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VIA E-MAIL & FACSIMILE

The Honorable Philip M. Crane
Chairman
Subcommittee on Trade
Committee on Ways & Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Re: Comments of the Government of the United States Virgin Islands in Support of
H.R. 4179 -- A Bill to Promote and Preserve Watch and Jewelry Production in
the U.S. Insular Possessions

Dear Mr. Chairman:

The Government of the United States Virgin Islands ("GVI"), through its attorneys, hereby provides comments in support of H.R. 4179 pursuant to the May 2, 2002 Advisory of the Subcommittee on Trade regarding its technical corrections and miscellaneous tariff legislation. This important legislation would help promote the production of watches and jewelry in the Virgin Islands by making a number of technical and noncontroversial changes in the Production Incentive Certificate ("PIC") program, originally authorized by Congress in 1984. The PIC program provides wage credits for watch and jewelry production in the U. S. insular possessions. Additionally, certain "standby" provisions in the legislation would help assure the continued viability of insular possession watch production in the event of any future elimination or reduction of watch duties as a result of multi-lateral trade negotiations. The GVI strongly urges the Subcommittee to incorporate the important changes included in H.R. 4179 in its planned omnibus trade bill.

The Importance of Watch and Jewelry Production to the Virgin Islands

The production of watches is the largest light manufacturing industry in the Virgin Islands and historically is one of the most important sources of private sector employment in the Territory. In addition to the approximately 200 high-wage, high-skill jobs created directly by watch producers in the Virgin Islands, watch production also indirectly supports many other related production and service jobs in the Territory. The production of fine jewelry -- which involves many of the same skills as watch production -- is also an important source of employment for the Territory. Jewelry production in the Virgin Islands has grown significantly since 1999, when Congress and this Subcommittee extended PIC program benefits to jewelry production. Since this important change in the law, four major new jewelry producers have opened their doors in the Territory. With jewelry production continuing to expand, the number of direct and indirect jobs in this new industry is now approaching 100 jobs. In a small economy like the Virgin Islands, these watch and jewelry production jobs and related employment are critical to the overall economic and fiscal health of the Territory.

The PIC program provides necessary and critical support to watch and jewelry production in the Virgin Islands. Under this program, the U.S. Department of Commerce issues certificates to eligible watch and jewelry producers for specified percentages of each producer's verified creditable wages for production in the insular possessions to compensate for the loss of tariff advantages over the years and to enable local producers to remain competitive with low-wage competitors in the Far East and other low-cost jurisdictions. These certificates, in turn, entitle the producers to obtain refunds on duties paid on watches.

The Need for Technical Changes in the PIC Program

Despite the PIC program's success in promoting watch and jewelry production in the Virgin Islands, certain technical and administrative aspects of the PIC program make the program unnecessarily complex for existing participants and potential new entrants. Among other things, existing producers are subject to unduly complex refund requirements, unclear definitions and complications caused by the inclusion of jewelry in the PIC program. Potential investors currently face difficult issues in long term planning and transition to full production under the program.

To address these serious issues and to assure that the PIC program can better promote insular possession watch and jewelry production, H.R. 4179 includes the following technical and noncontroversial provisions:

- **Direct Payment.** H.R. 4179 would allow insular watch and jewelry producers to apply directly to the U.S. Treasury for payment of their verified PIC program certificates. Currently, producers must follow one of two complicated procedures to obtain PIC benefits -- they either apply to U.S. Customs for duty refunds after assembling extensive entry documentation or they sell their PIC certificates to third parties. Providing producers with the option to obtain direct payment from the U.S. Treasury

would simplify the administration of the PIC program without increasing program costs.

- **Definitions.** H.R. 4179 would clarify certain program definitions relating to verified wages and fringe benefits.
- **Jewelry Limits.** H.R. 4179 would promote insular possession jewelry production by eliminating the current 750,000 unit limitation for jewelry on an individual producer's PIC benefits. This limit was carried over from the PIC program watch rules when the program was extended to jewelry in 1999. However, this limitation has proven to be impracticable because it fails to recognize that, in comparison to watch producers, jewelry producers produce much larger quantities of lower-priced goods. H.R. 4179 would eliminate this unworkable limitation for individual jewelry producers. At the same time, it would protect the fiscal integrity of the PIC program by retaining overall unit and dollar limits for the program as a whole.
- **Program Term.** H.R. 4179 would extend the authorized term of the PIC program to 2015. By assuring PIC program stability, this change will promote long term planning in the Virgin Islands' watch and jewelry industries, improve the investment environment for new investors and encourage expansion by existing producers. In turn, this would promote critical long-term economic development in the Virgin Islands.
- **Transition Rule for Jewelry.** H.R. 4179 would also promote new jewelry production in the Virgin Islands by extending the 18-month transition period in the 1999 law to new insular possession jewelry producers. To encourage the establishment and ramping-up of new jewelry production in the insular possessions, Congress in 1999 permitted jewelry items that were assembled (but not substantially transformed) in the insular possessions before August 9, 2001 to be eligible for PIC program and duty-free benefits. Although this transition rule helped attract substantial new jewelry production to the USVI, various practical and administrative difficulties prevented other interested producers from benefiting from this rule before it expired. H.R. 4179 would make this transition treatment available on a limited basis to new entrants.

