

Advanced Display Manufacturers of America
3050 K Street, N.W., Suite 400
Washington, DC 20007
(202) 342-8400

February 24, 1992

The Honorable Nicholas F. Brady
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Secretary Brady:

On behalf of the Advanced Display Manufacturers of America (ADMA), we are writing in support of your proposed rules of origin under the North American Free Trade Agreement (NAFTA) for computers and televisions. We are also greatly concerned about recent efforts of U.S.-based computer assemblers in opposition to those proposals.

ADMA is a coalition of United States producers of high-information content (HIC) flat panel displays (FPDs). These displays are used in a wide variety of applications, including computers, avionics, test and measurement equipment, and medical devices. They are also a critical element in the development of high definition television (HDTV). As you are no doubt aware, HIC FPDs have been recognized by several government and industry bodies as a critical U.S. technology. The National Critical Technologies Panel, for example, identified FPDs among 22 technologies deemed crucial to national economic prosperity and national security in its March 1991 report.

HIC FPDs are not only a key technology for HDTV, but are critical to computers as well. The U.S. International Trade Commission found in its antidumping investigation of HIC FPDs from Japan that the display is a key component in the manufacturing cost

The Honorable Nicholas F. Brady
February 24, 1992
Page 2

of a laptop computer. Certain High-Information Content Flat Panel Displays and Display Glass Therefor From Japan, USITC Pub. No. 2413 (Aug. 1991) ("ITC Determination"). Testimony presented to the ITC by U.S.-based computer assemblers indicated that HIC FPDs accounted for as much as 40 percent of the cost of laptop computers. The ITC's determination noted that the screen is becoming an ever-more important component of the computer and will become even more crucial as so-called "chip-on-glass" technology (in which semiconductor chips are located on the screen), as well as other technological improvements, allows the "screen to become the computer." ITC Determination at A-18.

As ADMA understands the United States' proposed rules of origin for computers and televisions, a computer or television that incorporates an HIC FPD would not qualify for preferential tariff treatment unless the HIC FPD were made in North America. This makes eminent sense, given that the traditional United States approach to free trade agreements views reduced tariff treatment as a benefit and not a right. In the past, the United States has required a substantial showing of domestic origin in order to qualify for reduced duties. Thus, for example, under the U.S.-Canada Free-Trade Agreement, even 98 percent U.S.-content juice does not qualify for preferential treatment -- only products containing 100 percent U.S. juice qualify.

The proposed rules of origin for computers and televisions are consistent with this longstanding approach, acknowledging that the purpose of the NAFTA is to benefit companies that produce or add significant value to their products in Mexico, Canada, and the United States.

The Honorable Nicholas F. Brady
February 24, 1992
Page 3

We understand that a group of U.S.-based computer assemblers is actively opposing the proposed rule of origin on computers. The February 10, 1992 letter to you from the Computer Systems Policy Project is one example. In that letter, the CSPP claimed that the proposal's effect "would be to deny the U.S. computer industry the tariff benefits of a NAFTA," and that "there would be higher duty costs for our industry under a NAFTA than today." The CSPP expressed its concern that the proposal would affect the group's "international competitiveness." These claims are disingenuous and just plain wrong.

Under the proposed rule of origin for computers, a computer that incorporates an HIC FPD made in Mexico, Canada, or the United States would qualify as a product of North America, and thus receive preferential tariff benefits under the NAFTA. The real source of U.S.-based computer assemblers' concern appears to be that they do not obtain HIC FPDs for their computers in North America. Instead, these computer assemblers obtain components throughout the world, most often basing their sourcing decisions on price. The proposed rule of origin would not, as they claim, increase the tariffs on their imports; they would simply not be able to benefit from tariff reductions that are provided to products made in the U.S., Mexico, or Canada. In other words, these computers cannot simultaneously be sourced largely from overseas and still be considered North American for tariff preference purposes.

