Precison Components, Inc.

April 22, 2018

United States tariff representative
600 17th St. NW.
Washington, DC 20508

<u>Subject of Hearing</u>: Docket Number USTR – 2018 – 0005 Notice of Determination and Request for Public Comment Concerning Proposed Determination of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation.

<u>Subject Products</u>:
HTS 84821050 – 84833040 removal from list of Section 301 action
HTS 84829100 – 84833040 balls, needles and rollers for ball or roller bearings, parts of antifriction bearings, bearing housings
HTS 84821050 – 84828000 ball bearings through ball or roller bearings NESI

<u>Reasons for Removal</u>
If the purpose of the 25% additional duties against certain Chinese industries is to punish them for their acts, policies and practices as it relates to technology transfer, intellectual property, and innovation, the bearing industry in China should be removed from the list.
Additionally, new tariffs will have detrimental effects on US manufacturing, world competitiveness, increase costs to the consumer and the loss of jobs.

<u>Forced Transfer of Technical Information</u>
China does not require technology transfer for foreign companies to manufacture bearings in China.
The fact is that the majority of foreign companies that produce bearings in China do so as wholly-owned foreign enterprises (WOFE). Chinese production at these facilities is old technology used to make commodity products for consumer goods and foreign companies are able to control their own technology within their WOFE. Foreign companies do not manufacture cutting edge technology in China, in fact the majority of Intellectual Property of foreign bearing producers in China falls under their own control as they are producing product in their own facilities with their own R&D operations.
70% of the world bearing market is shared by the top 10 bearing groups; there are no Chinese bearing companies in the top 10. The United States produces 23% of the world's bearings the EU 21% and Japan 19%, China represents 10% of the market.

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8 major multinational bearing corporations operate a total of 61 manufacturing plants in China. Including:
Timken 7 plants
SKF 14 plants
Schaeffler 7 plants
NSK 12 plants
NTN 10 plants
JTEKT 8 plants
NMB 1 plant
Nachi 2 plants

Intellectual Property
By the end of 2013 NSK, SKF, Schaeffler, NTN, Timken and JTEKT have already built their China headquarters which include technology centers and product R&D. This allows them to control their own intellectual property without interference from China.

Innovation
Innovation in the bearing industry still comes from the developed countries where they produce the high end, cutting edge products. China's bearing industry focuses mainly on commodity products used in consumer goods and very little high end technology, quality, consistency and accuracy produced by bearing companies in developed countries.

Between 1985 and 2007 global bearing companies applied for a total of 724 patents in China. By comparison during the same time frame only 572 patents were applied for by Chinese companies. Many of the patents filed by global companies were for technologies developed outside of China for innovative new products and processes. By comparison the far fewer Chinese patents filed for in China by the Chinese bearing industry focused more on the utility of manufacturing bearings and not new product innovation.

Low Tech and Commodity Bearings
The bearing industry in China focuses on commodity products for consumer goods and in no way threatens or harms US intellectual property, innovation, or technology development.
China lags the developed world and that of the top 10 global bearing producers.
China's ability to produce bearings is well behind the developed industrialized countries

Adverse Effects on the US economy

In addition to China's bearing industry not participating in these restrictive business practices new tariffs on bearings and bearing components would drive up the cost of goods to the US consumer, reduce US manufacturers' ability to compete in the world market, reduce exports and reduce jobs.

Effect of a 25% Tariff on the US Bearing Industry

US bearing manufacturers have for decades outsourced the low-tech processes to low-cost countries and purchase components more economically than they can make themselves. This allows them to focus on the state-of-the-art heat treating, grinding and manufacturing processes which is their core competencies which gives them superior quality products. This makes them more cost-effective and able to compete in the world market.

A 25% import tariff on bearing components will:

Reduce US bearing manufacturers ability to compete in the world market, and reduce exports.

Drive up the cost of bearings which are used in everything from automobiles and vacuum cleaners to Caterpillar construction equipment.

Cause a decline in competitiveness for US manufacturers that will result in the loss of manufacturing jobs here in the US.

As most of the worlds bearings are produced by multinational corporations and 23% of the worlds bearings are produced in the US, global bearing manufacturers will shift their production from the US to other factories around the world, resulting in a reduction in manufacturing, exports, and jobs.

The US bearing industry has maintained their place in the world as a leader in cutting edge technology and at the same time shifted their production of commodity type bearings for consumer products to emerging countries; in the case of China for low labor costs and the rapidly growing market for bearings to be assembled into consumer products, no longer manufactured in the US.

Additional duties on finished bearings will likewise results in:

Increase cost to the consumer, because although not many people buy individual bearings, there are hundreds of bearings in their automobiles, home appliances, power tools heating and air conditioning systems, nearly everything with moving parts.

This will result in US manufacturing companies being less competitive in the world market, decreasing exports and therefore jobs.

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Summary

The US bearing industry is under no threat of forcefully passing on intellectual property to the Chinese bearing industry.

And, a 25% tariff would put the US bearing industry in a noncompetitive position in the world.

Respectfully,

David W. Hull

David W. Hull, P.E.

President

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UNITED STATES TRADE REPRESENTATIVE

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301 COMMITTEE

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SECTION 301 TARIFFS PUBLIC HEARING

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WEDNESDAY
MAY 16, 2018

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The 301 Committee met in the Hearing Room of the U.S. Trade Representative, 500 E Street, SW, Washington, D.C., at 9:00 a.m., William Busis, Brooks Allen, and Arthur Tsao, Co-Chairs, presiding.

