



MEMORANDUM ON PROPOSED TARIFF LEGISLATION of the 112th Congress

Date approved

I. Background

Bill number:

Sponsor name:

Sponsor state:

Interested entity:

Name

City

State

Other bills on product (112th Congress only):

Nature of bill:

Expiration date:

Current or previous chapter 99 heading:

Retroactive date:

CAS number (if applicable):

Industry analyst:

Telephone:

Tariff Affairs contact:

Telephone:

Note:

1. Access to an electronic copy of this memorandum is available at http://www.usitc.gov/tariff_affairs/congress_reports/.
2. In regard to the country(ies) of origin listed in section III, this report focuses on dutiable imports and does not take into account any tariff preference programs or special rates of duty.

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

H.R. 5750 would, if enacted, permanently modify the tariffs that apply to certain wrist watches, converting complex compound rates of duty to simpler compound rates of duty. See bill for more details.

(If enacted, the tariff relief provided for in this bill would be available to any entity that imports the product that is covered by the bill.)

Description above compared with bill as introduced:

- Same
 Different (see Technical Comments section)

III. Other product information, including uses/applications and source(s) of imports

The subject wrist watches are electrically-operated, have a mechanical display, and have no more than one jewel in the movement. For customs purposes, the origin of the movement determines the origin of the wrist watch, regardless of the country in which the movement is assembled together with the case, watch band, and batteries. Two-thirds of U.S. imports of the subject wrist watches in 2011 incorporated watch movements produced in Japan. Movements produced in Switzerland and China accounted for 11 percent each. It is believed that China is the leading supplier of wrist watches in terms of the final assembly of the four basic components: movements, cases, bands, and batteries. Opposition to this bill is noted below in the contacts table.

IV. Estimated effect on customs revenue

Subject product HTS subheading(s)	9102.11.10, 9102.11.25, 9102.11.30, 9102.11.45				
Item	2013	2014	2015	2016	2017
Col.1-general rate of duty or percentage point reduction (%)	0.18	0.18	0.18	0.18	0.18
Estimated value of <i>dutiable</i> imports (\$)	1,200,000,000	1,200,000,000	1,200,000,000	1,200,000,000	1,200,000,000
Customs revenue loss (\$)	2,184,000	2,184,000	2,184,000	2,184,000	2,184,000

Note: Customs revenue loss is provided for 5 years, although the effective period of the proposed legislation may differ. Regarding the HTS subheading listed in the article description of the bill, the Commission may express an opinion on the HTS classification of a product to facilitate consideration of the bill. However, by law, only U.S. Customs and Border Protection is authorized to issue a binding ruling on this matter. The Commission believes that Customs should be consulted prior to enactment of the bill.

Dutiable imports were based on (more than one may apply):

- Official statistics of the U.S. Department of Commerce
 Provided by industry sources
 Industry information
 Commission estimates

Duty reduction notes:

- This bill is not a duty reduction
 This bill is a temporary duty reduction. Rates are shown below.

Col.1-general duty rate (%) Temporary rate (%) Percentage point reduction (%)

V. Technical comments

H.R. 5750 would, if enacted, amend chapter 91 of the HTS to make some permanent changes to the tariffs on certain wrist watches valued not over \$300. In particular, the bill would establish simple compound rates of duty under proposed new HTS subheadings 9102.11.05, 9102.11.20, 9102.11.32, and 9102.11.42 in place of the complex compound rates of duty that apply to such watches currently. The simpler compound rates of duty are intended to be revenue neutral -- that is, the ad

valorem equivalent is intended to be the same.