The proposed rule of origin also would not harm the "international competitiveness" of U.S.-based computer assemblers. It simply encourages companies to be North American producers by specifying exactly how they can bring products or

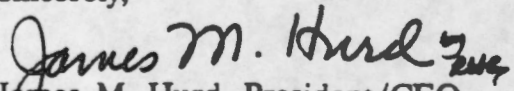
The Honorable Nicholas F. Brady
February 24, 1992
Page 4

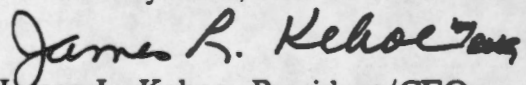
components into the United States from Canada or Mexico without having to pay the regular tariff duties that would otherwise be imposed on the components. It does not tell importers where they must source their components, nor does it impose any additional duties on components sourced outside of Mexico or Canada.

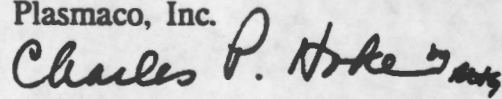
To accept the view of CSPP-member companies would be directly contrary to a central purpose of the proposed North American Free Trade Agreement, which is to encourage true North American production. Indeed, the CSPP position seems to suggest that computer products with minimal North American content ought to be called a North American product anyway. We urge you, therefore, to maintain your current proposal on rules of origin for computers and televisions.

Thank you for considering our views. We would be happy to meet with you to discuss this further.

Sincerely,


James M. Hurd, President/CEO
Planar Systems, Inc.


James L. Kehoe, President/CEO
Plasmaco, Inc.


Charles P. Hoke, President/CEO
Standish Industries, Inc.

ADMA EXECUTIVE COMMITTEE

cc: John P. Simpson, Deputy Assistant Secretary
U.S. Department of the Treasury
Computer Systems Policy Project



February 10, 1962

John Bradley Apple

Robert E. Allen AT&T

Richard Plotter General

Lawrence Portant Senior Staff

John A. Ralston Gray Research

Ronald L. Smith Staff General

Kenneth H. Olson Digital

John A. Young Hewlett-Packard

John P. Azare IBM

Scott A. McHenry San Microsystems

James R. Young Transcom

James A. Warr Union

The Honorable Nicholas F. Brady
Secretary of the Treasury
U.S. Department of Treasury
Washington, D.C. 20220

Dear Secretary Brady:

The computer industry is deeply concerned about a U.S. rule of origin proposal in the North American Free Trade Agreement (NAFTA) negotiations. We understand that the United States has proposed to Canada and Mexico that portable computers be considered of North American origin only if their flat panel displays are manufactured in North America.

We oppose this U.S. proposal. Its effect would be to deny the U.S. computer industry the tariff benefits of a NAFTA. In fact, there would be higher duty costs for our industry under a NAFTA than today.

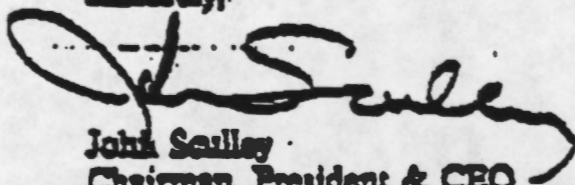
The computer industry supports the Administration objective of simplifying rules of origin by relying primarily on shifts in tariff classification. But we strongly object, as in this case, when such rules are used to promote industrial policy.

The United States has opposed our trading partners' misuse of origin rules. The European Community's semiconductor rule of origin is an example: the U.S. objected to that rule because it sought to penalize those companies that did not locate "diffusion" facilities in the EC. In making its NAFTA flat panel proposal, the Administration takes a similar approach. In doing so, the United States invites its trading partners to misuse origin rules for their industrial policy objectives.

As a group of companies who made hundreds of congressional calls in support of fast track, we are concerned that the U.S. government proposal will adversely affect our international competitiveness. This proposal was not discussed with our companies before it was tabled as a U.S. position. Had it been, we would have expressed our vigorous opposition to it. We will thus appreciate your efforts to see that origin rules for our industry reflect its interests, its input, and its consensus. The current U.S. proposal does not and should be withdrawn.

