise in imports under the provisions in 1987-89 over 1986. This growth should not be interpreted as a change in manufacturing processes or locations or as an indication of a loss of revenue to the U.S. Treasury.

Figure 9
U.S. imports under HTS subheading 9802.00.80, total and duty-free, 1986–89, and discounting free rate imports, 1987–89

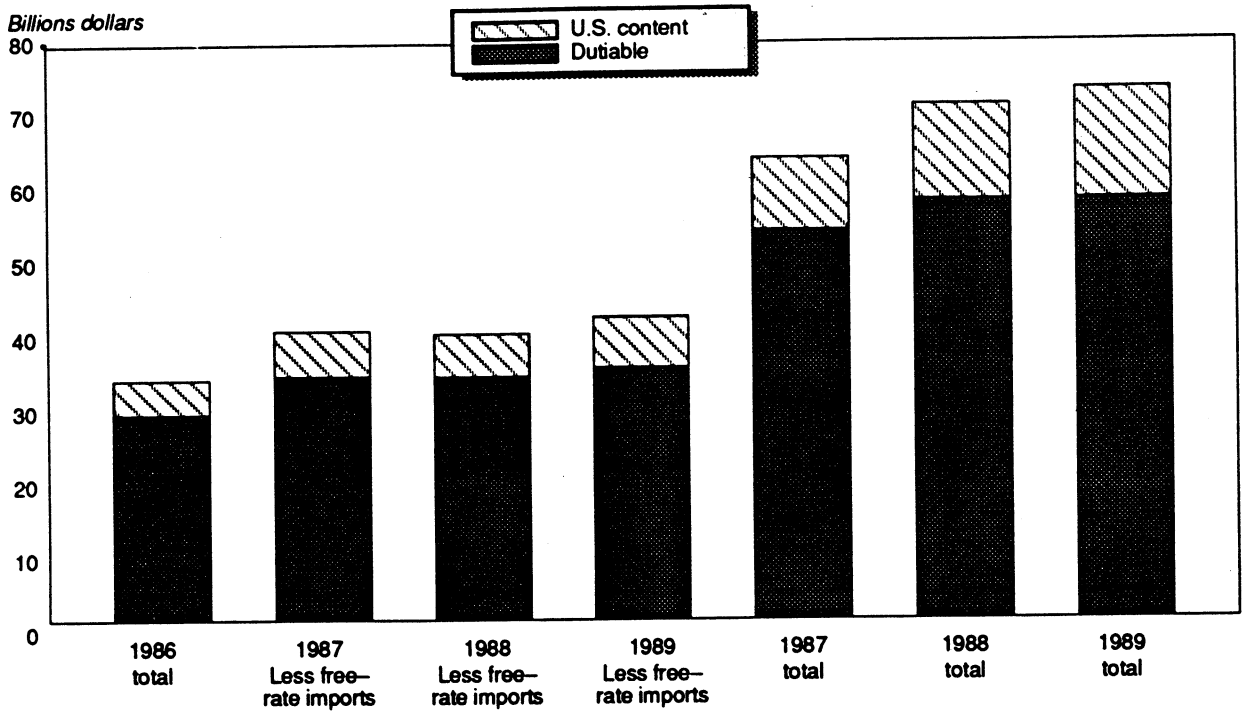
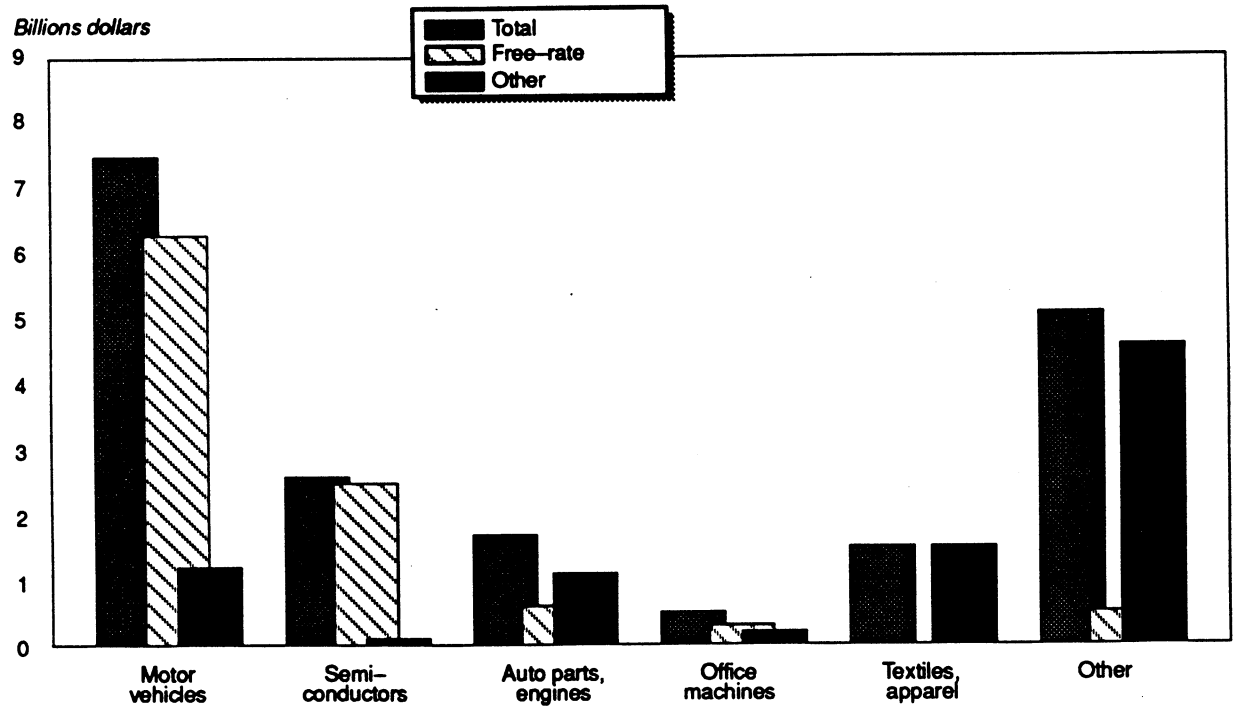


Figure 10
U.S. imports under subheading 9802.00.80: "Free–rate" and other, by value of U.S.–made components and by selected industries, 1989



Note.—These figures correspond to figures 2–1 and 2–2 of the Full Report.
Source: Based on official statistics of the U.S. Department of Commerce.

Chapter 3
Summary of Analysis by Industry of Imports Under HTS Subheading 9802.00.80

Transportation Equipment

Transportation equipment consists largely of motor vehicles and parts thereof, nonmilitary aircraft, internal combustion engines, and rail locomotives and rolling stock. U.S. imports of these goods rose from $85 billion in 1986 to $93 billion in 1989, representing an increase of 9 percent (table 11). U.S. imports of these products entered under subheading 9802.00.80 doubled during the period, increasing from $26 billion in 1986 to $52 billion in 1989. U.S. imports of motor vehicles under subheading 9802.00.80 contributed largely to this increase, rising 89 percent to $44 billion during the period. The value of the U.S.-made components in subheading 9802.00.80 imports rose rapidly during the period, from $1.6 billion to $9.7 billion, an increase of 509 percent. Beginning in December 1986, APTA and other duty-free products were entered under subheading 9802.00.80 presumedly to avoid the Customs user fee. In 1989, motor vehicles and motor-vehicle parts accounted for 90 percent of the U.S. content of total imports of transportation equipment under 9802.00.80, 4 percent more than in 1988. Motor vehicles were the single largest imported product, accounting for 78 percent of total U.S. content in 1989. The ratio of subheading 9802.00.80 imports to total imports increased from 31 percent in 1986 to 57 percent in 1987; it remained at 57 percent through 1989 (table 12). The share of subheading 9802.00.80 imports accounted for by U.S.-made components increased steadily during 1986-89, rising from 6 percent in 1986 to 18 percent in 1989.

The nominal trade-weighted average rate of duty on imports of transportation equipment dropped from 3.2 percent ad valorem in 1986 to 1.7 percent in 1989 (table 12). The effective duty rate applicable to 9802.00.80 imports decreased from 3.0 percent to 1.4 percent ad valorem. Total duty savings resulting from the use of subheading 9802.00.80 increased from $51 million in 1986 to $164 million in 1989 (figure 11).

Table 11
Transportation equipment: U.S. imports for consumption, total and under HTS subheading 9802.00.80, 1986-89

Year	Total imports	9802.00.80 imports	Duty-free value of 9802.00.80 imports
	Value (million dollars)		
1986	85,130	26,006	1,593
1987	89,407	50,688	5,206
1988	92,446	53,061	7,831
1989	92,575	52,416	9,695
	Change (percent)		
1989 from 1986	9	102	509
Average annual 1989 from 1986	3	26	83

Note.—Table 11 corresponds to table 3–1 of the Full Report.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

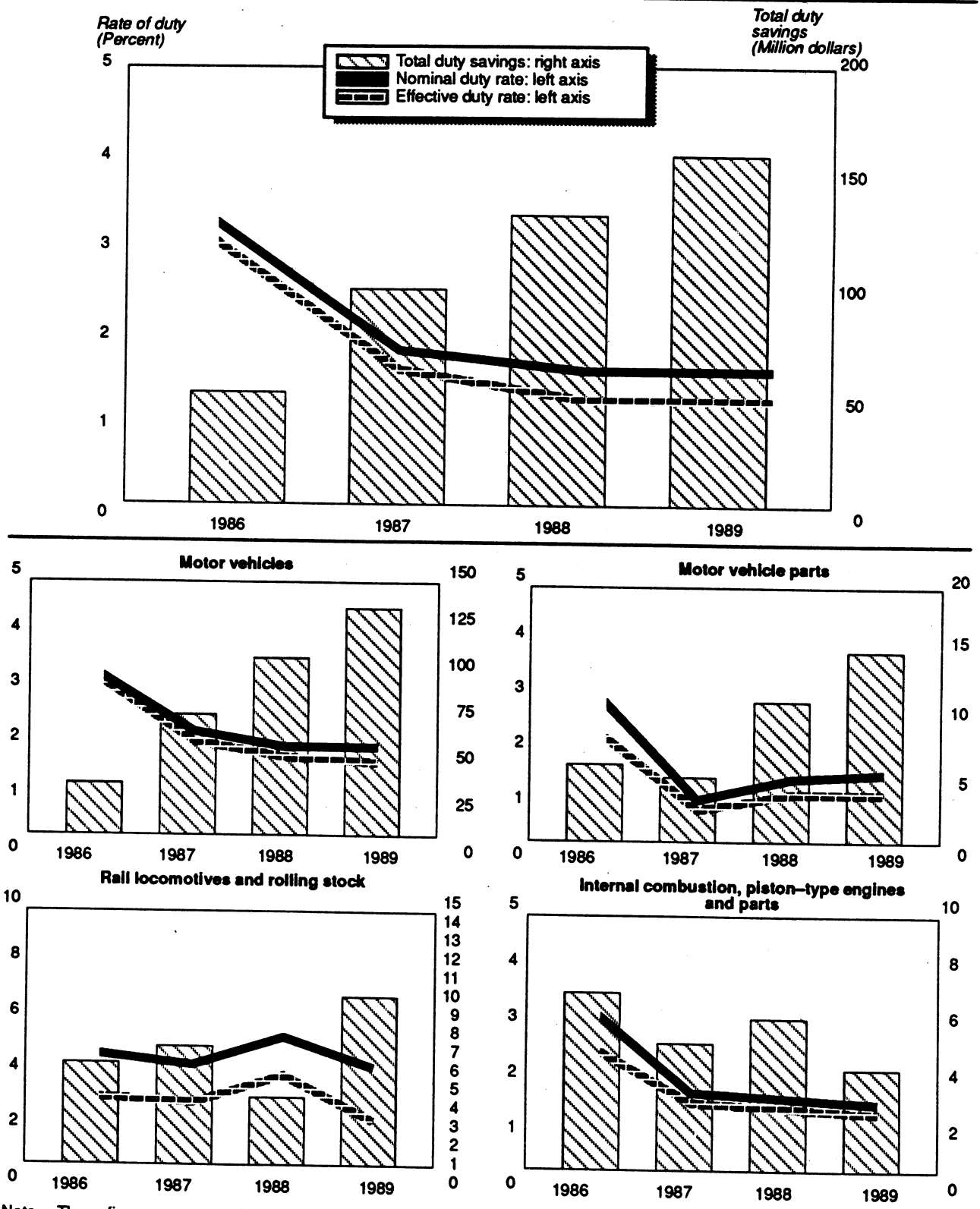
Table 12
Transportation equipment: Nominal and effective rates of duty under HTS subheading 9802.00.80 and duty savings, 1986-89

Year	9802.00.80 imports to total imports	Duty-free 9802.00.80 to total 9802.00.80 imports	Rate of duty		Total duty savings
			Nominal	Effective	
	Percent				Million dollars
1986	31	6	3.2	3.0	51
1987	57	10	1.9	1.7	99
1988	57	15	1.7	1.4	133
1989	57	18	1.7	1.4	164

Note.—Table 12 corresponds to table 3–2 of the Full Report.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Figure 11
Transportation equipment: U.S. rate of duty and total duty savings under HTS subheading 9802.00.80, 1986-89



Note.—These figures correspond to figures 3-1 to 3-5 of the Full Report.
Source: Based on official statistics of the U.S. Department of Commerce.

Canada was the largest foreign supplier of imports of transportation equipment under 9802.00.80 in terms of U.S. content during the period. Canada's share of the U.S. content of subheading 9802.00.80 imports rose from 24 percent in 1986 to 76 percent in 1989 (table 13). Mexico was the next largest supplier, accounting for 15 percent of the value of U.S.-made components returning in assembled products in 1989, down from 44 percent in 1986. Although Mexico's share of subheading 9802.00.80 trade, measured in terms of U.S.-origin content, dropped sharply during 1986-89, this decline did not indicate a decrease in such activity in Mexico. Rather, it reflected a surge in subheading 9802.00.80 imports from Canada as importers claimed eligibility under this provision for many products with a free rate of duty under APTA apparently to avoid the Customs user fee.

Contact Michael Hagey at 205-3392

Electronic Technology Equipment

United States imports of electronic technology equipment rose by 46 percent during 1986-1989, increasing from $47.7 billion to $69.7 billion (table 14). Japan, Canada, and the European Community were the major sources of U.S. imports of this equipment during the period. Imports of such equipment under HTS subheading 9802.00.80 rose by 153 percent during the period, increasing from $4.3 billion to $11.0 billion. The duty-free content of these imports under 9802.00.80 rose by 179 percent during 1986-1989, increasing from $1.6 billion to $4.6 billion.

The trade-weighted nominal rate of duty on electronic technology equipment declined irregularly from 4.2 percent ad valorem in 1986 to 1.5 percent in 1989 (table 15, fig. 12). The effective duty rate applicable to 9802 imports showed a similar decline, decreasing from 2.6 percent to 0.9 percent. The total duty savings, or subsidy, decreased from $69.4 million in 1986 to $53.7 million in 1987, and then increased irregularly back to $69.4 million in 1989 (figure 12).