The Commission staff would note that the article descriptions for proposed new HTS subheadings 9102.11.15, 9102.11.28, 9102.11.34, and 9102.11.44 should appear at the same level of indentation as the article description of the preceding subheading. The Commission staff would note that the special rate code, "CO", should be added to all eight new HTS subheadings because qualifying imports from Colombia are eligible for duty-free treatment under the U.S.-Colombia TPA. The Commission staff would note that the special rate code, "KR", should be deleted from the enumeration of various FTA/TPA partners that are eligible for duty-free treatment under proposed new HTS subheading 9102.11.42. Instead, there should be a special rate of duty provided in proposed new subheading 9102.11.42 for qualifying imports from Korea under the U.S.-Korea FTA because the predecessor subheading, subheading 9102.11.45, contained staged rate reductions that do not become duty-free until January 1, 2021. Finally, the Commission staff would note that, in a necessary conforming change, statistical note 1(a) of chapter 91 of the HTS should be amended to delete the reference to the four HTS subheadings that would be deleted by H.R. 5750 and to insert in lieu thereof a reference to the eight HTS subheadings that would be established by H.R. 5750. The Commission staff believes that the statistical reporting requirements would need to be maintained for the four new HTS subheadings with the simpler compound rates of duty, unless the column 2 rates of duty for those HTS subheadings were also simplified.

VI. Continuation

Estimated effect on customs revenue -- continued:

This tariff simplification for certain wrist watches valued not over \$300 each would result in a modest permanent tariff reduction, from a trade-weighted ad valorem equivalent of 7.437 percent in 2011 to 7.255 percent on estimated annual imports of \$1.2 billion.

HTS No. 9102.11.10 - revenue loss (current ad valorem equivalent 7.33%; proposed ad valorem equivalent 6.93%)

2013 - \$412,745
2014 - \$412,745
2015 - \$412,745
2016 - \$412,745
2017 - \$412,745

HTS No. 9102.11.25 - revenue loss (current ad valorem equivalent 8.35%; proposed ad valorem equivalent 8.23%)

2013 - \$662,328
2014 - \$662,328
2015 - \$662,328
2016 - \$662,328
2017 - \$662,328

HTS No. 9102.11.30 - revenue gain (current ad valorem equivalent 3.55%; proposed ad valorem equivalent 3.68%)

2013 + \$78,405
2014 + \$78,405
2015 + \$78,405
2016 + \$78,405
2017 + \$78,405

HTS No. 9102.11.45 - revenue loss (current ad valorem equivalent 6.89%; proposed ad valorem equivalent 6.65%)

2013 - \$1,155,946
2014 - \$1,155,946
2015 - \$1,155,946
2016 - \$1,155,946
2017 - \$1,155,946

See the attached table for a detailed calculation of the estimated revenue loss based on U.S. imports in 2011.
The rate shown in the main table is a weighted average rate and not the actual HTS rate or a percentage point reduction.

VII. Contacts with domestic firms/organizations

	#	Firm/organization and contact name	Telephone number	Claims same or competing product made in the United States	Submission attached	Opposition noted
	1	Timex Group USA, Inc. (Interested entity) David Olave	202-730-4960	Yes	No	No
	2	American Watch Association Emilio G. Collardo	434-963-7773	Yes	Yes	Yes
	3	Belair Time Corporation Alan Grunwald	732-905-0100	Yes	No	No
	4	Croton Watch Company A. V. Ramim	201-939-5100	Yes	No	No
	5	Hadley-Roma Kimberly Kyle	727-545-9009	Yes	No	No
	6	Hampden Corporation Gladys Krawczynski	312-583-3300	Yes	No	No