Helping to Assure Future Watch Production in the Virgin Islands

In addition to the PIC program, the Federal Government has established other programs to promote the economic well-being of the Virgin Islands through support of the insular watch industry. The most important of these Federal initiatives is the General Note 3(a) program incorporated by Congress in the Harmonized Tariff Schedule. Under this longstanding

program, qualifying insular possession watches are granted U.S. duty-free treatment. This duty-free treatment, in turn, provides insular possession watches with an important relative advantage over watches made by foreign producers, which are subject to existing duties.

The Federal Government has recognized for many years that this relative duty advantage plays a critical role in the viability and survival of the insular watch industry and has repeatedly rejected efforts to erode benefits under General Note 3(a). Among other things, Congress has established a special, stringent injury test for granting duty-free treatment for watch imports under the Generalized System of Preferences ("GSP") and Administrations of both parties have repeatedly denied requests for GSP treatment for watches to prevent injury to insular possession watch producers. Similarly, concern for the insular watch industry has led Congress and this Subcommittee to reject legislative efforts by importers of foreign-made watches and others to eliminate watch duties on a regional or worldwide basis.

The effort to preserve the relative duty advantages for insular possession watches against repeated attack by competing interests has imposed considerable costs on the GVI and the Virgin Islands watch industry. Additionally, this effort has diverted resources that both government and industry could better use to encourage and promote further employment, growth and economic development in the Territory. In an effort to address this recurring problem, the Virgin Islands watch industry, with the active support of the GVI, reached an understanding in early 2000 with the American Watch Association ("AWA") and U.S. watch firms that import substantial quantities of foreign-made watches. Under this understanding, the parties agreed to support the establishment of two "standby" mechanisms to preserve the benefits of the General Note 3(a) program in the event that watch duties were eliminated or reduced on a worldwide basis.

H.R. 4179 incorporates the two standby mechanisms agreed to under this compromise. These mechanisms are contingent -- they would not be activated until Congress and the President agreed to take future action eliminate or reduce watch duties on a worldwide basis. These mechanisms would facilitate such duty reductions, while also assuring the continued survival and viability of insular watch production.

The first standby mechanism in H.R. 4179 would preserve the value of the relative duty advantage currently enjoyed by insular possession watches by adding a "hold harmless" benefit to the PIC program. Under this provision, if the United States agrees to a worldwide elimination or reduction of watch duties, insular watch producers would receive a benefit under the PIC program equal to the loss in their relative tariff advantage, on a per unit basis, caused by the duty reduction. This would help preserve insular watch production while, at the same time, facilitating the eventual elimination of watch duties on a worldwide basis.

The second standby mechanism incorporated in H.R. 4179 would permit the funding of PIC program benefits from duties on jewelry or other appropriate products. Currently, PIC program benefits are funded from watch duties. If these duties are eliminated, however, the PIC program would lose its funding source. By permitting the funding of PIC benefits from other sources, H.R. 4179 would eliminate this problem.

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Congress and this subcommittee have repeatedly recognized that the watch and jewelry industries play critical roles in the economic well-being of the Virgin Islands and its citizens. Congress has chosen to promote these important insular industries through the PIC program and through the grant of General Note 3(a) duty-free benefits. H.R. 4179 is fully consistent with these longstanding Federal programs and their goals of promoting the economies of the insular possessions. The bill would make needed technical and noncontroversial changes in the administration of the PIC program and would provide contingent mechanisms to preserve the value of General Note 3(a) benefits for watches in the event of future duty reductions. By doing so, this important legislation would help assure that watch and jewelry production continue to play important roles in the future economic development and growth of the Virgin Islands.

Respectfully submitted,

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States Virgin Islands