PRESENT
BROOKS ALLEN, Chair U.S. Trade Representative
WILLIAM BUSIS, Chair, U.S. Trade Representative
ARTHUR TSAO, Chair, U.S. Trade Representative
ALEXANDER ABAJIAN, Council of Economic Advisors
MICHAEL ADJEMIAN, Council of Economic Advisors
CHRISTOPHER BLAHA, Department of Commerce
SARAH BONNER, Small Business Administration
JULIA HOWE, U.S. Trade Representative
NICOLE KORKOS, Council of Economic Advisors
SAGE MITCH, Department of the Treasury
DEWEY MOORE, Department of State
BRYAN O'BYRNE, Small Business Administration
MAUREEN PETTIS, Department of Labor
KATE PSILLOS, Department of Commerce
PETER SECOR, Department of State
ADAM SULEWSKI, Department of Homeland Security, Customs and Border Protection
TIMOTHY WINELAND, U.S. Trade Representative

STAFF PRESENT
BILL BISHOP, U.S. Trade Representative
TYRELL BURCH, U.S. Trade Representative

WITNESSES PRESENT
DAVE ALLEN, Vista Outdoor, Inc.
SHEILA ANDERSON, Daktronics, Inc.
ERIK AUTOR, National Association of Foreign-Trade Zones
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DOUG FRIESEN, SANY America
MIKE GRAY, Valmet Corporation
CHARLES GRAY, Teradyne, Inc.
JORDAN HAAS, Internet Association
EVA HAMPL, U.S. Council for International Business
RICK HELFENBEIN, American Apparel & Footwear Association
ANNE HOEF, Mabuchi Motor America Corporation
JOHN HOFF, Global Point Technology
JULIA HUGHES, U.S. Fashion Industry Association
DAVID HULL, Precision Components, Inc.
RAYMOND KEATING, Small Business & Entrepreneurship Council
MICHAEL KERSEY, American Lawn Mower Co., Great States Corporation
JUDD LARNED, Culligan International Company
MARK MAROON, Maroon Group, LLC
STEVE McGUIRE, McGUIRE Bearing Company
GREG MERRITT, Cree, Inc.
BILLY MILLIGAN, Commercial Metals Company

CHARLIE MURRAH, Southwire Company, LLC
GREGORY OWENS, Sherrill Manufacturing/Liberty Tabletop
JASON OXMAN, Electronic Transactions Association
JOHN PFEIFER, Mercury Marine
BLAKE PHILLIPS, EQI Ltd
KYLE PITSOR, National Electric Manufacturers Association
RYAN RASMUSSEN, Dover Artificial Lift
DYLAN REED, Advanced Energy Economy
ALAN SHAW, Electrolux Major Appliances North America
BRIAN SMITH, LBC Bakery Equipment, Inc.
JON STOKES, The Flexitallic Group
ERNEST TAI, LW Scientific, Inc.
CAMMIE TEEMS, Bestway (USA), Inc.
RUSTY THARP, Goodman Global, Inc.
BRAD THOMPSON, Columbia Forest Products
NICOLE VASILAROS, National Marine Manufacturers Association
DOUGLAS WAGNER, International Imaging Materials, Inc.
ANN WILSON, Motor & Equipment Manufacturers Association
RICHARD WOLFF, JST Power Equipment
AMBASSADOR RUFUS YERXA, National Foreign Trade Council

C-O-N-T-E-N-T-S

Panel Ten

Panel Eleven

Panel Twelve

Panel Thirteen

the U.S. must take strong action to protect our economy and our nation's workforce. However, the recently proposed tariffs will have the opposite effect and long-term damage to U.S. competitiveness.

Thank you for your attention. I look forward to your questions.

MR. BISHOP: Thank you, Ms. Wilson. Our next witness is David Hull of Precision Components, Incorporated. Mr. Hull, you have five minutes.

MR. HULL: Distinguished panel and participants, my name is Dave Hull. I've worked in the bearing industry for 40-plus years and started Precision Components in 1990. Since that time, I've visited over 500 bearing facilities in China and I've participated in four bearing anti-dumping cases.

I'd like to request that bearings and bearing components be removed from the 301 criteria. Those are harmonized tariff schedules 8482.10.50 through 8483.30.40. Seventy percent of the world's bearings are produced by ten companies. None of those companies are Chinese. Those top-ten companies have 61 plants in China. Most of them are wholly-owned foreign enterprises. These Chinese factories produce lower and older technology bearings.

Cutting-edge technology and research is still done in the United States and other more developed countries. Additional duties would make it detrimental to those ten non-Chinese companies.

U.S. manufacturing and the jobs they represent is dependent on commodity bearings from China, as many of those bearings have not been made in the United States for decades. U.S. bearing industry would also suffer due to their outsourcing of unfinished components and finished components to make themselves more globally competitive. Raising the price of bearings will raise the price of consumer goods, ranging from vacuum cleaners to automobiles.

The bearing industry is already paying

a 4.8 to 9.9-percent import duty and the tapered roller bearings from China are subject to anti-dumping duties of up to 90 percent. This already puts U.S. manufacturing at a disadvantage. For example, to Mexican manufacturing facilities where products are manufactured, assembled with bearings from China, they do not pay that 9-percent import duty. Those products come into the United States and no duty is collected on those products.

If the United States would like to correct that, they should think about finding a way to collect that 9-percent duty that's already in place from products coming in from Mexico. That would level the playing field with U.S. manufacturing and bring more jobs back to the United States. Thank you.

MR. BISHOP: Thank you, Mr. Hull. Our final witness on this panel is Greg Merritt with Cree, Incorporated. Mr. Merritt, you have five minutes.

MR. MERRITT: Thank you.