H.R. 5750 Wrist Watches

Wrist watches: Dutiable U.S. imports in 2011, calculation of duties collected under current duties and duties proposed in H.R. 5750, and revenue gain or loss under H.R. 5750 based on U.S. imports in 2011					
HTS provision	Movements	Cases	Straps/bands	Batteries	Total
9102.11.10:					
Value (actual)	47,579,173	30,983,695	26,380,346	672,955	105,616,169
Quantity (no.)	5,117,342	5,161,041	5,072,459	1,865,889	-
Duty rate (%) -now	44 cents	6%	14%	5.3%	-
Duty rate (%) -new	44 cents + 4.9%	4.9%	4.9%	4.9%	-
Duties collected-now	2,251,630	1,859,022	3,693,248	35,667	7,839,567
Duties collected-new	2,251,630 + 2,331,379	1,518,201	1,292,637	32,975	7,426,822
Revenue gain (loss)	2,331,379	(340,821)	(2,400,611)	(2,692)	(412,745)
9102.11.25:					
Value (actual)	286,930,000	136,265,407	113,513,648	7,769,559	544,478,614
Quantity (no.)	43,925,965	39,348,664	37,886,072	25,846,774	-
Duty rate (%) -now	40 cents	8.5%	14%	5.3%	-
Duty rate (%) -new	40 cents + 5%	5%	5%	5%	-
Duties collected-now	17,570,386	11,582,560	15,891,911	411,787	45,456,644
Duties collected-new	17,570,386 + 14,346,500	6,813,270	5,675,682	388,478	44,794,316
Revenue gain (loss)	14,346,500	(4,769,290)	(10,216,229)	(23,309)	(662,328)
9102.11.30:					
Value (actual)	37,973,535	13,853,986	6,506,061	486,005	59,109,284
Quantity (no.)	2,401,107	2,377,239	2,104,997	608,685	-
Duty rate (%) -now	44 cents	6%	2.8%	5.3%	-
Duty rate (%) -new	44 cents + 1.9%	1.9%	1.9%	1.9%	-
Duties collected-now	1,056,487	831,239	182,170	25,758	2,095,654
Duties collected-new	1,056,487 + 721,497	263,226	123,615	9,234	2,174,059
Revenue gain (loss)	721,497	(568,013)	(58,555)	(16,524)	78,405
9102.11.45:					
Value (actual)	273,968,383	126,291,846	78,187,351	7,967,245	486,458,570
Quantity (no.)	50,461,585	43,754,117	42,051,854	28,436,863	-
Duty rate (%) -now	40 cents	8.5%	2.8%	5.3%	-
Duty rate (%) -new	40 cents + 2.5%	2.5%	2.5%	2.5%	-
Duties collected-now	20,184,654	10,734,807	2,189,246	422,264	33,530,951
Duties collected-new	20,184,654 + 6,849,210	3,157,296	1,954,684	199,181	32,345,005
Revenue gain (loss)	6,849,210	(7,577,511)	(234,562)	(223,083)	(1,155,946)
Total revenue gain (loss)	24,248,586	(13,255,635)	(12,909,957)	(265,608)	(2,182,614)

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



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June 21, 2012

The Honorable Dave Camp
Chairman
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Re: Miscellaneous Tariff Bill -- Opposition to H.R. 5750

Dear Mr. Chairman:

The American Watch Association (“AWA”) is comprised of more than fifty companies organized and doing business within the United States that are engaged in the importation, manufacture, and assembly of watches, watch movements, and watch products listed under Chapter 91 of the Harmonized Tariff Schedule of the United States (“HTSUS”). And indeed, the AWA’s members constitute the great majority of leading watch brands in the United States. (See attach listing of AWA member companies and brands.)

The AWA submits these comments in opposition to H.R. 5750, a bill that would modify the tariff on certain watches. The AWA opposes passage of H.R. 5750 for two principal reasons: (1) the bill seeks to address a compliance issue by means of a change in tariff format/rates, and (2) the proposed change will result in often-dramatic increases in duty rates for many watch importers.

The system of tariffs contained in Chapter 91 of the HTSUS has been in effect for many decades and the watch industry has evolved around it, much as fish accommodate themselves about a coral reef. Change the tariff system and you will affect the competitive structure of the watch industry.

The tariffs in Heading 9102 are comprised of a mixture of specific duties and *ad valorem* rates. Specific duties apply to the watch movement, while separate *ad valorem* duties apply to the watch case, watch band and battery (where present). Although it has not been a problem for AWA member companies, it appears that U.S. Customs officials have, on occasion, questioned the apportionment of entry value of watch components among the different duty components of the HTSUS. This problem is one of compliance and enforcement; it is not one that requires a

change in import duty levels, especially a change that results in higher import duties for some companies and lower duties for others.

The U.S. International Trade Commission (“ITC”), more than a decade ago, sought to simplify the watch tariff system in Chapter 91 and, among several issues, compress the mixture of existing tariff rates into a single *ad valorem* equivalent or at most a two-part rate. The ITC discovered the same problem that confronts H.R. 5750: compression results in a change in duties for most importers - - windfalls for some and damaging increases for others. In its June 2000 report - - *Simplification of the Harmonized Tariff Schedule of the United States*, Publication 3318, Investigation No. 332-388 - - the ITC retained the existing multi-part tariff for watches.