Table 13
Transportation equipment: Duty-free value of U.S. imports for consumption under HTS subheading 9802.00.80, by principal sources, 1986-89

Source	1986	1987	1988	1989	Change in value of duty-free content, 1989 from 1986	Share of total duty-free value	
		Million dollars			Percent	1986	1989
						Percent	
Canada	380	2,996	5,679	7,416	1,851	24	76
Mexico	701	1,001	1,272	1,477	111	44	15
Japan	100	318	162	256	157	6	3
France	67	252	201	94	41	4	1
United Kingdom	28	222	172	94	232	2	1
Brazil	132	59	79	59	-55	8	1
West Germany	86	109	80	56	-35	5	1
Italy	24	42	11	54	123	2	2
All others	75	207	175	189	147	5	2
Total	1,593	5,206	7,831	9,695	509	100	100

Notes.—Table 13 corresponds to table 3–3 of the Full Report. Because of rounding, figures may not add to the totals shown.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

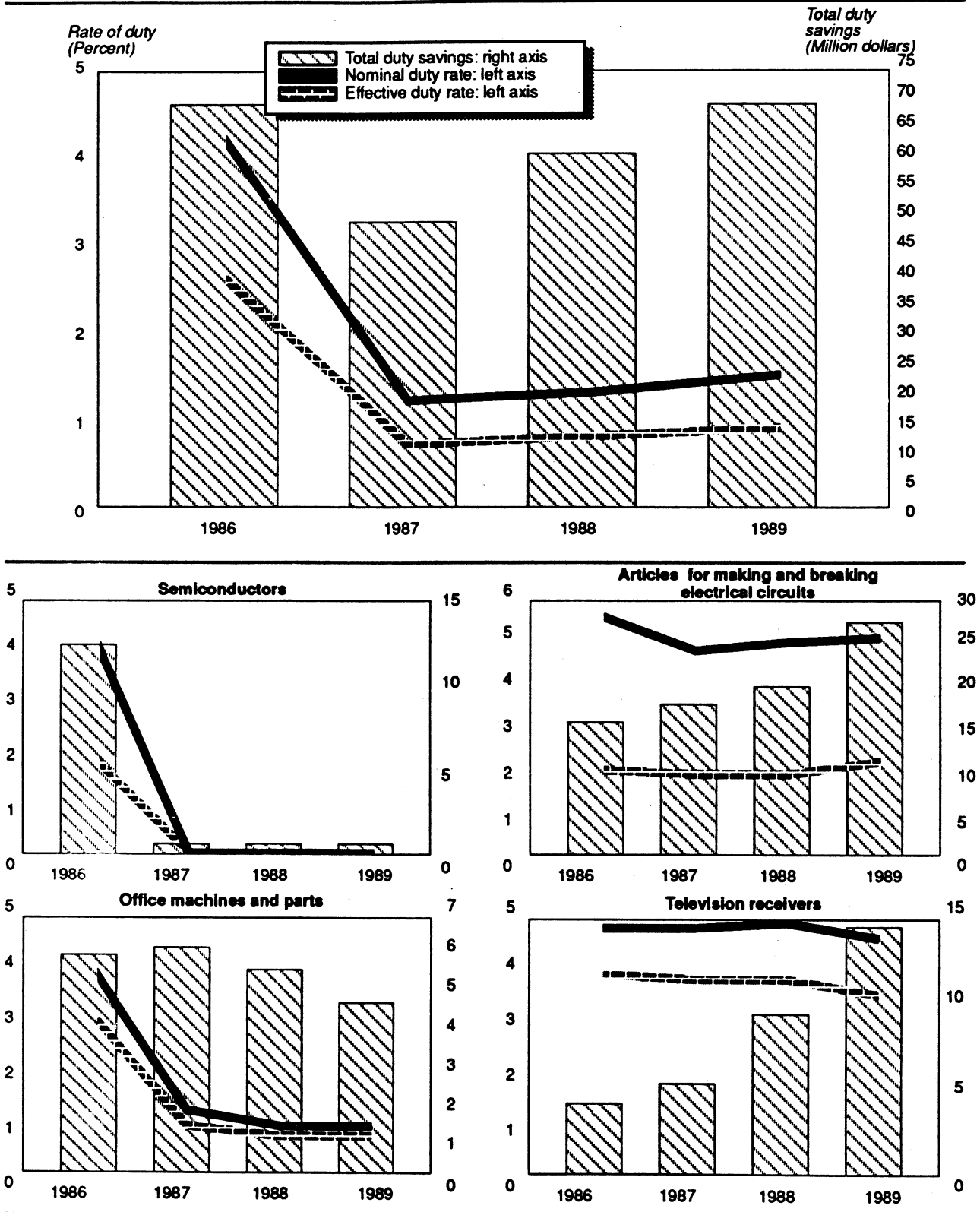
Table 14
Electronic technology equipment: U.S. imports for consumption, total and under HTS subheading 9802.00.80, 1986-89

Year	Total imports	9802.00.80 imports	Duty-free value of 9802.00.80 imports
	Value (million dollars)		
1986	47,701	4,349	1,647
1987	54,816	9,647	3,938
1988	64,988	11,221	4,472
1989	69,677	11,018	4,590
	Change (percent)		
1989 from 1986	46	153	179
Average annual 1989 from 1986	13	36	41

Note.—Table 14 corresponds to table 4–1 of the Full Report.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Figure 12
Electronic technology equipment: U.S. rate of duty and total duty savings under HTS subheading 9802.00.80, 1986-89



Note.—Figure 12 corresponds to figures 4-1 to 4-5 of the Full Report.
Source: Based on official statistics of the U.S. Department of Commerce.

Table 15
Electronic technology equipment: Nominal and effective rates of duty under HTS subheading 9802.00.80 and duty savings, 1986-89

Year	9802.00.80 imports to total imports	Duty-free 9802.00.80 to total 9802.00.80 imports	Rate of duty		Total duty savings
			Nominal	Effective	
	Percent				Million dollars
1986	9	38	4.2	2.6	69.4
1987	18	41	1.2	0.7	53.7
1988	17	40	1.3	0.8	60.9
1989	16	42	1.5	0.9	69.4

Note.—Table 15 corresponds to table 4–2 of the Full Report.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Mexico accounted for 36 percent of the duty-free value of imports under subheading 9802.00.80 in 1989, down from its 59 percent share in 1986, primarily due to increasing shares taken by Malaysia and Korea. Canada maintained its second-place position, accounting for 15 percent of the duty-free value of imports under subheading 9802.00.80 in both 1986 and 1989 (table 16).

The principal electronic technology equipment imported in 1989 includes office machines, semiconductor devices, radio transmission and reception apparatus, television receivers and other consumer electronics products, and telephone and telegraph equipment. Together, these products accounted for 81 percent of total imports of electronic technology equipment in 1989.

U.S. firms have established plants in Mexico and other low-wage-rate countries to reduce labor costs associated with labor-intensive assembly operations. U.S. and foreign firms are increasingly using Mexico as a producer and assembler of technologically advanced electronic equipment intended for the U.S. market.

Contact John Kitzmiller at 205-3387

Machinery

U.S. imports of machinery increased from $28 billion in 1986 to $40 billion in 1989, or by 41 percent (table 17). The principal categories of machinery imported from production sharing operations are electrical conductors; motors and generators; electrical household appliances; construction and mining equipment; transformers; taps, cocks, and valves; and equipment for lifting, handling, loading, and unloading. In 1989, these commodities accounted for $13.6 billion, or about 34 percent, of total machinery imports. Total machinery imports under HTS subheading 9802.00.80 grew from $2.8 billion in 1986 to $4.2 billion in 1989, representing a 46 percent increase. The specific commodities described above accounted for $3 billion, or 73 percent of those imports. The duty-free value of subheading 9802.00.80 imports totaled $1.9 billion in 1989, an increase of 63 percent from 1986. The commodities specifically mentioned accounted for $1.6 billion, approximately 81 percent of these duty-free imports.

In general, U.S. producers of machinery use subheading 9802.00.80 to import, from their subsidiaries, products that require labor-intensive assembly processes. U.S. producers can improve price competitiveness by assembling such products in countries with relatively low labor costs.

The proportion of subheading 9802.00.80 imports to total machinery imports remained between 10 percent and 11 percent from 1986 to 1989 (table 18). The U.S.-origin content of such imports as a share of total subheading 9802.00.80 imports increased from 41 percent in 1986 to 46 percent in 1989. The nominal trade-weighted rate of duty in 1989 was 4.0 percent, while the effective rate of duty on 9802 imports was 2.2 percent. Total duty savings were approximately $77 million in 1989, as opposed to $50 million in 1986 (figure 13).

The primary source of duty-free machinery imports under subheading 9802.00.80 is Mexico, which accounted for 81 percent of such duty-free imports in 1989, an increase from 76 percent in 1986 (table 19). The second largest source of duty-free imports of machinery under subheading 9802.00.80 is Canada, which accounted for 12 percent of such duty-free imports in 1989, down from 14 percent in 1986. Other sources of machinery imports under subheading 9802.00.80 in 1989 included Japan, Taiwan, and the Philippines, all of which were relatively minor suppliers.

Contact Michael Hagey at 205-3392

Table 16
Electronic technology equipment: Duty-free value of U.S. imports for consumption under HTS subheading 9802.00.80, by principal sources, 1986-89

Source	1986	1987	1988	1989	Change in value of duty-free content, 1989 from 1986	Share of total duty-free value 1986	Share of total duty-free value 1989
	Million dollars				Percent	Percent	
Mexico	965	1,342	1,526	1,643	70	59	36
Canada	249	463	470	679	173	15	15
Malaysia	81	619	653	595	635	5	13
Korea	42	303	446	511	1,117	3	11
Singapore	64	381	438	319	398	4	7
Philippines	30	277	253	209	597	2	5
Taiwan	43	181	188	194	353	3	4
Thailand	8	149	172	124	1,450	(1)	3
Japan	13	30	51	93	615	1	2
Hong Kong	35	70	131	83	137	2	2
All others	117	123	144	140	21	7	3
Total	1,647	3,938	4,472	4,590	179	100	100

[1] Less than 0.5 percent.

Notes.—Table 16 responds to table 4–3 of the Full Report. Because of rounding, figures may not add to the totals shown.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Table 17
Machinery: U.S. imports for consumption, total and under HTS subheading 9802.00.80, 1986-89

Year	Total imports	9802.00.80 imports	Duty-free value of 9802.00.80 imports
	Value (million dollars)		
1986	28,005	2,847	1,168
1987	31,518	3,319	1,420
1988	36,853	3,763	1,701
1989	39,505	4,165	1,906
	Change (percent)		
1989 from 1986	41	46	63
Average annual 1989 from 1986	12	14	18

Note.—Table 17 corresponds to table 5–1 of the Full Report.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

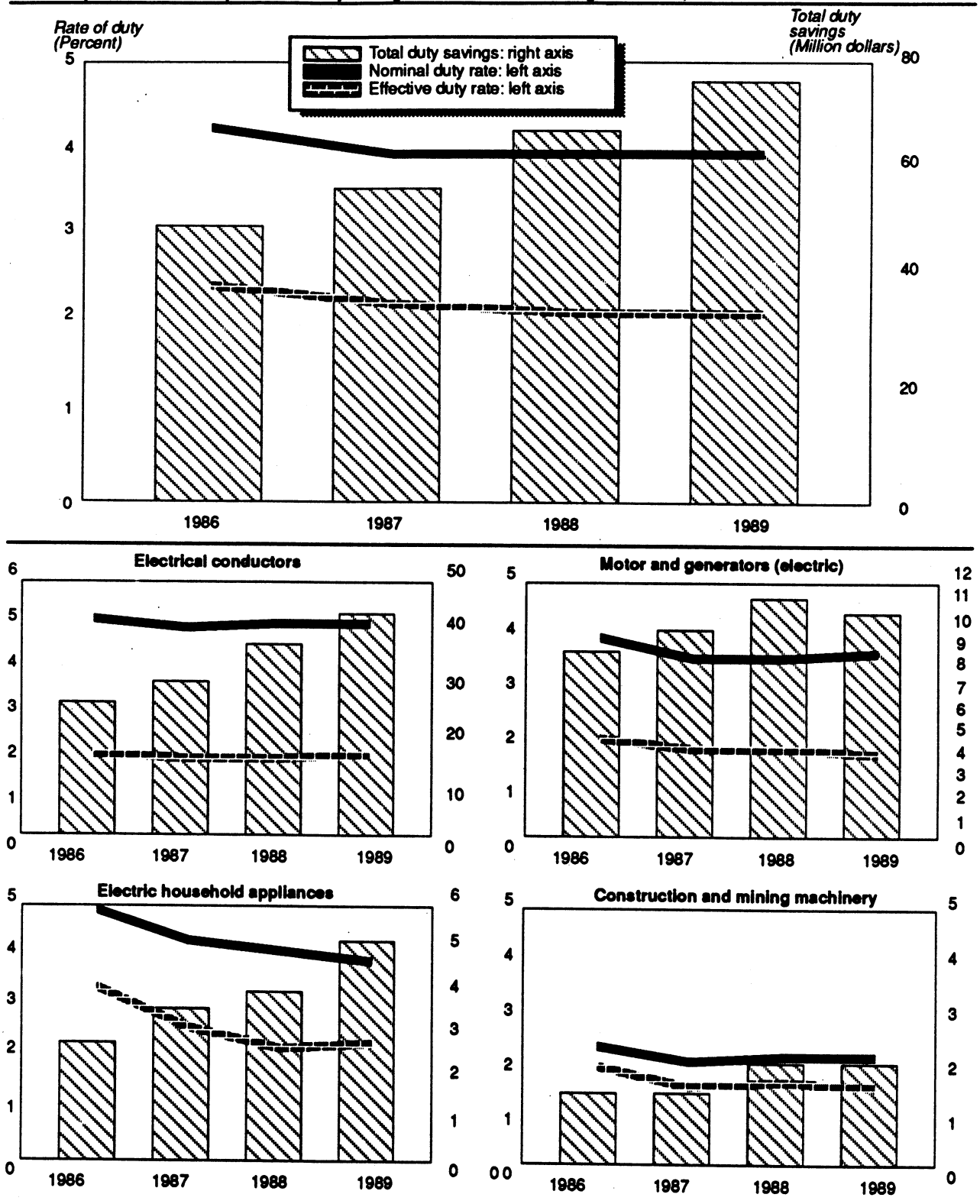
Table 18
Machinery: Nominal and effective rates of duty under HTS subheading 9802.00.80 and duty savings, 1986-89

Year	9802.00.80 imports to total imports	Duty-free 9802.00.80 to total 9802.00.80 imports	Rate of duty Nominal	Rate of duty Effective	Total duty savings
	Percent				Million dollars
1986	10	41	4.3	2.5	50.2
1987	11	43	4.0	2.3	57.1
1988	10	45	4.0	2.2	67.7
1989	11	46	4.0	2.2	76.6

Note.—Table 18 corresponds to table 5–2 of the Full Report.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Figure 13
Machinery: U.S. rate of duty and total duty savings under HTS subheading 9802.00.80, 1986-89



Note.—Figure 13 corresponds to figures 5-1 to 5-5 of the Full Report.
Source: Based on official statistics of the U.S. Department of Commerce.

Table 19
Machinery: Duty-free value of U.S. imports for consumption under HTS subheading 9802.00.80, by principal sources, 1986-89

Source	1986	1987	1988	1989	Change in value of duty-free content, 1989 from 1986	Share of total duty-free value	
	Million dollars				Percent	1986	1989
						Percent	
Mexico	883	1,127	1,409	1,537	74	76	81
Canada	165	187	183	232	41	14	12
Japan	27	21	37	35	31	2	2
Taiwan	26	19	15	35	35	2	2
Philippines	7	10	7	10	44	1	1
All others	61	56	50	56	-9	5	3
Total	1,168	1,420	1,701	1,906	63	100	100

Notes.—Table 19 corredponds to table 5–3 of the Full Report. Because of rounding, figures may not add to the totals shown.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Textiles, Apparel, and Footwear

Level of trade and duty savings

U.S. imports of textiles, apparel, and footwear under HTS subheading 9802.00.80 almost doubled during 1986-89, to $2.8 billion in 1989, roughly three times the rate of growth in total imports of these products, as shown in table 20. The textile, apparel, and footwear sector accounts for a significant share of the total duty-free content of all subheading 9802.00.80 imports. Its share peaked at 15 percent in 1986 before falling to 8 percent in 1989. This decline did not represent a real change in the use of subheading 9802.00.80 by the sector, but rather reflected a surge in the use of the provision by other product sectors apparently to avoid the Customs user fee, which went into effect in December 1986 (see chapter 2 of this report for details).

Apparel accounted for 80 percent of total subheading 9802.00.80 imports of textiles, apparel, and footwear in 1989. Footwear accounted for another 18 percent and textiles for the remaining 2 percent. Unlike most other products entered under subheading 9802.00.80, the duty-free content of textile, apparel, and footwear imports exceeds the dutiable portion of such imports. During 1986-89, the U.S.-made content averaged 57 percent for textiles, apparel, and footwear as opposed to 20 percent for all other product sectors combined. Consequently, the tariff savings of imports under subheading 9802.00.80 are greater for textiles, apparel, and footwear than for other sectors. These savings are greater because the trade-weighted average tariff for this sector was 15.2 percent ad valorem versus only 1.9 percent ad valorem for all other products in 1989. Duty savings on the sector's imports totaled $230 million in 1989, as shown in table 21 and fig. 14.