The Honorable Nicholas F. Brady
February 10, 1982
Page 2

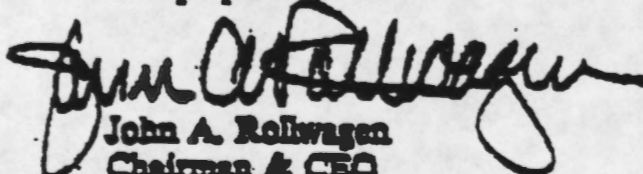
Sincerely,



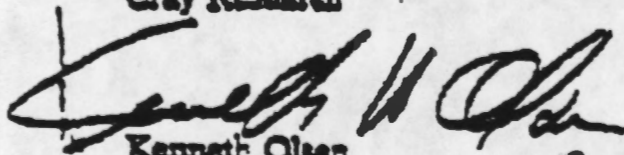
John Sculley
Chairman, President & CEO
Apple



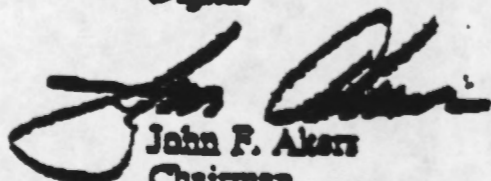
Eckhard Packer
CEO
Compaq Computer



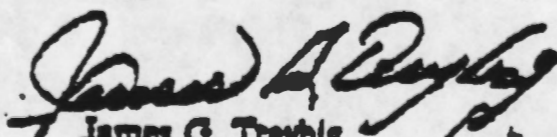
John A. Rollwagen
Chairman & CEO
Cray Research



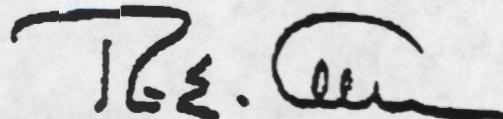
Kenneth Olsen
President
Digital



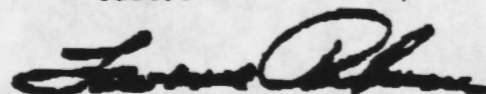
John F. Akers
Chairman
IBM



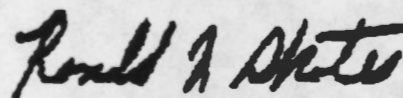
James G. Treybig
President & CEO
Tandem Computers



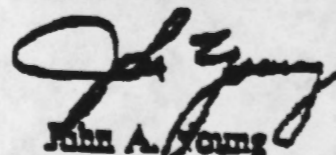
Robert E. Allen
Chairman & CEO
AT&T



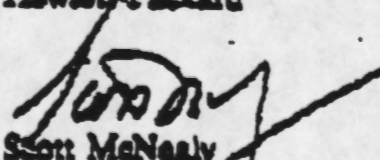
Lawrence Perlman
President & CEO
Control Data



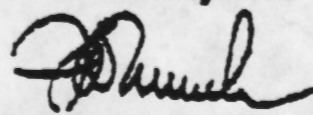
Ronald L. Skates
President & CEO
Data General



John A. Young
President & CEO
Hewlett-Packard



Scott McNealy
Chairman, President & CEO
Sun Microsystems



James A. Unruh
Chairman & CEO
Unisys

cc: The Honorable James A. Baker, III
The Honorable Michael J. Boskin
The Honorable Richard G. Corman
The Honorable Carl A. Hills
The Honorable Roger B. Porter

Sending Secretary: Karen S.

Phone Extension: 242

COLLIER, SHANNON & SCOTT
Attorneys-at-Law
3050 K Street, N.W.
Washington, D.C. 20007

Main Telephone: (202) 342-8400
Telecopier: (202) 338-5534 or (202) 338-1871

TO: Scott Otteman

FAX NUMBER: 785-8589

CONFIRMATION
NUMBER: _____

CLIENT NO.: 2649-300

FROM: Paul Rosenthal

DATE: February 28, 1992

MESSAGE: _____

COMPLETED

NUMBER OF PAGES (INCLUDING THIS COVER PAGE): 7

PLEASE DELIVER IMMEDIATELY

CALL OFFICE SERVICES AT (202) 342-8463 IF YOU DO NOT RECEIVE ALL OF THIS TRANSMISSION.

This message is intended only for the use of the individual or entity to which it is addressed and may contain information that is privileged, confidential and exempt from disclosure under applicable law. If the reader of this message is not the intended recipient, you are hereby notified that any dissemination or distribution of this communication to other than the intended recipient is strictly prohibited. If you have received this communication in error, please notify us immediately by collect telephone at (202) 342-8463/8464, and return the original message to us at the above address via the U.S. Postal Service. Thank you.

Fax Operator Initials:

TND