H.R. 5750 purports to be a narrowly focused attempt to solve a valuation-allocation problem for quartz analog watches valued not over \$300. In reality, the bill targets a broad spectrum of watches whose retail prices range from under \$25 to over \$1,000. As the ITC recognized, there is no practical way to impose a new system of specific and *ad valorem* duties on this panoply of watches without altering the rates they must pay.

AWA member companies have tested the proposed tariff rates in H.R. 5750 on their own product lines and have found that the bill would injure them by increasing rates much more often than decreasing them. Rarely did the proposed changes result in no change at all. Predictably, rate increases were greatest for more expensive watches. But the results varied not only among AWA companies, but also, within individual product lines.

The bottom line: H.R. 5750 would hurt AWA member companies. The injury is unnecessary in order to address an issue that is regulatory in nature. Moreover, the injury, where concentrated among exports from particular countries, might raise questions of U.S. adherence to its treaty obligations.

The American Watch Association welcomes the opportunity to seek a broader and appropriate solution to the issues H.R. 5750 seeks to address. However, H.R. 5750 is not the answer and, indeed, is a problem in itself. Congress should reject H.R. 5750.

Respectfully submitted,



Emilio G. Collado
Executive Director
American Watch Association

Attachment

AWA Member Companies and Brands

A. Lange & Söhne	Emporio Armani	Movado
Abacus	Endura	MW
Accutron	ESQ by Movado	Oceanus
Adidas	European Company Watch	Officine Panerai
Alba	Flik Flak	Omega
Armani	Fossil	Patek Philippe
Audemars Piguet	Frank Lloyd Wright	Pathfinder
Baby-G	Franck Muller	Paul Picot
Backes & Strauss	Geneve	Philippe Charriol
Balmain	G-Shock	Piaget
Barthelay	Gerald Genta	Pierre Balmain
Baume & Mercier	Girard-Perregaux	Pierre Kunz
Belair	Glashütte Original	Pierre Michael Golay
Bell & Ross	Grand Seiko	Pulsar
Blancpain	G-Shock	Q&Q
Boegli	Gucci	Rado
Boucheron	Hamilton	Ralph Lauren Watch & Jewelry
Breguet	Harley Davidson	Red Line
Breitling	Hirsch	Relic
Bulova	Hublot	Rocket
Burberry	Hugo Boss	Rodolphe
ck/Calvin Klein	IBI Armored	Rolex
Campanola	IWC International	Roger Dubuis
Caravelle	Jacquet Droz	Seiko
Cartier	Jaeger LeCoultre	Selco
Casio	Jean Marcel	Smalto Timepieces
Certina	Jean Richard	Swatch
Chopard	Kaiser Time	TFX
Christian Dior	Lacoste	Tiffany & Co.
Citizen	Léon Hatot	Timberland
Coach	Longines	Tissot
Colossa	Lorus	Tommy Hilfiger
Columbial	Louis Renard	Town & Country
Concord	Juicy Couture	Tudor
Corum	Marc Anton	Underwood
Credor	Marc Jacobs	Union Glashütte
Daniel Jean Richard	Martin Braun	Vacheron Constantin
Daniel Roth	MDM	Van Cleef & Arpels
DeWitt	Michael Kors	Wittnauer
Diesel	Michele	Yves Saint Laurent
DKNY	Mido	Zodiac
Dunhill	Mobilewear	
Ebel	Montblanc	

112TH CONGRESS
2D SESSION

H. R. 5750

To amend the Harmonized Tariff Schedule to modify the tariffs on certain wrist watches, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MAY 15, 2012

Mr. LARSON of Connecticut (for himself and Mr. MURPHY of Connecticut) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Harmonized Tariff Schedule to modify the tariffs on certain wrist watches, and for other purposes.