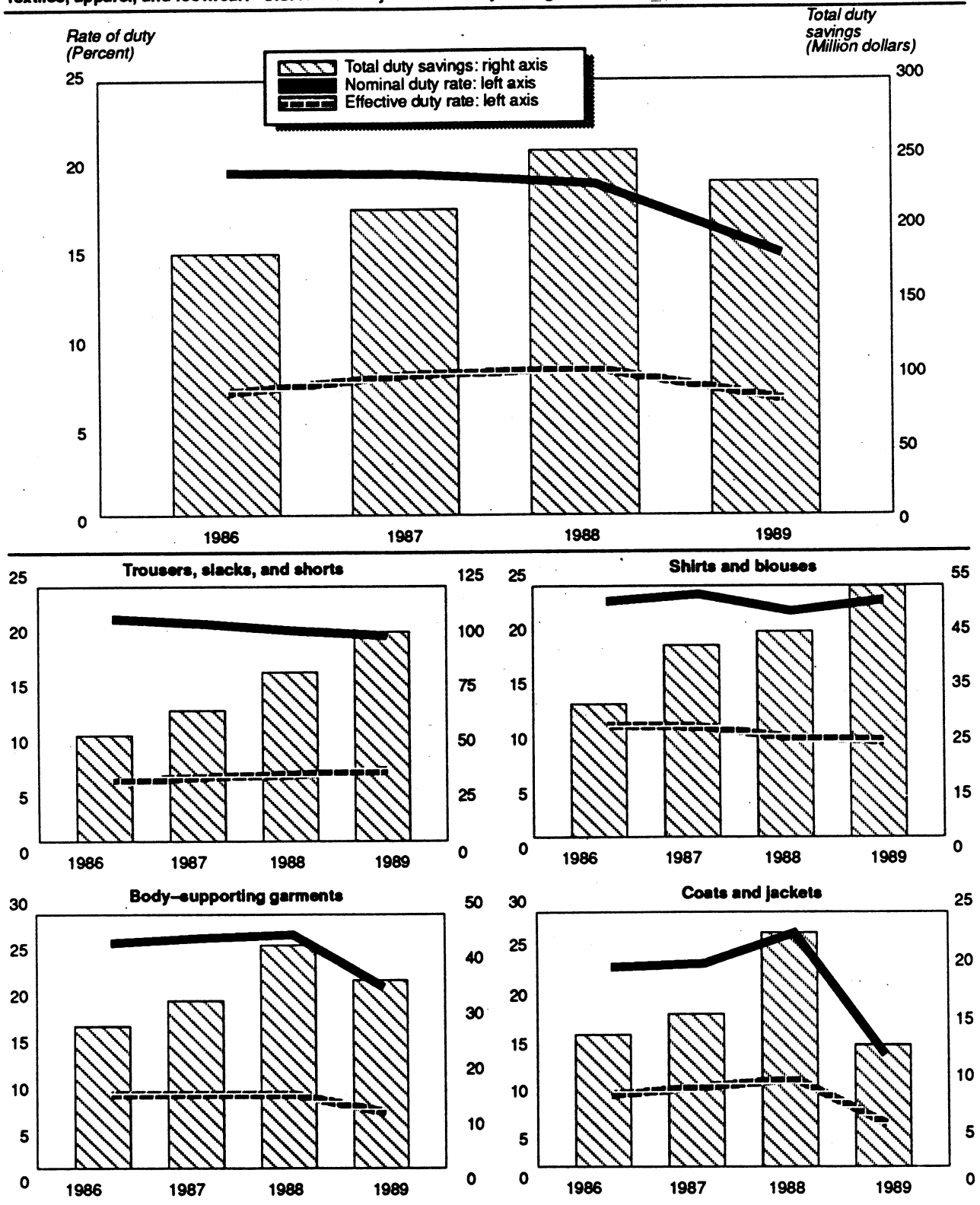
Table 20
Textiles, apparel, and footwear: U.S. imports for consumption, total and under HTS subheading 9802.00.80, 1986-89

Year	Total imports	9802.00.80 imports	Duty-free value of 9802.00.80 imports
	Value (million dollars)		
1986	29,976	1,434	906
1987	34,778	1,841	1,065
1988	36,595	2,382	1,312
1989	39,635	2,757	1,511
	Change (percent)		
1989 from 1986	32	92	67
Average annual 1989 from 1986	10	24	19

Note.—Table 20 corresponds to table 6–1 of the Full Report.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Figure 14
Textiles, apparel, and footwear: U.S. rate of duty and total duty savings under HTS subheading 9802.00.80, 1986-89



Note.—Figure 14 corresponds to figures 6-1 to 6-5 of the Full Report.
Source: Based on official statistics of the U.S. Department of Commerce.

Table 21
Textiles, apparel, and footwear: Nominal and effective rates of duty under subheading 9802.00.80 and duty savings, 1986-89

Year	9802.00.80 imports to total imports	Duty-free 9802.00.80 to total 9802.00.80 imports	Rate of duty		Total duty savings
			Nominal	Effective	
	Percent				Million dollars
1986	5	63	19.9	7.3	180.3
1987	5	58	19.8	8.3	210.9
1988	7	55	19.2	8.6	251.9
1989	7	55	15.2	6.9	229.7

Note.—Table 21 corresponds to table 6–2 of the Full Report.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Leading sources

Although the duty savings are economically important to the textiles, apparel, and footwear sector, the cost savings of performing the labor-intensive assembly operations in low-labor-cost countries are more significant. Most of the foreign sewing operations are located in Mexico and the Caribbean countries, as evidenced by the duty-free content of subheading 9802.00.80 imports shown in table 22. These countries have an abundant supply of low-cost labor, and their proximity to the United States provides U.S. firms with greater control over production and shorter delivery leadtimes than could assembly facilities in the Far East.

The 9802.00.80 apparel trade accounts for the majority of total apparel imports from Caribbean countries and is dominated by four countries: the Dominican Republic, Costa Rica, Haiti, and Jamaica. For the most part, the growth in U.S. imports of Caribbean apparel has resulted from increased foreign investment in the region, particularly in the four leading apparel supplying countries. Because of the tight quota situation in Hong Kong, Korea, and Taiwan, producers in those countries as well as the United States have shifted their focus to the Caribbean region as a site for export-oriented production, most of which is destined for the U.S. market. Although U.S.investment in the region has been dominant, Asian investment has also been strong. U.S. investment has been concentrated mainly in subheading 9802.00.80 production, whereas Asian investment has focused on cut, make, and trim (CMT) production utilizing Asian fabrics. Jamaica has been particularly attractive to Asian investors because it is an English speaking country and Jamaican exports receive preferential access to EC markets under the Lomè Convention.[1] In 1987, Asian investments were largely responsible for Jamaican apparel exports to European markets, which accounted for 5 percent of total apparel exports from Jamaica. The relatively high Asian involvement in CMT operations in Jamaica has accounted for the ratio of subheading 9802.00.80 imports to total imports being lower for that country than for the other leading Caribbean suppliers, ranging between 62 and 73 percent during the past 5 years.

One of the principal attractions for foreign investment in the Caribbean is the relatively low labor costs. In 1989, of the Caribbean suppliers, the Dominican Republic and Haiti offered the lowest hourly compensation, $0.61 and $0.58 respectively, including fringe benefits.[2] These two countries also offered some of the largest pools of available labor. Average productivity in the four leading Caribbean countries currently ranges between 80 and 90 percent of the U.S. rate, with Haiti being on the lower end and Costa Rica on the higher end. Liberal social benefits and a better educated workforce[3] account for Costa Rica's relatively higher wages of $1.07 per hour (including fringe benefits). However, these higher wages are offset by the ability of firms in Costa Rica to handle a full range of production and frequent style changes. On the other hand, firms in Haiti are more limited, producing budget articles with few style changes.

[1] Under the Lomè Convention, designated Caribbean countries receive preferential access to the EC markets for agricultural and manufactured products. Within the past year, the Dominican Republic was added to the list of beneficiary countries under the Convention.

[2] Wage rates for Costa Rica, the Dominican Republic, and Haiti are for sewing machine operators in the apparel industry only and not for all manufacturing employees. "5th Annual 807/CBI Comparative Analysis," *Bobbin* , Nov. 1989, p. 64.

[3] Costa Rica has a 93 percent literacy rate, among the highest in the region, compared with Haiti's rate of 37 percent.

Table 22
Textiles, apparel, and footwear: Duty-free value of U.S. imports for consumption under HTS subheading 9802.00.80, by principal sources, 1986-89

Source	1986	1987	1988	1989	Change in value of duty-free content, 1989 from 1986	Share of total duty-free value	
						1986	1989
	Million dollars				Percent	Percent	
Mexico	363	380	406	460	27	40	30
Dominican Republic	190	234	318	390	105	21	26
Costa Rica	84	92	131	172	104	9	11
Haiti	78	97	103	116	48	9	8
Jamaica	49	84	96	115	135	5	8
Colombia	26	30	50	57	122	3	4
Honduras	20	27	39	50	147	2	3
Guatemala	9	20	30	42	366	1	3
El Salvador	6	13	17	21	226	1	1
Philippines	17	15	17	15	-6	2	1
All others	64	73	104	73	15	7	5
Total	906	1,065	1,312	1,511	67	100	100

Notes.—Table 22 corresponds to table 6–3 of the Full Report. Because of rounding, figures may not add to the totals shown.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Political stability and the ability to provide for a healthy business environment are also key to attracting foreign investment. Costa Rica can attribute much of its success as a leader in production of goods for entry under subheading 9802.00.80 to its history of political stability and to its well-developed infrastructure, communications network, and social programs. Haiti, although the fourth largest subheading 9802.00.80 supplier, has comparably low foreign investment. Political instability, unreliable energy sources, and health concerns have discouraged many potential investors from setting up production in Haiti. In light of the low level of foreign investment in Haiti, much of the subheading 9802.00.80 assembly is with locally-owned producers rather than with foreign-owned manufacturing facilities.

The Caribbean countries compete in attracting potential investors through various government incentives, such as tax breaks and free zones.[4] All four of the leading Caribbean suppliers have free zones, which provide investors with production sites that have substantial tax breaks and duty exemptions. The Dominican Republic has 18 free zones from which the majority of its apparel exports originate. The Caribbean region also benefits from other U.S. programs. Section 936 of the Internal Revenue Code provides a tax break to U.S. companies that operate "twin" or complemcntary plants in Puerto Rico and CBERA beneficiary countries. This program has further increased the attraction of investments in sewing operations using subheading 9802.00.80 in the Caribbean. The use of the Spanish language in the Dominican Republic and Costa Rica has helped attract investment in joint offshore assembly operations with apparel producers in Puerto Rico.

Currently, the Caribbean countries are facing the dilemma of choosing between subheading 9802.00.80-related investments and East Asian investments (i.e., CMT). East Asian projects usually produce higher value added products, involve a higher level of investment, require more labor, and promote higher development of skilled staff than the alternative subheading 9802.00.80-sewing operations. However, to promote good relations with the U.S. textile and apparel industries and to avoid tightened U.S. trade restrictions, the Caribbean countries realize that they must discourage surges of apparel made in the Caribbean with East Asian fabric into the U.S. market. Although East Asian investment was actively encouraged in the early 1980s, in more recent years, promotion has become less active. Potential investors have been encouraged to enter into less trade-sensitive areas than apparel, and, in some cases, East Asian investment in the apparel sector has been reportedly discouraged. The more advanced countries in the region are also facing the need to allocate resources to higher technology industry. In some countries, such as Costa Rica, investment in textiles has been deemphasized in order to attract investment in higher technology production.[5]

Contact Sundar A. Shetty at 205-3457
and Linda Shelton at 205-3467

[4] "Free zones" are also known as free trade zones, foreign-trade zones, in-bond zones, and export processing zones.

[5] Peter Steele, *The Caribbean Clothing Industry: The U.S. and Far East Connections* (New York: The Economist Intelligence Unit, 1988), p. 104.

Other Manufactured Articles

The category of U.S. imports of "other manufactured articles" covers a wide spectrum of products, including furniture, scientific and medical instruments, disposable paper garments, photographic equipment, locks, and jewelry. U.S. imports of other manufactured articles increased by 95 percent during 1986-89, from $110 billion to $214 billion (table 23). The ratio of HTS subheading 9802.00.80 imports to total imports for other manufactured articles was much smaller than for the other major groups, totaling 1.3 percent in 1986 and in 1989 (table 24). Certain product groups covered by this chapter do not lend themselves to assembly, e.g., agricultural, forest, chemical, and steel products.

Imports of other manufactured articles entering under HTS subheading 9802.00.80 increased by 92 percent during 1986-89, from $1.4 billion to $2.7 billion. As occurred with imports of other goods, 9802.00.80 imports of other manufactured articles rose sharply between 1986 and 1987, from $1.4 billion to $2.1 billion, apparently because many importers entered goods under subheading 9802.00.80 to avoid the Customs user fee. The greatest increase occurred in subheading 9802.00.80 imports of furniture, most of which was for motor-vehicle use and qualified for duty-free status under the APTA. Furniture imports under subheading 9802.00.80 increased 244 percent during 1986-89, to $554 million, one-fifth of all imports of other manufactured articles under this provision.

In 1989, imports of products in this sector under subheading 9802.00.80 consisted chiefly of furniture, as previously described; scientific instruments at $373 million; surgical and medical instruments and apparatus at $312 million; disposable paper garments and other articles at $187 million; photographic equipment and supplies at $186 million; locks and padlocks at $106 million; and jewelry at $60 million.

Although the ratio of subheading 9802.00.80 imports to total imports for the aggregated other manufactured articles group was low, certain subgroups had a substantially higher ratio. The ratio of subheading 9802.00.80 imports to total imports for scientific instruments was 10 percent; for surgical and medical instruments and apparatus and for furniture, 11 percent each; for locks and padlocks, 31 percent; and for disposable paper garments and other articles, 38 percent.

Table 23
Other manufactured articles: U.S. imports for consumption, total and under HTS subheading 9802.00.80, 1986-89

Year	Total imports	9802.00.80 imports	Duty-free value of 9802.00.80 imports
	Value (million dollars)		
1986	109,978	1,396	657
1987	118,127	2,100	898
1988	133,576	2,377	1,039
1989	214,045	2,676	1,220
	Change (percent)		
1989 from 1986	95	92	86
Average annual 1989 from 1986	25	24	23

Source: Table 23 corresponds to table 7–1 of the Full Report.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Table 24
Other manufactured articles: Nominal and effective rates of duty under HTS subheading 9802.00.80 and duty savings, 1986-89

Year	9802.00.80 imports to total imports	Duty-free 9802.00.80 to total 9802.00.80 imports	Rate of duty		Total duty savings
			Nominal	Effective	
	Percent				Million dollars
1986	1	47	5.9	3.1	40
1987	2	43	4.2	2.4	38
1988	2	44	4.4	2.5	46
1989	1	46	4.8	2.6	59

Source: Table 24 corresponds to table 7–2 of the Full Report.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Such imports under subheading 9802.00.80 also nearly doubled during 1986-89 in terms of the duty-free content, from $657 million to $1.2 billion (table 23). The share of subheading 9802.00.80 imports of other manufactured articles accounted for by U.S.-made components was fairly stable during 1986-89, averaging 45 percent annually. In 1989, subheading 9802.00.80 imports of jewelry had the highest level of duty-free content, 92 percent, and furniture had the lowest level of duty-free content, only 33 percent.

The nominal and effective rates of duty declined to 4.8 and 2.6 percent, respectively, during 1986-89. However, because of the rising volume of trade under subheading 9802.00.80, the duty savings for the category rose by almost 48 percent (table 24 and fig. 15). The duty savings (tariff incentive), by major subgroup, ranged from $3.0 million (photographic equipment and supplies) to $8.0 million (scientific instruments) in 1989.

Mexico supplied 58 percent ($1.5 billion) and Canada, 20 percent ($546 million) of all U.S. imports entering under subheading 9802.00.80 for this grouping in 1989. Except for jewelry and photographic equipment—Mexico and Canada were the major suppliers for all of the subgroupings within this section.

Mexico was by far the dominant beneficiary of the duty-free treatment of subheading 9802.00.80 throughout the period. In 1989, Mexico accounted for 70 percent ($852 million) of the value of U.S.-made components assembled into the other manufactured goods imported under subheading 9802.00.80 (table 25). Canada was a distant second at 11 percent, followed by the Netherlands with 3 percent.

The principal articles imported from Mexico under subheading 9802.00.80 in 1989, in terms of U.S. content, were disposable paper garments ($145 million, 17 percent of the total from Mexico); surgical and medical instruments and apparatus ($137 million, 16 percent); and scientific instruments ($145 million, 17 percent). In 1989, the major 9802.00.80 product from Canada, accounting for 71 percent of such imports (app. B), was furniture ($99 million), for use principally in motor vehicles.

Contact Hazel L. Robinson at 205-3496

Table 25
Other manufactured articles: Duty-free value of U.S. imports for consumption under HTS subheading 9802.00.80, by principal sources, 1986-89

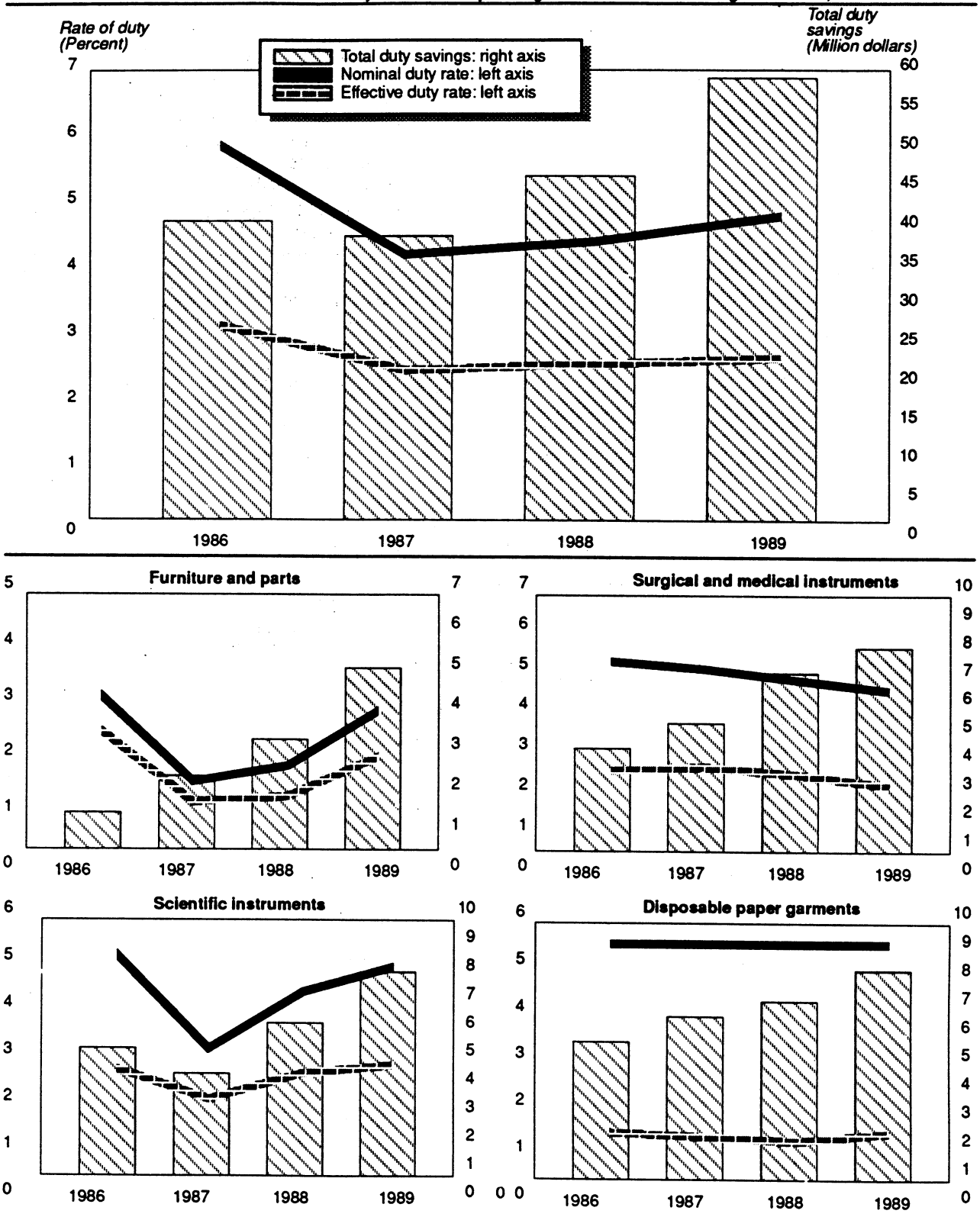
Source	1986	1987	1988	1989	Change in value of duty-free content, 1989 from 1986	Share of total duty-free value	
						1986	1989
	Million dollars				Percent	Percent	
Mexico	419	567	686	852	103	64	70
Canada	53	128	174	140	163	8	11
Netherlands	17	23	31	39	124	3	3
United Kingdom	19	30	27	36	86	3	3
Dominican Republic	34	33	28	31	-7	5	3
Thailand	0	(1)	9	29	(2)	0	2
Haiti	27	44	26	23	-15	4	2
Philippines	12	19	18	13	9	2	1
All others	75	54	40	57	-25	11	5
Total	657	898	1,039	1,220	86	100	100

[1] Less than $500,000.
[2] Not applicable.

Notes.—Table 25 corresponds to table 7-3 of the Full Report. Because of rounding, figures may not add to the totals shown.

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Figure 15
Other manufactured articles: U.S. rate of duty and total duty savings under HTS subheading 9802.00.80, 1986-89



Note.—Figure 15 corresponds to figures 7-1 to 7-5 of the Full Report.
Source: Based on official statistics of the U.S. Department of Commerce.

Chapter 4
Summary of Production Sharing in the European Community

European Community (EC) customs law contains production sharing provisions similar to those provided in HTS subheading 9802.00.80.[1] These provisions, known as "outward processing relief arrangements," allow EC goods to be temporarily exported from the customs territory of the EC for the purpose of further processing or assembly. Compensating products[2] resulting from such production sharing activities may be granted total or partial relief from duties upon release for free circulation in the EC.[3] The types of activities that may benefit from the EC production sharing provisions include the working (including fitting or assembling), processing, and repairing of goods.

The EC's production sharing provisions apply not only to goods exported by one EC country and returned to that same country after processing abroad, but also to triangular trade in which goods are exported from one EC country and returned to another EC country after foreign processing. Authorization to engage in outward processing is allowed on either a special or general basis and is allowed only when customs officials can identify through supporting documentation that the exported goods have been incorporated in the compensating products. The EC may deny an application to engage in outward processing if there is evidence that such activity could result in serious damage to the essential interests of EC processors.[4]

Despite general similarities, some differences in the production sharing provisions of EC and U.S. customs law are important. The most important one is the method used for calculating the tariff on goods returned after having been processed or assembled abroad.[5] Under the U.S. provisions, the applicable duty rate is applied to the full value of the imported article in its condition and tariff classification as imported, less the value of the U.S. components. Computing duties under this method is favorable to the importer because foreign assembly or processing usually results in changing the tariff classification of the exported goods or components to a category subject to higher duty rates.[6] However, the method used by the EC is a "differential taxation" method that takes into account not only value added outside the EC but also changes in applicable rates of duty due to foreign processing and assembly.[7] Tariff specialists state that the EC method offers more protection to its domestic producers than the U.S. tariff's "value added" method affords to U.S. producers.[8]

The EC production sharing provisions also differ from the U.S. provisions in that all transactions must have the prior approval of the EC member country into which the goods will be reimported.[9] U.S. law has no such restrictions. Industry officials familiar with both U.S. and EC production sharing provisions claim that the EC provisions are administratively more complex and cumbersome to comply with than the U.S. provisions.[10] Moreover, these officials contend that the customs administration of outward processing regulations is not consistent among EC countries, despite the EC Commission's efforts at standardizing the provisions. They note, for instance, that the West German government has been much more liberal than the United Kingdom or Italian authorities in interpreting and administering the regulations. Italy, for example, has restrictions that limit a company's production sharing activities to only 5 percent of the firm's total production for the purpose of maintaining domestic employment levels.[11] See figures 16-19 for a quantitative description of EC imports after outward processing.

Contact Christopher Johnson at 205-3488

[1] There is no specific provision in the EC arrangements precisely equivalent to the HTS subheading 9802.00.60 (formerly TSUS item 806.30) regarding the foreign processing of U.S. articles of metal returned to the United States for further processing.

[2] "Compensating products" refers to all products resulting from outward processing operations.

[3] For more detailed information on the EC regulation regarding outward processing relief arrangements, see *Production Sharing, U.S. Imports Under Harmonized Tariff Schedule Subheadings 9802.00.60 and 9802.00.80, 1985-1988*, USITC Publication 2243, Dec. 1989.

[4] Patrick L. Kelley and Ivo Unkelinx, *EEC Customs Law: Legislation, Case Law and Explanatory Text on the Customs Systems of the European Community* (Oxford, England: ECC Publishing Ltd., 1986), pp. T-199 and T-200. The definition of "serious damage" is left to the interpretation of national customs authorities of the 12 EC members.

[5] Joseph Grunwald and Kenneth Flamm, *The Global Factory: Foreign Assembly in International Trade* (Washington, DC: The Brookings Institution, 1985).

[6] Kelley, *EEC Customs Law* pp. T-200 and T-201.

[7] Article 13 of Council regulation (EEC) No. 2473/86 on outward processing (See USITC, *Production Sharing*, app. D.) states: "The total or partial relief from import duties provided for in Article 1 (2) shall be effected by deducting from the amount of import duties applicable to the compensating products released for free circulation [for consumption] the amount of import duties that would be applicable to the temporarily exported goods if they were imported into the customs territory of the community from the country in which they underwent the processing operation or last such operation." Preferential tariff programs, drawback payments, and other duty remissions on the temporarily exported goods are also taken into account.

[8] Differences in the U.S. and EC methods for calculating duties on goods returned after having been processed in a foreign country can be seen in the following examples:

U.S. system: Product A, valued at $1,000, and subject to a customs duty of 5 percent, is exported from the United States to be processed or assembled into product B. The reimported product is valued at $2,000 and is subject to a duty of 10 percent. On reimportation, product B will be assessed duties on the difference between the values of product B and product A, or on $1,000. Thus the amount of duties collected will be $100 ($1,000 x 0.10).

EC system: Product A, valued at $1,000, and subject to a customs duty of 5 percent, is exported from the EC to be processed or assembled into product B. The reimported product is valued at $2,000 and is subject to a duty of 10 percent. On reimportation, product B will be assessed duties as follows:

— duties applicable to reimported compensating product (product B)= $2,000 x 0.10 = $200

— amount of duties applicable to goods originally exported (product A) = $1,000 x 0.05 = $50

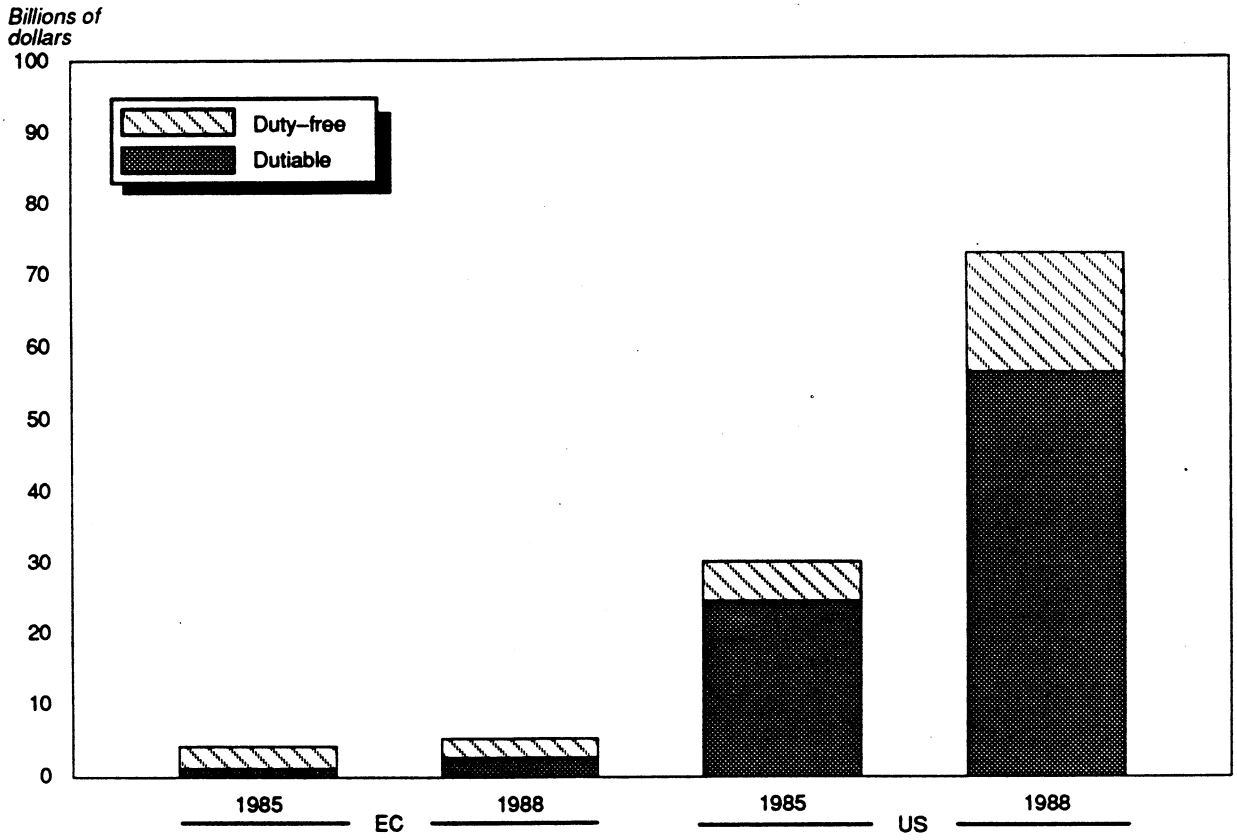
— amount of duties to be collected = $200 $50 = $150.

[9] Kelley, *EEC Customs Law*, p. T-199.

[10] Telephone interviews by USITC staff with various U.S. and EC industry officials in July and August 1989. Also see Grunwald, *The Global Factory*, p. 25.

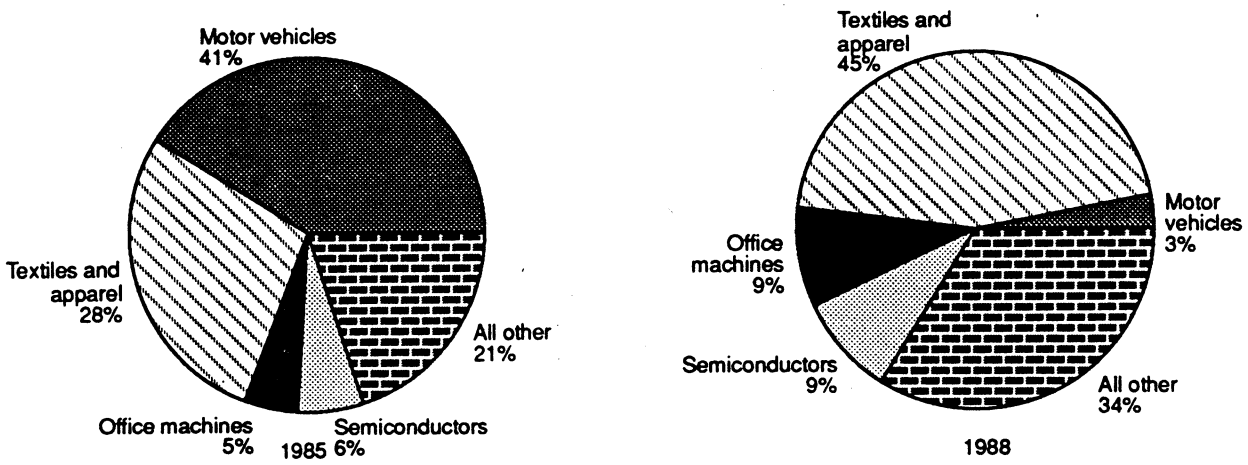
[11] Interview by USITC staff with officials of an Italian apparel manufacturer in Torino, Italy, on July 26, 1990.

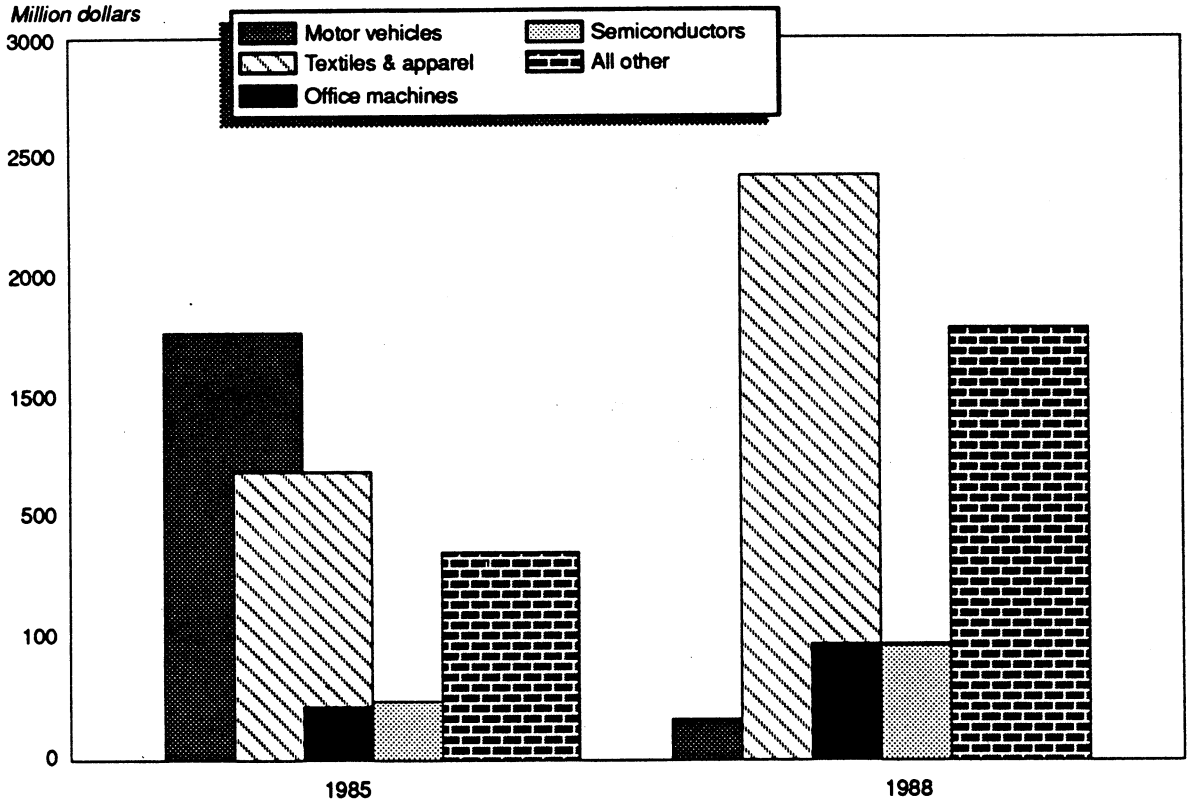
Figure 16
EC and U.S. imports for consumption, under production sharing provisions, 1985 and 1988



Note.—Figure 16 corresponds to figure 9–1 of the Full Report.
Source: Based on official statistics of the European Community and the U.S. Department of Commerce.