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

3 **SECTION 1. MODIFICATION OF DUTIES ON CERTAIN WRIST**
4 **WATCHES.**

5 (a) IN GENERAL.—Chapter 91 of the Harmonized
6 Tariff Schedule of the United States is amended—

7 (1) by striking subheadings 9102.11.10 and
8 9102.11.25 and inserting the following new sub-
9 headings and superior text thereto, with the superior

1 text to subheading 9102.11.05 having the same de-
 2 gree of indentation as subheading 9102.11.50:

9102.11.05	With gold- or silver-plated case: Each valued not over \$300	44¢ each + 4.9%	Free (AU, BH, CA, CL, D, E, IL, J, J+, JO, KR, MA, MX, OM, P, PE, R, SG)	\$1.90 each + 45% on the case + 110% on the strap, band or bracelet + 35% on the battery	
9102.11.15	Other	44¢ each + 6% on the case + 14% on the strap, band or bracelet + 5.3% on the battery	Free (AU, BH, CA, CL, D, E, IL, J, J+, JO, KR, MA, MX, OM, P, PE, R, SG)	\$1.90 each + 45% on the case + 110% on the strap, band or bracelet + 35% on the battery	
9102.11.20	Other: Each valued not over \$300	40¢ each + 5%	Free (AU, BH, CA, CL, D, E, IL, J, J+, JO, KR, MA, MX, OM, P, PE, R, SG)	\$1.70 each + 45% on the case + 110% on the strap, band or bracelet + 35% on the battery	
9102.11.28	Other	40¢ each + 8.5% on the case + 14% on the strap, band or bracelet + 5.3% on the battery	Free (AU, BH, CA, CL, D, E, IL, J, J+, JO, KR, MA, MX, OM, P, PE, R, SG)	\$1.70 each + 45% on the case + 35% on the strap, band or bracelet + 35% on the battery	”; and

3 (2) by striking subheadings 9102.11.30 and
 4 9102.11.45 and inserting the following new sub-
 5 headings and superior text thereto, with the superior
 6 text to subheading 9102.11.32 having the same de-
 7 gree of indentation as subheading 9102.11.50:

9102.11.32	With gold- or silver-plated case: Each valued not over \$300	44¢ each + 1.9%	Free (AU, BH, CA, CL, D, E, IL, J, J+, JO, KR, MA, MX, OM, P, PE, R, SG)	\$1.90 each + 45% on the case + 35% on the strap, band or bracelet + 35% on the battery
9102.11.34	Other	44¢ each + 6% on the case + 2.8% on the strap, band or bracelet + 5.3% on the battery	Free (AU, BH, CA, CL, D, E, IL, J, J+, JO, KR, MA, MX, OM, P, PE, R, SG)	\$1.90 each + 45% on the case + 35% on the strap, band or bracelet + 35% on the battery
9102.11.42	Other: Each valued not over \$300	40¢ each + 2.5%	Free (AU, BH, CA, CL, D, E, IL, J, J+, JO, KR, MA, MX, OM, P, PE, R, SG)	\$1.70 each + 45% on the case + 35% on the strap, band or bracelet + 35% on the battery
9102.11.44	Other	40¢ each + 8.5% on the case + 2.8% on the strap, band or bracelet + 5.3% on the battery	Free (AU, BH, CA, CL, D, E, IL, J, J+, JO, MA, MX, OM, P, PE, R, SG) 36¢ each + 7.6% on the case + 2.5% on the strap, band or bracelet + 4.7% on the battery (KR)	\$1.70 each + 45% on the case + 35% on the strap, band or bracelet + 35% on the battery

1 (b) STAGED RATE REDUCTIONS.—Any staged reduc-
 2 tion of a rate of duty proclaimed by the President before
 3 the date of enactment of this Act that—

4 (1) would take effect on or after such date of
 5 enactment; and

6 (2) would, but for the amendments made by
 7 subsection (a), apply to subheading 9102.11.45 of
 8 the Harmonized Tariff Schedule of the United
 9 States,

1 applies to the corresponding rate of duty set forth in sub-
2 heading 9102.11.44 of such Schedule (as added by sub-
3 section (a)).

○