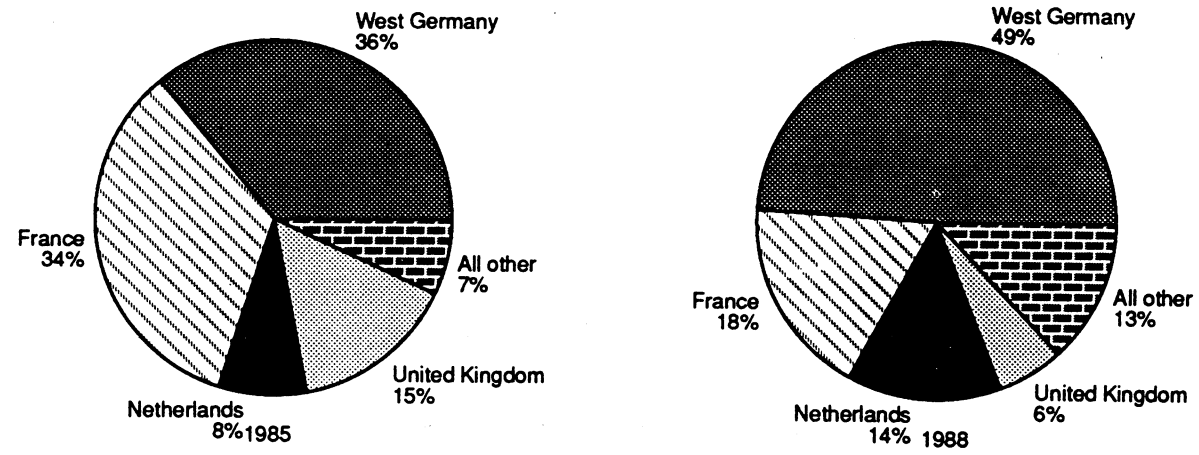
Figure 17
EC imports after outward processing, by selected industries, by share of total and by value, 1985 and 1988

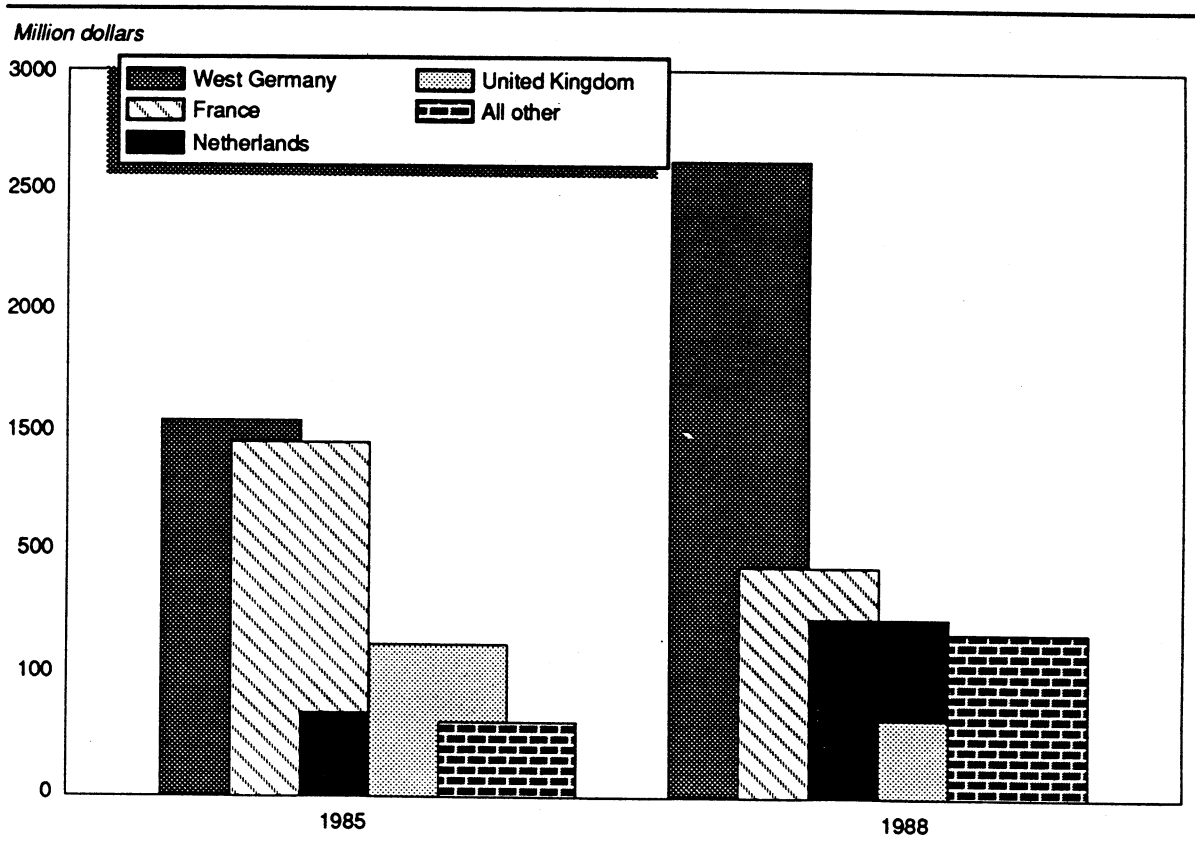




Note.—Figure 17 corresponds to figure 9–2 of the Full Report.
Source: Based on official statistics of the European Community.

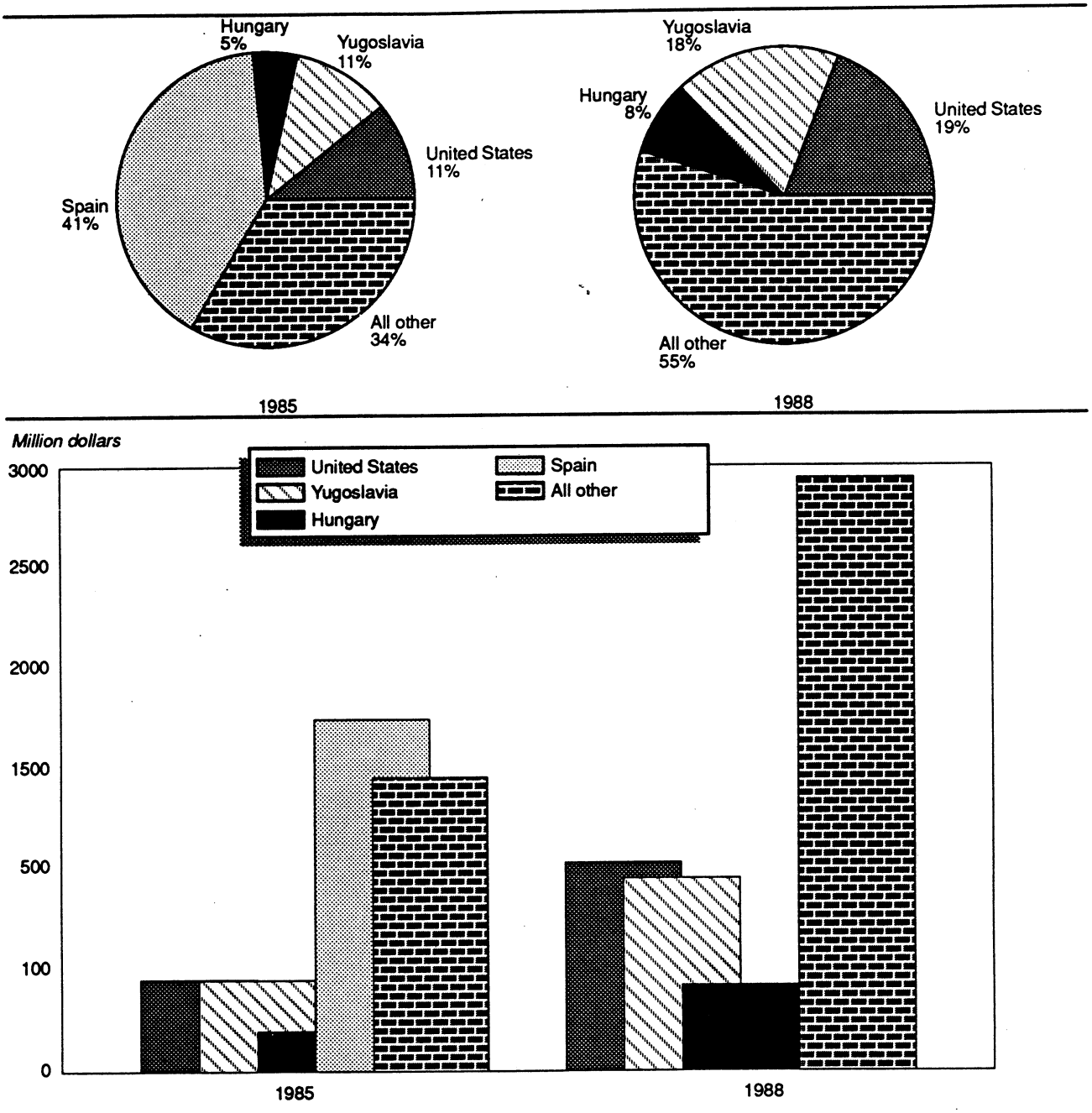
Figure 18
Imports after outward processing, by leading EC markets, by share of total and by value, 1985 and 1988





Note.—Figure 18 corresponds to figure 9–3 of the Full Report.
Source: Based on official statistics of the European Community.

Figure 19
Imports after outward processing, by leading sources, by share of total and by value, 1985 and 1988



Note.—Figure 19 corresponds to figure 9–4 of the Full Report.
Source: Based on official statistics of the European Community.

APPENDIX A
CUSTOMS TREATMENT OF HTS SUBHEADINGS 9802.00.60 AND 9802.00.80

Explanation of and Background to HTS Subheadings 9802.00.60 and 9802.00.80

Special tariff treatment has long been accorded to particular American goods returned from other countries. This treatment was first set forth in items 806.30 and 807.00 of the former Tariff Schedules of the United States (TSUS), which were repealed as of the close of December 31, 1988. It has been continued, with a few changes in terminology but not in duty rates applied, under subheading 9802.00.60 and heading 9802.00.80 of the Harmonized Tariff Schedule of the United States (HTS), which entered into effect on January 1, 1989. The HTS, as further described in appendix C, below, is based upon the nomenclature structure of the Harmonized Commodity Description and Coding System (the Harmonized System or HS), an international product classification scheme for tariff, statistical and transport documentation purposes adopted by convention under the auspices of the Customs Cooperation Council.

Under subheading 9802.00.60, subchapter II, chapter 98 of the HTS, articles of metal (except precious metal) that have been manufactured or subjected to a process of manufacture in the United States, exported for processing abroad, and then returned to the United States for further processing, are upon entry subject to duty only on the value of the foreign processing. Under heading 9802.00.80, imported articles that were assembled abroad using fabricated, U.S.-manufactured components are upon entry subject to duty at their full entered value minus the value of the identifiable U.S.-origin components contained therein. No further processing in the United States is required of articles entered under the latter heading. The respective provisions (including applicable notes) are as follows:

Chapter 98, Subchapter II
Articles Exported and Returned, Advanced or Improved Abroad

U.S. Notes

1. This subchapter shall not apply to any article exported:
   (a) From continuous customs custody with remission, abatement or refund of duty;
   (b) With benefit of drawback;
   (c) To comply with any law of the United States or regulation of any Federal agency requiring exportation; or
   (d) After manufacture or production in the United States under subheading 9813.00.05.
2. Any product of the United States which is returned after having been advanced in value or improved in condition abroad by any process of manufacture or other means, or any imported article which has been assembled abroad in whole or in part of products of the United States, shall be treated for the purposes of this Act as a foreign article, and, if subject to a duty which is wholly or partly ad valorem, shall be dutiable, except as otherwise prescribed in this part, on its full value determined in accordance with section 402 of the Tariff Act of 1930, as amended. If such product or such article is dutiable at a rate dependent upon its value, the value for the purpose of determining the rate shall be its full value under the said section 402.
3. *Articles repaired, altered, processed or otherwise changed in condition abroad.*-The following provisions apply only to subheadings 9802.00.40 through 9802.00.60, inclusive:
   (a) The value of repairs, alterations, processing or other change in condition outside the United States shall be:
      (i) The cost to the importer of such change; or
      (ii) If no charge is made, the value of such change,

      as set out in the invoice and entry papers; except that, if the appraiser concludes that the amount so set out does not represent a reasonable cost or value, then the value of the change shall be determined in accordance with section 402 of the Tariff Act of 1930, as amended.
   (b) No appraisement of the imported article in its changed condition shall be required unless necessary to a determination of the rate or rates of duty applicable to such article.

(c) The duty upon the value of the change in condition shall be at the rate which would apply to the article itself, as an entirety without constructive separation of its components, in its condition as imported if it were not within the purview of this subchapter. If the article, as returned to the United States, is subject to a specific or compound rate of duty, such rate shall be converted to the ad valorem rate which when applied to the full value of such article determined in accordance with said section 402 would provide the same amount of duties as the specific or compound rate. In order to compute the duties due, the ad valorem rate so obtained shall be applied to the value of the change in condition made outside the United States.

(d) For purposes of subheading 9802.00.60, the term "metal" covers (1) the base metals enumerated in additional U.S. note 1 to section XV; (2) arsenic, barium, boron, calcium, mercury, selenium, silicon, strontium, tellurium, thorium, uranium and the rare-earth elements; and (3) alloys of any of the foregoing.

4. *Articles assembled abroad with components produced in the United States*.-The following provisions apply only to subheading 9802.00.80:

(a) The value of the products of the United States assembled into the imported article shall be:

(i) The cost of such products at the time of the last purchase; or

(ii) If no charge is made, the value of such products at the time of the shipment for exportation,

as set out in the invoice and entry papers; except that, if the appraiser concludes that the amount so set out does not represent a reasonable cost or value, then the value of such products shall be determined in accordance with section 402 of the Tariff Act of 1930, as amended.

(b) The duty on the imported article shall be at the rate which would apply to the imported article itself, as an entirety without constructive separation of its components, in its condition as imported if it were not within the purview of this subchapter. If the imported article is subject to a specific or compound rate of duty, the total duties shall be reduced in such proportion as the cost or value of such products of the United States bears to the full value of the imported article.

5. No imported article shall be accorded partial exemption from duty under more than one subheading in this subchapter.

Heading/ Subheading	Article description	Rates of duty[1]
	Articles returned to the United States after having been exported to be advanced in value or improved in condition by any process of manufacture or other means:	
9802.00.60	Any article of metal (as defined in U.S. note 3(d) of this subchapter) manufactured in the United States or subjected to a process of manufacture in the United States, if exported for further processing, and if the exported article as processed outside the United States, or the article which results from the processing outside the United States, is returned to the United States for further processing	A duty upon the value of such processing outside the United States (see U.S. note 3 of this subchapter)
9802.00.80	Articles assembled abroad in whole or in part of fabricated components, the product of the United States, which (a) were exported in condition ready for assembly without further fabrication, (b) have not lost their physical identity in such articles by change in form, shape or otherwise, and (c) have not been advanced in value or improved in condition abroad except by being assembled and except by operations incidental to the assembly process such as cleaning, lubricating and painting ...	A duty upon the full value of the imported article, less the cost or value of such products of the United States (see U.S. note 4 of this subchapter)

As stated in the above U.S. notes, no imported article may be given a partial exemption from duty under more than one of these tariff provisions.[2] Similarly, no article may be entered under these provisions if it was previously exported with a remission, abatement, or refund of duty or with benefit of drawback, or after manufacture or production in bond under heading 9813.00.05.

The rate of duty upon the dutiable portion of the value of an article imported under one of these provisions is the duty rate that would otherwise apply to the article itself as an entirety under the pertinent provision in HTS chapters 1 through 97, inclusive (that is, the tariff provision that would apply if the article were not entered under a provision of chapter 98).[3] Accordingly, for articles eligible to enter under subheading 9802.00.60, the duty is assessed only upon the value of

[1] The rates of duty shown here apply to imports under the quoted provisions whether from countries having most-favored-nation (column 1-general) status or from countries having column 2 (Communist-controlled) status.

[2] An article could, however, be exported and returned to the United States under one provision and be subsequently reexported and returned under another if this were economically feasible and if the form of the article had been sufficiently changed after its first importation. Thus, for example, a metal article exported and returned to the United States under subheading 9802.00.60 for further processing in such a way as to create a new "fabricated" article or component as determined by the U.S. Customs Service could then be reshipped abroad for assembly and returned under the provisions of heading 9802.00.80.

[3] The entry of an article under either of these tariff provisions does not relieve it from quantitative limitations imposed under other provisions of law, such as those textile and apparel articles covered by the Arrangement Regarding International Trade in Textiles (the so-called Multifiber Arrangement or MFA).

the processing (value added) that occurred outside the United States. The form of the metal article may be changed in the foreign processing operation, but the resulting entered product must undergo further processing after its return to the United States. Under heading 9802.00.80, the customs duty applicable to the eligible entered product is calculated based upon the value of the entered good minus the value of the U.S. elements. Thus, no duty is imposed on those U.S.-fabricated components (that is, components the product of the United States) that have not lost their physical identity by a change in form, shape, or otherwise, and that have not been advanced in value or improved in condition abroad except by having been assembled.

When the applicable rate of duty is a specific or a compound rate, the method of computing duties on eligible entries under subheading 9802.00.60 differs from that used for those under heading 9802.00.80. With respect to the former, any specific or compound duty rate applicable to the article under chapters 1 through 97 is converted to an ad valorem equivalent (which, if applied to the full value of the article, would yield the same amount of duty as the specific or compound rate). This ad valorem rate is then applied to the value of the foreign processing. Under heading 9802.00.80, the specific or compound rate of duty is applied to the entire cost or value of the article and a deduction is made in the same proportion as the cost or value of the U.S.-origin components bears to the total cost or value. For customs purposes, the value of processing under subheading 9802.00.60 and the value of U.S. components for purposes of heading 9802.00.80 are based on the invoice costs to the importer, where the U.S. Customs Service determines such costs or values are reasonable. Otherwise, Customs determines such value in accordance with the terms of section 402 of the Tariff Act of 1930, as amended (or, very rarely, with section 402a).[4]

Although most rates of duty in column 1-general of the HTS are "bound" because of trade concessions (mainly under the General Agreement on Tariffs and Trade), the duty rates in these two provisions are not; nor is the United States obliged to retain these tariff provisions, which are not part of the Harmonized System. Thus, the Congress may amend or repeal these tariff provisions without impairing U.S. trade-agreement obligations or concessions, despite the fact that such an action could result in an effective increase in the amount of customs duties collected on such goods.

Under the special rates of duty subcolumn of column 1 of the HTS, the same rates of duty and methods of calculation apply to articles eligible for entry under these two provisions and also covered by particular preferential tariff treatment programs. These are the Automotive Products Trade Act, the Agreement on Trade in Civil Aircraft, and the United States-Canada Free-Trade Agreement, as explained in general note 3(c) to the HTS.

Customs Practices

Subheading 9802.00.60

According to the notes to the present subheading, the value of the foreign processing on which the duty is levied is its cost to the importer or, if no charge is made, the value as set out in the invoice and entry papers. Generally the value used for customs purposes is the transaction value, as stated in the entry papers. If the appropriate customs officer concludes that the amount so set out does not represent a reasonable cost or value, then such value is determined in accordance with the valuation provisions of the Tariff Act of 1930, as amended by the Trade Agreements Act of 1979 (Public Law 96-39, July 26, 1979).

An article of metal (except precious metal) imported under HTS subheading 9802.00.60 must have been exported for processing abroad, and the article as processed, or the new article which results from the processing, must be further processed in the United States after its return from abroad. The Customs Service has held that melting, machining, grinding, drilling, tapping,

[4] Sec. 402 (19 U.S.C. 1401a) provides the basic methods of valuation of imported merchandise that may be used for customs purposes. This section reflects the incorporation into U.S. law (by the Trade Agreements Act of 1979, Pub. L. No. 96-39, July 26, 1979) of the substance of the international agreement on customs valuation adopted in the Tokyo Round of Multilateral Trade Negotiations. The same Act repealed section 402a, the former valuation provisions, making this section applicable only to unliquidated entries of goods imported prior to the effective date of the repeal.

threading, cutting, punching, rolling, forming, plating, and galvanizing are among the operations that qualify as "processing."

Examples of articles eligible for entry under this tariff provision are aluminum sheets processed from ingots of U.S. origin and returned to the United States to be cut to size and shape; lead ingots produced from lead scrap of U.S. origin and returned for further processing; metal screws made abroad from domestic wire and returned for plating; stainless steel tubing coated abroad with chromium and returned for rounding and buffing; tungsten carbide powder sent abroad for sintering and returned for further processing; electronic circuits printed on silicon wafers, exported for splitting and returned for further processing.

Before the exportation of an article for processing abroad under this subheading, the owner or exporter must file (as provided in section 10.9 of the Customs Regulations (19 CFR 10.9),[5] a certificate of registration describing the article(s) exported. The owner or exporter must state the name of the U.S. manufacturer, or, if of foreign origin, the name and address of the U.S. processor and the process of manufacture. The owner or exporter must further provide the name and address of the person who will further process the articles upon their return to the United States, or, if the person is not known, the reasons for believing the articles will be returned for further processing and the reason the person is not known. The article must be examined by a customs officer and laded for export under customs supervision. Upon its return from abroad, the owner, importer, consignee, or agent must declare that the article has been processed from the merchandise covered by the certificate of registration and must declare the nature and cost of the processing abroad and the processing to be performed in the United States. The declaration as to the origin of the article, and as to the nature and cost of the processing abroad, must be supported, moreover, by a declaration of the foreign processor. The foregoing requirements may be waived by the district director at the port of entry, but only when he is satisfied that the article is entitled to enter under HTS subheading 9802.00.60 and that all the requirements of the provisions have been met. If the registration form is not produced at entry, such a waiver can only be given if a single entry at one port is made.

Pursuant to a 1958 decision of the Customs Service (T.D. 54-572(22)), concerning former TSUS item 806.30, the provisions of HTS subheading 9802.00.60 apply only when the U.S. metal article sent abroad for processing is to be returned for further processing by or for account of the person or firm which exported the article for processing abroad.

Heading 9802.00.80

When merchandise is assembled abroad, it is often difficult to establish its transaction value (either for the imported merchandise or for identical or similar merchandise) or deductive value, as those terms are defined in section 402 of the Tariff Act of 1930, as amended. A large portion of the entries under heading 9802.00.80 comprises trade by U.S. firms and their foreign affiliates that operate and transfer goods on a manufacturing-cost basis rather than on the basis of values established in the marketplace. Accordingly, the customs value for purposes of heading 9802.00.80 is in many cases based on computed value, as defined in section 402. However, the Customs Service attempts to ascertain the transaction value whenever possible (19 CFR 10.18 et seq.)

Computed value represents the sum of all costs, actual or estimated, for materials used, labor, overhead, depreciation, other general expenses, a normal profit, and packing costs. In most cases, only the cost of materials, labor, and packing can readily be ascertained. To this is added a markup for general expenses and profit equal to that usually reflected in sales by the foreign producers in their home markets of merchandise of the same class or kind as that exported to the United States. From this gross computed value is deducted the value of those U.S. components for which allowance is claimed under heading 9802.00.80. Additionally, the value of packing materials of U.S. origin may be exempt from duty under heading 9801.00.10. These deductions are generally based upon the values shown on the assembler's declaration and endorsed by the importer pursuant to section 10.24 of the Customs Regulations (19 CFR 10.24). When the values shown thereon appear unreasonable, other proof of value may be required.

[5] A copy of the Customs Regulations pertaining to HTS subheading 9802.00.60 and heading 9802.00.80, as set out in vol. 19 of the Code of Federal Regulations (CFR), is provided at the end of this appendix.

After the implementation of the former TSUS in 1963, no specific regulations were immediately issued with respect to the administration of former TSUS item 807.00. Rather, customs officers were informally advised to use section 10.1 of the Customs Regulations (19 CFR 10.1), relating to American goods returned without advancement in value. It was not until January 1968 that subsection (g), since amended, was added to section 10.1, specifically providing for the documentary proof to be filed in connection with the entry of articles containing U.S.-fabricated components claimed to be exempt from duty under TSUS item 807.00.

In October 1975, the Customs Service amended its regulations by adding sections 10.11 through 10.24 (19 CFR 10.11-10.24), which set forth definitions and interpretative regulations pertaining to TSUS item 807.00. The sections included examples describing specific situations in which the exemption from duty provided by TSUS item 807.00 might be available. Section 10.24 set forth the following documentary requirements applicable to assembled articles entered from former TSUS item 807.00:

(1) a declaration by the person who performed the assembling operations abroad listing and describing the U.S. components and describing the operations performed abroad on such components, and

(2) an endorsement of the importer declaring the declaration in (1) to be correct to the best of his knowledge and belief.

Section 10.24 also permitted the district director to revise the format of either of the documents specified above, waive specific details for each entry, and waive the foregoing documents if he "is satisfied that unusual circumstances make the production of either or both of the documents...or of any of the information set forth therein, impractical and is further satisfied that the requirements of item 807.00 ...and related headnotes have been met...."

As noted earlier, the duty treatment provided under former TSUS item 807.00 applied to fabricated components that are the product of the United States. In order to qualify for such treatment, the components must have been in condition ready for assembly without further fabrication after their exportation from the United States. However, components are not prohibited entry under former TSUS item 807.00 or current HTS heading 9802.00.80 because of foreign operations incidental to the assembly before, during, or after their assembly with other components, as long as the components do not lose their physical identity by change in form, shape, or otherwise. Thus, materials undefined in final dimension and shape which are cut abroad into specific shapes or patterns are not considered fabricated components and thus are not eligible for entry under this provision.

Under the relevant regulation (19 CFR 10.16), the assembly operations performed abroad may consist of any method used to join or fit together solid components, such as welding, soldering, riveting, force fitting, gluing, laminating, sewing, or the use of fasteners. They may be preceded, accompanied, or followed by operations incidental to assembly, as illustrated below. The mixing or combining of liquids, gases, chemicals, food ingredients, and amorphous solids with each other or with solid components is not regarded as assembly.

Operations incidental to the assembly process, whether performed before, during, or after assembly, do not constitute further fabrication and do not preclude entry under HTS heading 9802.00.80. The following are examples of operations which are deemed incidental to the assembly process:

(1) Cleaning;

(2) Removal of rust, grease, paint, or other preservative coating;

(3) Application of preservative paint or coating, including preservative metallic coating, lubricants, or protective encapsulation;

(4) Trimming, filing, or cutting off small amounts of excess materials;

(5) Adjustments in the shape or form of a component to the extent required by the assembly being performed abroad;

(6) Cutting to length of wire, thread, tape foil, and similar products exported in continuous lengths; separation by cutting of finished components, such as prestamped integrated circuit lead frames exported in multiple unit strips; and

(7) Final calibration, testing, marking, sorting, pressing, and folding of assembled articles.

Any significant process, operation, or treatment other than assembly whose primary purpose is the fabrication, completion, or physical or chemical improvement of a component, or which is not related to the assembly process, whether or not it effects a substantial transformation of the article, are not regarded as incidental to the assembly and preclude entry under the tariff provision. The following are examples of operations not considered incidental to assembly:

(1) Melting of exported ingots and pouring of the metal into molds to produce cast-metal parts;

(2) Cutting of garment parts according to pattern from exported material;

(3) Painting primarily intended to enhance the appearance of an article or to impart distinctive features or characteristics;

(4) Chemical treatment of components or assembled articles to impart new characteristics, such as shower-proofing, permapressing, sanforizing, dyeing, or bleaching of textiles;

(5) Machining, polishing, burnishing, peening, plating (other than plating incidental to the assembly), embossing, pressing, stamping, extruding, drawing, annealing, tempering, case hardening, and any other operation, treatment, or process which imparts significant new characteristics or qualities to the article affected.

The Customs interpretation of former TSUS items 806.30 and 807.00 (as noted above, expected generally to continue under the HTS) is in large part a result of the numerous significant interpretative decisions of the Court of International Trade and the Court of Appeals for the Federal Circuit over the last several years. The impact of these decisions is illustrated by the following statement from the Tariff Classification Study (schedule 8 volume, p. 103):

"ITEM 807.00-Imports assembled with U.S. components. Item 807.00 contemplates that, when a finished component of U.S. origin is sent abroad and there assembled-without otherwise changing its condition-with one or more other components, the cost or value of such U.S. components shall not be included in the dutiable value of the assembled article in which it has been incorporated. ***U.S. wire and tape, on spools, sent abroad where they are cut to length and then assembled with other components into a finished article are not finished components the cost of which may be deducted from the dutiable value of the imported article.***"

The subsequent series of cases involving General Instrument Corporation demonstrate the nature of the evolution of former TSUS item 807.00. The appellate court in *General Instrument Corporation* v. *United States*, 59 CCPA 171, 462 F.2d 1156, C.A.D. 1062 (1972), held that U.S.-fabricated wire was used directly in the assembly process "without further fabrication" within the meaning of that phrase in TSUS item 807.00 although it was cut into pieces abroad, when, for practical reasons, the assembly process required handling the wire directly from the spool and cutting it during that process. The court then extended its reasoning in *General Instrument Corporation* v. *United States*, 60 CCPA 178, 480 F.2d 1402, C.A.D. 1106 (1973), holding that there is no reason to consider articles cut to length prior to assembly subject to any different treatment than articles cut after assembly such as the wire bonded to a semiconductor chip and then severed in the earlier General Instrument Corporation case. In a third case of the same name, at 61 CCPA 86, 499 F.2d 1318, C.A.D. 1128 (1974), the court went even further in holding that the despooling, cementing, winding, and taping of wire are not "further fabrication" steps, but rather assembly steps within the meaning of TSUS item 807.00. The court stated, referring to the second General Instrument case, that "we can perceive no substantial differences between the instant assembly steps and those of General Instrument, which were held not to constitute 'further fabrication.'"

These and subsequent rulings by the courts, together with an intensified scrutiny of entries under the HTS provisions by the Customs Service, have added new dimensions to the interpretation of those tariff provisions.

Problems of Customs Administration

It is evident from the foregoing discussion that these two tariff provisions are not susceptible of easy application; this complicates their administration and thereby increases the potential for

misuse. For example, a prerequisite to the allowance of the partial duty exemptions is proof of the presence in the imported article of the exported U.S. metal article or fabricated component-not a substitute foreign equivalent. It is necessary to know precisely what U.S. articles were exported from the United States, that they were effectively segregated from and not commingled with foreign articles prior to their being processed or assembled, and exactly how they were used abroad in the production or manufacture of the imported article. Moreover, as indicated, the data required for valuation purposes are generally more complex and detailed than is required under ordinary circumstances.[6]

Ascertainment of the relevant facts is almost wholly dependent upon paper proof rather than physical examination of imports by customs officers. By reason of the large volume of trade under these provisions and the intricacy and mass of detailed information involved in each transaction, customs officers are, in practice, obliged to accept entries as submitted with only a limited opportunity for verification of their factual content.

Legislative History

Introduction

The HTS has carried forward the language and rates of duty of TSUS items 806.30 and 807.00 in subheading 9802.00.60 and heading 9802.00.80, respec- tively. Thus, for many importers, no effective change in the treatment of their particular goods by the Customs Service is likely (although case-by-case review is necessary).[7] The legislative history of the former TSUS items is more illuminating than that for chapter 98 and details the scope and intent of the prior provisions; it will therefore be discussed in some detail and, to a large extent, provides evidence of Congress' purpose in continuing the subject tariff treatment in the HTS.

Item 806.30

Former TSUS item 806.30 incorporated, without significant change, the provisions of paragraph 1615(g) of the Tariff Act of 1930, as amended by the Customs Simplification Act of 1956. According to its sponsor, the Honorable Victor A. Knox, the purpose of the provision was to facilitate the processing of U.S. metal articles in contiguous areas of Canada during breakdowns or other emergencies at nearby plants in the United States. In explanation, Mr. Knox stated on the floor of the House of Representatives that the provision would-

> ". . . permit manufacturers to send [metal articles] into Canada principally for processing . . . [when] . . . they are unable to process that particular metal product within their own plants. There have been periods of time when the industry has had breakdowns in manufacturing plant and did not have the facilities to continue on with the work . . .. It has been necessary for industry-I speak of the Detroit area-to ship to Algoma . . . Canada . . . metal products in order to have them processed, because there was no other plant accessible to the manufacturer to have this particular work done. . . . I believe there is no possibility that these particular products would ever be shipped to such countries as Belgium, Spain, Portugal, and so forth, because of high transportation cost ...[8]

Debate on the United States Senate floor regarding the provision focused on whether it would tend to encourage importations of metal articles from low-wage countries. However, the Senate Committee on Finance, in reporting favorably on

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[6] A guide to the data requirements for importation under TSUS item 807.00 was published by the U.S. Customs Service under the title *Import Requirements on Articles Assembled Abroad from U.S. Components/Item 807.00 TSUS/: 807 Guide*, Customs Information Series C:79-1, 1979. For several illustrative cases, see: *Zwicker Knitting Mills* v. *United States*, 67 CCPA 37, C.A.D. 1240, 613 F.2d 295 (1980); *Southern Air Transport, Inc.* v. *United States*, 84 Cust. Ct., C.D. 4836 (1980); and *Mattel, Inc.* v. *United States*, 67 CCPA 74, 624 F.2d 1076 (1980).

[7] *Conference Report on H.R. 3, the Omnibus Trade and Competitiveness Act of 1988*, House Report 100-576, April 20, 1988, pp. 549-550.

[8] *Congressional Record*, July 13, 1953, pp. 8850-8859.

the provision, expressed no desire that its use be limited to imports from contiguous countries. In its analysis of the provision the Senate report stated:

> 'Section 202 will permit manufacturers of any article of metal (except precious metal) processed in the United States to export such articles for further processing and at the time of reimportation to pay duty on the cost of the processing done in the foreign country.'"[9]

Item 807.00

The language of former TSUS item 807.00 was formulated by the U.S. Tariff Commission, now the U.S. International Trade Commission, in its Tariff Classification Study. This study was an important factor in the adoption of the TSUS, effective as of August 31, 1963 (Public Law 87-456, implemented by Presidential Proclamation No. 3548). TSUS item 807.00 had no direct counterpart in the tariff schedules in effect prior to August 31, 1963. It was designed to codify and regulate an anomalous but well-established Customs practice under paragraph 1615(a) of the Tariff Act of 1930, a result of a 1954 decision of the U.S. Customs Court (C.D. 1628) reversing an administrative ruling (abstract published as T.D. 52191).

Paragraph 1615(a) provided for the duty-free entry of American products returned to the United States that had not been "advanced in value or improved in condition by any process of manufacture or other means." The Customs Court, in its 1954 decision (C.D. 1628), held that the labor expended abroad in installing an American motor in a Canadian-built motorboat did not advance the value of the American motor or improve it in condition. The court was of the opinion that the U.S. parts contained in the imported articles would qualify for duty-free entry if-

". . . by physical examination at the time of importation, they could be identified in the imported article as the identical American product exported from the United States and as not having been changed in any manner other than by their assembly with other parts into a new or different article."

If any work other than assembly with other parts was performed directly upon the American product, the allowance of duty would not have been accorded under paragraph 1615(a).

The Customs Service, in numerous rulings applying the principle of C.D. 1628 after 1954, allowed duty-free entry to American-made components assembled into foreign articles if, "under the theory of constructive segregation," the components were "capable of being identified and removed without injury" to themselves or to the articles into which they had been assembled.

TSUS item 807.00 continued the substance of earlier practice, but without the assumption that the American components had not been advanced in value or improved in condition by assembly and without reference to whether they could be removed without injury or constructively segregated.

In the Tariff Classification Study, the Commission commented on C.D. 1628 and the Customs Service practices based thereon as follows:

> ". . .There is no logic to attributing the labor costs involved in assembly exclusively to foreign parts, nor is there logic in holding that assembly operations do not advance or improve the component parts assembled therein. Such component parts reach their ultimate value only when they have been assembled into an article where they can in fact perform the function for which they were designed and made.
>
> ". . .Whether or not an American component can be separated from a foreign article "without injury" to either is an unrealistic and arbitrary condition upon which to predict partial exemption from duty.

[9] Committee on Finance, United States Senate, Customs Simplification Act of 1954 . . . Report To Accompany H.R. 10009, Rept. No. 2326 (83rd Cong., 2d sess.), 1954, p. 5.

> "The real issue is not whether you can remove "without injury" or "constructively segregate" the American part in order to "classify" it under paragraph 1615(a). The only classification of the imported article which must be made for tariff purposes is the classification of the imported article as an entirety. The substance of the issue is what proof shall be required to satisfy customs officers-
>
> (1) that an American part has been assembled into the imported article, and
>
> (2) that such part was assembled therein without having been changed in condition.
>
> "If (1) and (2) are satisfactorily proved, the question then arises as to how much allowance or deduction is to be made from the full value of the imported article on account of its having such 'unimproved' American parts."[10]

To assist in the identification of the U.S. components, only the U.S. portion of the product (the exported components) were made eligible to be returned free of duty. The original language of the article description in TSUS item 807.00 was as follows:

> "Articles assembled abroad in whole or in part of products of the United States which were exported for such purposes and which have not been advanced in value or improved in condition by any means other than by the act of assembly."

The above language appeared to be ambiguous in certain respects and to preclude minor operations incidental to assembly abroad, such as painting. Therefore, in 1965, TSUS item 807.00 was amended by Public Law 89-241, as follows:

> "Articles assembled abroad in whole or in part of fabricated components, the products of the United States, which (a) were exported, in condition ready for assembly without further fabrication, for the purpose of such assembly and return to the United States, (b) have not lost their physical identity in such articles by change in form, shape, or otherwise, and (c) have not been advanced in value or improved in condition abroad except by being assembled and except by operations incidental to the assembly process such as cleaning, lubricating, and painting."

Subsequently, in November 1966, the clause "for the purpose of such assembly and return to the United States" was deleted from the language of TSUS item 807.00, pursuant to Public Law 89-806. In a summary report of pending House-passed bills prepared for the use of the Senate Committee on Finance,[11] the bill (H.R. 11216, which became Public Law 89-806) is discussed as follows:

> "In the Tariff Schedules of the United States, item 807.00 continued this court-approved practice. However, the new provision eliminated the anomalies involved in the old practice, first by recognizing that U.S. components do increase in value by assembly operations and second by making it unnecessary to show that the U.S. component could be removed without injury to the assembled article. At the same time it was provided that for the duty-free treatment to apply on its return the U.S. component must have been sent abroad 'for the purpose of assembly.'
>
> "In the Tariff Schedules Technical Amendments Act of 1965 item 807.00 was clarified to make it clear that cleaning, lubricating, and painting could be performed in connection with the assembly function without subjecting the U.S. components to duty on their return to this country. In making this clarification, however, an additional restrictive clause was added to the duty-free provision. It requires that at the time of exportation of the U.S. component there be an intention that the assembled article is to be shipped to the United States. This additional restriction has raised complaints by interested importers and foreign

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[10] *Tariff Classification Study, Explanatory and Background Materials; Schedule 8.—Special Classification Provisions, Appendix to the Tariff Schedules*, Nov. 15, 1960, pp. 13 and 14.

[11] Committee on Finance, United States Senate, *Summary of Minor House-Passed Bills Pending Before the Committee on Finance*, 1966, p. 14.

shippers, and has also been said to introduce problems of customs administration.

"H.R. 11216 would eliminate both the requirement that the American component be exported 'for the purpose of such assembly' and the requirement that there be an intention at the time of exportation that it be returned to the United States. It would still be necessary, however, for the importer to establish by satisfactory proof that the components of an imported article for which duty-free treatment is claimed are, in fact, components produced in the United States. Moreover, it must be shown that they have not lost their physical identity in the assembled article and have not been advanced in value or improved in condition abroad except by the assembly operation, or operations, incidental to assembly."

APPENDIX B
STATISTICAL TABLES

Table B–1
U.S. imports for consumption under HTS subheadings 9802.00.60 and 9802.00.80, 1970–89

(In millions of dollars)

Year	Total value			Dutiable value			Value of U.S. products		
	9802.00.60	9802.00.80	Total	9802.00.60	9802.00.80	Total	9802.00.60	9802.00.80	Total
1970	204.0	2,004.2	2,208.2	101.3	1,570.5	1,671.8	102.6	433.7	536.3
1971	199.4	2,566.4	2,765.8	75.1	2,030.8	2,105.9	124.3	535.6	659.9
1972	318.3	3,090.5	3,408.8	130.3	2,410.1	2,540.4	187.9	680.4	868.3
1973	462.6	3,784.5	4,247.1	212.9	3,025.4	3,238.3	249.7	759.1	1,008.8
1974	543.7	4,828.1	5,371.8	240.4	3,818.6	4,059.0	303.3	1,009.5	1,312.8
1975[1]	454.6	4,707.8	5,162.4	192.6	3,703.9	3,896.5	262.0	1,003.9	1,265.9
1976[1]	474.0	5,247.5	5,721.5	199.2	3,976.2	4,175.4	274.8	1,271.3	1,546.1
1977	465.1	6,723.4	7,188.5	190.7	5,021.4	5,212.1	274.4	1,702.0	1,976.4
1978	398.1	9,337.1	9,735.2	154.8	6,988.9	7,143.7	243.2	2,348.3	2,591.5
1979[1]	407.7	11,559.3	11,967.0	172.8	8,468.3	8,641.1	234.9	3,091.0	3,325.9
1980[1]	254.1	13,762.2	14,016.5	83.5	10,178.2	10,261.8	170.5	3,584.0	3,754.7
1981	256.5	15,924.0	16,180.8	80.3	11,653.9	11,734.2	176.2	4,270.3	4,446.6
1982	358.0	17,950.8	18,308.8	116.0	13,473.2	13,589.2	242.0	4,477.5	4,719.5
1983	341.5	21,234.4	21,575.9	112.5	16,076.8	16,189.3	229.0	5,157.6	5,386.6
1984	450.2	28,122.4	28,572.6	140.9	21,221.2	21,362.1	309.3	6,901.2	7,210.5
1985	419.7	30,115.4	30,535.1	144.6	24,565.7	24,710.3	275.0	5,549.7	5,824.7
1986	465.5	36,031.5	36,496.9	157.1	30,059.3	30,216.4	308.4	5,972.1	6,280.5
1987	953.9	67,595.1	68,549.0	538.4	55,067.9	55,606.2	415.6	12,527.2	12,942.8
1988	929.1	72,803.5	73,732.6	459.2	56,449.4	56,908.5	469.8	16,354.1	16,823.9
1989	1,141.3	73,031.8	74,173.1	444.2	54,110.5	54,554.7	697.1	18,921.3	19,618.4

[1] Imports under subheading 9802.00.60 were slightly understated for 1975, 1976, 1979, and 1980 in earlier issues of this tabulation.

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

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted. Minor adjustments to official statistics were made to correct cases of misreporting. Statistics previously reported for certain commodity groupings have been revised to reflect changes in assignment made by the Commission's international trade analysts.

Since 1980, the staff of the Commission has made substantial revisions to the Census reported figures. These revisions, for the most part, were attributable to the exclusion of duty-free civil aircraft subheadings. The civil aircraft subheadings also reflect reimportation of American products, either further processed or assembled overseas.

Table B–2
U.S. Imports for consumption under HTS subheading 9802.00.60 by principal sources, 1989

(In millions of dollars)

Source	1989		
	Total value	Duty-free value	Dutiable value
Canada	808.6	449.3	359.4
Japan	67.1	43.4	23.7
West Germany	39.0	26.1	12.9
France	5.8	4.2	1.6
United Kingdom	2.2	1.2	1.0
Australia	1.1	.6	.6
Sweden	.9	.5	.4
Switzerland	.6	.3	.3
Netherlands	.5	.3	.2
Ireland	.3	.1	.2
Norway	.2	(1)	.1
Finland	.1	(1)	(1)
Denmark	(1)	(1)	(1)
Italy	(1)	(1)	(1)
Belgium	(1)	(1)	(1)
Total, developed countries	926.6	526.1	400.4
Mexico	181.1	142.3	38.8
Dominican Republic	17.8	17.3	.5
Argentina	9.5	7.2	2.2
South Korea	3.2	2.4	.7
Taiwan	2.1	1.1	1.0
Singapore	.4	.2	.3
Brazil	.4	.3	.1
Costa Rica	.1	.1	(1)
Thailand	.1	.1	(1)
U.S.S.R.	.1	(1)	(1)
Israel	(1)	(1)	(1)
Malaysia	(1)	(1)	(1)
Total, less developed countries	214.8	171.0	43.8
Grand total	1,141.3	697.1	444.2

[1] Less than $50,000

Notes.—Table B–2 is from table B–2 of the Full Report. Because of rounding, figures may not add to the totals shown.

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

Table B–3
U.S. Imports for consumption under HTS subheading 9802.00.80 by principal sources, 1989

(In millions of dollars)

Source	1989		
	Total value	Duty-free value	Dutiable value
Canada	25,725.9	8,478.4	17,247.5
Japan	16,838.4	392.3	16,446.1
West Germany	3,932.6	65.1	3,867.5
Sweden	1,761.1	39.1	1,722.0
United Kingdom	1,320.4	146.0	1,174.5
France	725.8	96.5	629.3
Belgium	426.6	6.4	420.2
Italy	362.5	55.4	307.1
Netherlands	295.0	65.3	229.7
Ireland	26.8	7.7	19.1
Denmark	15.9	.5	15.4
Australia	12.4	2.0	10.4
Switzerland	6.4	1.1	5.3
Norway	2.4	.7.	1.7
Monaco	2.2	1.0	1.2
All other	.9	.2	.8
Total, developed countries	51,502.7	9,357.7	42,097.7
Mexico	11,766.7	5,969.0	5,797.7
South Korea	1,978.0	574.1	1,403.9
Singapore	1,376.9	342.2	1,034.8
Malaysia	1,315.6	596.0	719.6
Taiwan	1,061.7	259.7	802.1
Brazil	933.5	98.2	835.3
Dominican Republic	665.0	456.5	208.5
Philippines	588.9	247.6	341.3
Hong Kong	306.4	97.5	209.0
Thailand	277.7	154.7	122.9
Costa Rica	277.5	187.6	89.9
Haiti	220.7	154.6	66.0
Jamaica	164.4	116.9	47.5
Colombia	102.5	57.3	45.1
Guatemala	80.0	42.0	37.9
All other	413.0	209.6	251.4
Total, less developed countries	21,576.4	9,563.6	12,012.8
Grand total	73,031.8	18,921.3	54,110.5

Notes.—Table B–3 is from table B–4 of the Full Report. Because of rounding, figures may not add to the totals shown.

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

Table B–4
U.S. Imports for consumption under HTS subheading 9802.00.60, by commodity groups, 1988–89

(In thousands of dollars)

Commodity group	1988 Total value	1988 Duty-free value	1988 Dutiable value	1989 Total value	1989 Duty-free value	1989 Dutiable value
Agricultural, animal, and vegetable products	0	0	0	0	0	0
Forest products	0	0	0	0	0	0
Textiles, apparel, and footwear	0	0	0	0	0	0
Chemicals, coal, petroleum, natural gas, and related products:						
Certain inorganic chemical compounds	10,015	4,470	5,545	18,819	11,688	7,132
All other articles	287	172	114	28	5	23
Total	10,301	4,643	5,659	18,848	11,692	7,155
Minerals and metals:						
Iron and steel mill products, all grades	98,267	60,698	37,569	117,551	76,412	41,139
Shapes and plates of iron or steel, all grades	749	552	197	824	588	236
Pipe and tubing of iron or steel, all grades	9,765	6,692	3,074	11,961	9,279	2,682
Wire and wire products of iron or steel, all grades	903	600	303	3,283	2,307	976
Sheets and strip of iron or steel, all grades, including tin mill products	63,602	48,564	15,038	75,612	56,727	18,885
Other	23,247	4,291	18,956	25,872	7,512	18,360
Copper, wrought	18,129	12,746	5,383	35,463	22,982	12,481
Aluminum	226,249	170,695	55,554	279,576	240,357	39,219
Aluminum, unwrought	0	0	0	0	0	0
Aluminum, wrought other than foil	212,805	164,496	48,310	271,638	236,097	35,541
Aluminum foil	13,444	6,200	7,244	7,938	4,260	3,678
Nickel, wrought	0	0	0	167	104	64
Lead, unwrought	280	193	87	891	489	402
Tantalum, unwrought, unalloyed	3,560	2,185	1,375	1,407	782	625
Titanium, wrought	450	198	253	12,584	10,124	2,460
Tungsten, unwrought	472	155	317	403	37	367
Tungsten, wrought	0	0	0	10	3	6
Hinges, fittings and mountings, n.s.p.f	2,972	968	2,004	4,536	1,964	2,572
Interchangeable tools for hand-tools or for machine tools	865	664	201	2,056	1,244	812
All other articles	18,347	13,499	4,848	14,617	10,280	4,337
Total	369,593	262,001	107,592	469,261	364,777	104,484
Machinery and equipment						
Parts of steam generating boilers	2,977	699	2,279	13	12	1
Parts of steam turbines	16	14	3	0	0	0
Internal combustion engines and parts thereof	47,173	19,109	28,065	24,300	13,649	10,651
Pumps and compressors, and parts thereof	1,457	1,017	441	947	542	405
Lifting, handling, loading, and unloading machinery and parts thereof	7	7	(1)	397	207	190
Machines for working metal, stone, and other materials, except gas-operated metalworking appliances	18,020	13,430	4,590	1,109	537	573
Office machines and parts thereof	706	190	516	433	285	148
Taps, cocks, valves, and similar devices and parts thereof used to control the flow of liquids, gases or solids	4,152	2,216	1,936	3,606	1,969	1,637
Miscellaneous machinery parts	38	10	28	23,657	16,128	7,529
Motors and generators; and miscellaneous equipment related to motors, generators, and transformers	12,967	10,262	2,705	18,143	13,908	4,235
Microphones, loudspeakers, and related equipment; and radiotelegraphic and radiotelephonic apparatus and related equipment	80	33	48	77	21	55

See notes at end of table.

Table B–4—*Continued*
U.S. Imports for consumption under HTS subheading 9802.00.60, by commodity groups, 1988–89

(In thousands of dollars)

Commodity group	1988 Total value	1988 Duty-free value	1988 Dutiable value	1989 Total value	1989 Duty-free value	1989 Dutiable value
Electrical capacitors	327	217	110	15	4	10
Articles for making and breaking electrical circuits	6,212	5,288	925	136,858	97,688	39,170
Electronic tubes (except X-ray)	3,474	2,085	1,390	174	109	65
Semiconductors	871	524	347	2,458	1,335	1,123
Miscellaneous electrical articles	62	53	9	750	409	341
Parts for rail locomotives and rolling stock	3	1	3	1,396	896	500
Bodies and chassis for motor vehicles, and other motor vehicle parts	7,660	5,275	2,385	18,087	13,268	4,820
Parts of aircraft and space-craft	400,277	109,540	290,737	353,761	100,413	253,348
All other articles	10,689	5,586	5,103	906	614	292
Total	517,170	175,553	341,618	587,085	261,992	325,093
Miscellaneous manufactures	31,999	27,636	4,363	66,139	58,646	7,493
Grand total	929,064	469,832	459,232	1,141,333	697,107	444,226

1 Less than $500.

Notes.—Table B–4 is from table B–6 of the Full Report. Because of rounding, figures may not add to the totals shown.

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

Table B–5
U.S. imports for consumption under HTS subheading 9802.00.60, by principal sources, 1989

Source	Total value		Duty-free value	
	Value	Percent of total	Value	Percent of total
	Million dollars		Million dollars	
Grand total	1,141.3	100.0	697.1	100.0
Top 10 sources, tota	1,136.4	99.6	694.5	99.6
Canada	808.6	70.9	449.3	64.4
Mexico	181.1	15.9	142.3	20.4
Japan	67.1	5.9	43.4	6.2
West Germany	39.0	3.4	26.1	3.7
Dominican Republic	17.8	1.6	17.3	2.5
Argentina	9.5	.8	7.2	1.0
France	5.8	.5	4.2	.6
South Korea.	3.2	.3	2.4	.3
United Kingdom	2.2	.2	1.2	.2
Taiwan	2.1	.2	1.1	.2
All other	4.9	.4	2.6	.4

Notes.—Table B–5 corresponds to table B–7 of the Full Report. Because of rounding, figures may not add to the totals shown.

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

Table B–6
U.S. Imports for consumption under HTS subheading 9802.00.80, by commodity groups, 1988–89

(In thousands of dollars)

Commodity group	1988 Total value	1988 Duty-free value	1988 Dutiable value	1989 Total value	1989 Duty-free value	1989 Dutiable value
Agricultural, animal, and vegetable products:						
Mushrooms and truffles	8,433	620	7,813	6,627	470	6,157
All other articles	4,658	539	4,119	1,393	344	1,049
Total	13,091	1,159	11,932	8,020	814	7,206
Forest products:						
Industrial papers, packaging and miscellaneous papers	152,682	125,364	27,318	187,293	146,064	41,229
All other articles	38,896	10,173	28,723	35,285	9,386	25,899
Total	191,579	135,537	56,042	222,579	155,450	67,129
Textiles, apparel, and footwear:						
Women's, girls', and infants' shirts and blouses	163,809	91,293	72,516	184,516	106,300	78,216
Women's, girls', and infants' coats and jackets	57,243	33,361	23,881	74,960	42,310	32,651
Women's, girls', and infants' trousers, slacks, and shorts	194,463	118,396	76,067	275,035	158,404	116,631
Men's and boys' shirts	191,938	103,642	88,296	208,799	125,093	83,706
Men's and boys' coats and jackets	75,061	47,298	27,762	79,596	49,266	30,330
Men's and boys' trousers, slacks, and shorts	395,782	278,385	117,397	501,430	341,253	160,177
Body-supporting garments	232,466	156,025	76,441	255,627	171,806	83,822
Gloves	37,432	18,051	19,380	34,412	20,125	14,287
Footwear	475,867	122,983	352,884	499,584	90,458	409,126
All other articles	558,051	342,124	215,927	642,604	405,828	236,776
Total	2,382,111	1,311,559	1,070,552	2,756,565	1,510,844	1,245,721
Chemicals, coal, petroleum, natural gas, and related products:						
Fabricated rubber and plastic products	117,157	42,164	74,993	91,951	50,032	41,919
All other articles	11,098	4,848	6,251	19,579	4,043	15,536
Total	128,255	47,012	81,243	111,530	54,075	57,454
Minerals and metals:						
Metallic containers	5,330	1,691	3,639	6,803	909	5,894
Locks and padlocks	73,740	45,464	28,276	106,490	66,044	40,446
Handtools	15,466	7,886	7,579	18,164	9,961	8,203
Structures of base metal	13,403	2,752	10,651	15,403	3,675	11,728
Nonelectric heating and cooking apparatus: other than cast iron stoves	24,005	7,383	16,622	23,804	5,961	17,843
Miscellaneous metal products and articles	154,912	40,154	114,757	163,316	47,879	115,437
All other articles	73,004	20,910	52,094	77,666	34,437	43,229
Total	359,860	126,241	233,619	411,646	168,865	242,781
Machinery and equipment::						
Steam engines, turbines, and boilers; and gas generators and parts thereof	7,185	1,533	5,652	3,718	758	2,961
Internal combustion engines, piston-type, and parts thereof	2,564,867	375,497	2,189,370	2,346,091	256,967	2,089,124
Internal combustion engines, non-piston type, and parts thereof	391,000	52,407	338,594	235,700	59,697	176,003
Pumps for liquids and parts thereof	29,207	14,944	14,263	35,356	16,275	19,081
Fans and blowers and parts thereof; and air pumps, vacuum pumps, and parts thereof	67,430	41,217	26,213	60,750	34,786	25,965
Compressors and parts thereof	124,998	24,108	100,890	184,009	31,984	152,025
Air-conditioning machines and parts thereof	121,301	36,334	84,967	125,631	33,480	92,151
Furnace burners and non-electric industrial furnaces and ovens and parts thereof; and refrigerators and refrigeration equipment, and parts thereof	26,547	10,618	15,928	39,217	14,107	25,111

See notes at end of table.

Table B–6—*Continued*
U.S. Imports for consumption under HTS subheading 9802.00.80, by commodity groups, 1988–89

(In thousands of dollars)

Commodity group	1988 Total value	1988 Duty-free value	1988 Dutiable value	1989 Total value	1989 Duty-free value	1989 Dutiable value
Centrifuges and filtering and purifying machinery and parts thereof	40,792	11,025	29,767	54,795	28,135	26,660
Wrapping and packaging machinery, machinery for cleaning or drying containers, machinery for aerating beverages, dishwashing machines, and parts thereof	5,835	881	4,954	11,067	1,869	9,198
Mechanical shovels, coal-cutters, excavators, scrapers, bulldozers, and excavating, levelling, boring, and extracting machinery other than elevators, winches, cranes, and related machinery and parts thereof	365,314	89,406	275,908	342,077	89,843	252,234
Lifting, handling, loading, unloading machinery and parts thereof	133,371	38,722	94,649	197,124	58,033	139,091
Pulp and paper machinery; and bookbinding and printing machinery	51,536	11,208	40,328	67,818	11,112	56,706
Sewing machines and parts thereof including furniture specially designed for such machines	18,588	721	17,867	21,674	152	21,523
Machines for working metal, stone, and other materials	148,805	40,029	108,776	161,857	48,356	113,500
Office machines and parts thereof	2,605,352	556,978	2,048,374	1,861,481	470,711	1,390,770
Automatic vending machines and parts thereof	930	121	808	1,358	206	1,152
Taps, cocks, valves, and similar devices and parts thereof used to control the flow of liquids, gases or solids	103,489	58,411	45,078	94,377	61,848	32,529
Gear boxes and other speed changers with fixed, multiple, or variable ratios; pulleys and sheaves; shaft couplings; torque converters; chain sprockets; clutches; and universal joints; and parts thereof	9,667	4,047	5,620	16,098	3,554	12,543
Other miscellaneous machinery and mechanical equipment and parts thereof	243,035	58,547	184,488	260,556	76,604	183,952
Transformers	59,444	24,591	34,853	126,913	70,706	56,207
Motors and generators; and miscellaneous equipment related to motors, generators, and transformers	638,884	314,375	324,509	526,744	287,471	239,273
Portable electric hand tools	44,681	23,109	21,572	23,289	12,983	10,305
Electric household appliances	214,634	96,385	118,250	320,368	128,943	191,425
Electric furnaces and ovens, welding, brazing, induction and dielectric heating equipment	53,410	13,298	40,111	14,884	4,511	10,373
Telephone and telegraph apparatus; and radio navigational, radar, and radio remote control apparatus and parts thereof	209,627	60,441	149,186	174,152	52,421	121,731
Microphones, loudspeakers, and related equipment	53,905	20,458	33,447	83,125	30,479	52,647
Television receivers	858,747	189,916	668,831	1,371,135	311,242	1,059,893
Television apparatus and parts, other than cameras, receivers, and picture tubes	534,942	121,314	413,627	146,289	36,726	109,563
Radio receivers and transceivers and parts thereof	291,859	91,479	200,380	703,569	142,810	560,759
Record players, phonographs, record changers, and turntables, and parts thereof	10,065	5,031	5,035	6,529	2,233	4,296
Tape recorders, tape players, and dictation machines	655,865	117,593	538,272	164,370	16,380	147,990
Miscellaneous radiotelegraphic and radiotelephonic apparatus	5,793	988	4,804	63,331	21,073	42,258
Other miscellaneous electrical products and parts	378,187	173,273	204,914	259,250	110,948	148,302
Electrical capacitors	165,721	114,717	51,004	167,612	114,303	53,310
Articles for making and breaking electrical circuits	759,030	452,638	306,391	931,619	528,411	403,208

See notes at end of table.

Table B–6—*Continued*
U.S. Imports for consumption under HTS subheading 9802.00.80, by commodity groups, 1988–89

(In thousands of dollars)

Commodity group	1988 Total value	1988 Duty-free value	1988 Dutiable value	1989 Total value	1989 Duty-free value	1989 Dutiable value
Voltage regulators	4,483	2,922	1,561	45,929	21,542	24,387
Electrical resistors	74,271	46,826	27,445	76,179	45,926	30,253
Electric lamps	72,158	38,981	33,177	58,388	34,836	23,552
Electronic tubes (except X-ray)	54,383	22,754	31,629	104,335	39,711	64,624
Semiconductors	4,360,478	2,395,593	1,964,885	4,753,277	2,588,245	2,165,032
Electrical conductors	1,181,345	748,148	433,197	1,415,343	854,839	560,504
Miscellaneous electrical articles	198,528	98,582	99,946	105,914	56,886	49,028
Rail locomotives and rolling stock	285,551	85,488	200,063	503,980	260,656	243,324
Motor vehicles including automobile trucks and truck tractors, motor buses, passenger automobiles, special purpose motor vehicles, and snowmobiles	44,056,359	5,839,003	38,217,356	44,231,079	7,532,368	36,698,711
Motor vehicle parts, industrial vehicles, non self-propelled vehicles, and motorcycles	3,921,451	921,728	2,999,723	3,672,384	1,155,539	2,516,845
Nonmilitary airplanes (all types); parts of aircraft and spacecraft; and parachutes, including parts	1,615,503	503,519	1,111,984	1,162,504	384,255	778,249
Pleasure boats; floating structures	226,034	53,791	172,242	264,095	45,206	218,889
All other articles	117	9	109	1,840	188	1,652
Total	68,044,701	14,003,706	54,040,995	67,599,181	16,190,314	51,408,866
Miscellaneous manufactures:						
Handbags	4,067	2,455	1,612	6,084	4,400	1,685
Luggage	30,280	15,869	14,411	32,872	18,840	14,032
Flat goods	1,953	1,061	892	1,918	1,216	703
Optical instruments, components and lenses	23,951	7,967	15,984	14,515	5,503	9,012
Surgical and medical instruments and apparatus	270,496	143,895	126,601	311,540	178,260	133,280
Scientific instruments	248,535	126,289	122,246	373,349	167,602	205,747
Balancing machines, and parts, and other drawing, measuring, and mathematical calculating instruments, and machines, n.s.p.f	55,660	17,258	38,403	2,009	1,001	1,008
Watches, clocks, and clockwork operated devices (including time clocks and time stamps) and parts	85,885	22,811	63,075	67,970	19,252	48,718
Photographic equipment and supplies	112,764	53,110	59,654	186,421	87,938	98,484
Magnetic recording media not having any material recorded thereon	91,293	21,806	69,487	104,303	30,099	74,204
Musical instruments, parts and accessories	21,178	6,098	15,081	16,375	5,829	10,546
Furniture, mattresses, and pillows, cushions, and similar furnishings	540,517	189,943	350,574	553,632	180,077	373,555
Small arms (bore diameter 30mm and under)	3,866	45	3,821	6,736	958	5,778
Ammunition and munitions	1,196	137	1,059	1,444	199	1,244
Game machines, except coin or disc operated	823	200	623	8,544	3,623	4,921
Fishing tackle	3,442	1,768	1,674	4,222	1,774	2,448
Baseball and softball equipment	10,612	8,502	2,110	7,972	6,288	1,684
Dolls and stuffed toy figures of animate objects	1,351	112	1,240	500	35	464
Toys (except games), models, tricks, and party favors	54,265	25,360	28,904	70,619	27,829	42,790
Jewelry	54,786	50,434	4,351	59,913	55,125	4,787
All other articles	66,968	33,778	33,189	91,325	45,042	46,284
Total	1,683,888	728,898	954,990	1,922,263	840,890	1,081,373
Grand total	72,803,484	16,354,111	56,449,373	73,031,783	18,921,252	54,110,531

Notes.—Table B–6 is from table B–18 of teh Full Report. Because of rounding, figures may not add to the totals shown.

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

Table B–7
U.S. imports for consumption under HTS subheading 9802.00.80, by principal sources, 1989

Source	Total value		Duty-free value	
	Value	Percent of total	Value	Percent of total
	Million dollars		Million dollars	
Grand total	73,031.8	100.0	18,921.3	100.0
Top 10 sources, total	67,077.3	91.8	16,861.9	89.1
Canada	25,725.9	35.2	8,478.4	44.8
Japan	16,838.4	23.1	392.3	2.1
Mexico	11,766.7	16.1	5,969.0	31.5
West Germany	3,932.6	5.4	65.1	.3
South Korea	1,978.0	2.7	574.1	3.0
Sweden	1,761.1	2.4	39.1	.2
Singapore	1,376.9	1.9	342.2	1.8
United Kingdom	1,320.4	1.8	146.0	.8
Malaysia	1,315.6	1.8	596.0	3.1
Taiwan	1,061.7	1.5	259.7	1.4
All other	5,954.5	8.2	2,059.4	10.9

Notes.—Table B–7 is from table B–19 of the Full Report. Because of rounding, figures may not add to the totals shown.

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

APPENDIX C
TARIFF AND TRADE AGREEMENT TERMS

Tariff and Trade Agreement Terms

The **Harmonized Tariff Schedule of the United States** (HTS) replaced the former Tariff Schedules of the United States (TSUS) effective January 1, 1989. Chapters 1 through 97 of the HTS are based upon the internationally adopted Harmonized Commodity Description and Coding System (the Harmonized System or HS) and are identical through the 6-digit level of product description in all signatory countries. Additional U.S. product subdivisions appear at the 8-digit level; and chapters 98 and 99 contain special classification provisions and temporary rate provisions, respectively.

The rates of duty in the **general** subcolumn of rate column 1 of the HTS are most-favored-nation (MFN) rates and, in general, represent the final stage of the reductions granted in the Tokyo Round of the Multilateral Trade Negotiations. Column 1-general duty rates are applicable to imported goods from all countries except products of those Communist countries and areas enumerated in general note 3(b) to the HTS, the latter dutiable at the rates set forth in **column 2.** The People's Republic of China, Hungary, Poland and Yugoslavia are the only Communist countries eligible for MFN treatment. Among articles dutiable at column 1-general rates, particular products of enumerated countries may be eligible for reduced rates of duty or for duty-free treatment under one or more preferential tariff programs. Such tariff treatment is set forth in the **special** rates of duty subcolumn of column 1.

The **Generalized System of Preferences** (GSP) affords nonreciprocal tariff preferences to developing countries to aid their economic development and to diversify and expand their production and exports. The U.S. GSP, enacted in title V of the Trade Act of 1974 and renewed in the Trade and Tariff Act of 1984, applies to merchandise imported on or after January 1, 1976 and before July 4, 1993. Indicated by the symbol "A" or "A*" in the special rates of duty subcolumn of column 1, the GSP provides duty-free entry to eligible articles the product of, and imported directly from, designated beneficiary developing countries, as set forth in HTS general note 3(c)(ii).

The **Caribbean Basin Economic Recovery Act** (CBERA) affords nonreciprocal tariff preferences to developing countries in the Caribbean area to aid their economic development and to diversify and expand their production and exports. The CBERA, enacted in title II of Public Law No. 98-67 and implemented by Presidential Proclamation 5133 of November 30, 1983, applies to merchandise entered, or withdrawn from warehouse for consumption, on or after January 1, 1984; it is scheduled to remain in effect until September 30, 1995. Indicated by the symbol "E" or "E*" in the special rates of duty subcolumn of column 1, the CBERA provides duty-free entry to eligible articles the product of, and imported directly from, designated Basin countries, as set forth in HTS general note 3(c)(v).

Preferential rates of duty in the special duty rates subcolumn of column 1 followed by the symbol "IL" are applicable to products of Israel under the **United States-Israel Free-Trade Area Implementation Act** of 1985, as provided in HTS general note 3(c)(vi). Where no rate of duty is provided for products of Israel in the special rates subcolumn for a particular provision, the rate of duty in the general subcolumn of column 1 applies.

Preferential rates of duty in the special duty rates subcolumn of column 1 followed by the symbol "CA" are applicable to eligible goods originating in the territory of Canada under the **Canada-United States Free-Trade Agreement,** as provided in HTS general note 3(c)(vii).

The **General Agreement on Tariffs and Trade** (GATT) (61 Stat. (pt. 5) A58; 8 UST (pt. 2) 1786) is the multilateral agreement setting forth the basic principles governing much of the international trade among its more than 90 signatories. The GATT's main obligations relate to most-favored-nation treatment, the maintenance of scheduled concession rates of duty, and national (nondiscriminatory) treatment for imported goods; the GATT also provides the legal framework for customs valuation standards, "escape clause" (emergency) actions, antidumping and countervailing duties, and other measures and provides methods of dispute resolution. The results of GATT-sponsored multilateral tariff negotiations are set forth by way of separate schedules of concessions for each participating contracting party, with the U.S. schedule designated as Schedule XX.

Officially known as "The Arrangement Regarding International Trade in Textiles," the **Multifiber Arrangement** (MFA) provides a framework for the negotiation of bilateral agreements between importing and producing countries, or for unilateral action by importing countries in the absence of an agreement. These bilateral agreements establish quantitative limits on man-made fibers and silk blends, in order to prevent market disruption in the importing countries--restrictions that would otherwise be a departure from GATT provisions. The United States has bilateral agreements with more than 30 supplying countries, including the four largest suppliers: China, Hong Kong, the Republic of Korea, and Taiwan.

President Johnson and Prime Minister Pearson signed an agreement on January 16, 1965, which obligated both the United States and Canada to accord duty-free treatment to imports from the other party of specified motor vehicles and parts for use as original equipment in the manufacture of such motor vehicles. The Government of Canada implemented the agreement in Canada through two Orders in Council Establishing Duty-Free Treatment (P.C. 1965-99 and P.C. 1965-100, The Motor Vehicles Tariff Orders of 1965). The Government of the United States implemented the agreement with the signing of the **Automotive Products Trade Act of 1965** (APTA) on October 21, 1965, applying duty-free treatment retroactive to January 18, 1965. The obligation of the United States to accord duty-free treatment to imports from Canada applies to 1) motor vehicles, with the exception of certain "special-purpose" vehicles, such as electric buses, three-wheeled vehicles, and fire engines; and 2) parts for use as original equipment in the manufacture of the specified motor vehicles (replacement parts, trailers, tires, and tubes are specifically excluded). The products from Canada specified in the agreement must meet a requirement that they contain no more than a certain percentage of content originating outside the United States or Canada.