

**STATEMENT OF MR. MIKE BRANSON
EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER
AIR CONDITIONING DIVISION OPERATIONS
RHEEM MANUFACTURING COMPANY**

(May 15, 2018, PANEL 4)

Thank you to the Section 301 Committee and USTR for arranging this important hearing and for giving me the opportunity to speak with you today.

My name is Mike Branson, and I am the Executive Vice President and General Manager for Air Conditioning Division Operations at Rheem Manufacturing Company.

Rheem is a market leader in heating, cooling, water heating, pool heaters, and commercial refrigeration products with manufacturing operations and markets in the United States and around the world. We are headquartered in Atlanta, Georgia, and we have U.S. manufacturing facilities in Alabama, Arkansas, California, Connecticut, and North Carolina. Rheem currently employs approximately 3,200 people in the United States, including over 1,700 production workers. We continue to invest heavily in our U.S. manufacturing operations, and in fact we just recently launched a new air conditioner platform and invested tens of millions of dollars into our Fort Smith, Arkansas, facility that originally opened in 1970.

I've worked in the HVAC industry for over two decades, after serving as an officer in the U.S. Navy, and I've been with Rheem since 2010. The market has certainly evolved over this time. When I got into this business, Chinese manufacturers were not significant players in the ducted type of air conditioning equipment that is used almost exclusively in the North American market. However, in recent years, we have observed certain Chinese manufacturers strategically focusing on products for this market and making serious inroads through extremely aggressive pricing. The intentions of these manufacturers has clearly been to displace U.S. based companies in this industry. This became personal to me just a few years ago when I was approached by a Chinese manufacturer that expressed an interest in making and branding Rheem's products for less than what it costs us to make our own products in America. An executive from this Chinese based company stated that it did not consider U.S. manufacturers to be competitors, but merely initial suppliers of a channel until they could introduce their own brands to displace the traditional U.S. brands in the market. Without hesitation, we respectfully declined this terminal offer.

We appreciate that the section 301 measures are intended to support U.S. manufacturers. The tariffs thus should not be structured in a way that could further damage the domestic air conditioning industry, and that is why I have requested to

speak to you today. There is a problem with the scope of coverage of the section 301 measures, at least as it has been proposed in the April announcement. The preliminary list of products subject to section 301 tariffs includes the inputs that go into making air conditioners. *Parts* of air conditioners, and various articles of steel and aluminum, already appear on the list. But the list does not reflect any tariffs on *finished* good air conditioners that are manufactured in China.

Here's the concern. If the inputs are subject to tariffs but the finished goods are not, it creates an incentive for Chinese manufacturers to shift production downstream, from air conditioner parts to finished air conditioners -- to avoid the tariffs. This would create increased competition for our industry while at the same time hampering our ability to compete, because tariffs on our inputs increase our production costs, even when we source domestically. If our inputs are subject to tariffs, but the finished air conditioners made by our Chinese competitors are not, air conditioners produced by Chinese manufacturers would have a cost advantage, and there would be further disruption to Rheem and the remainder of the U.S. industry.

Accordingly, assuming parts of air conditioners remain on the list, we request that finished air conditioners also be included on the list. The specific

tariff item numbers that should be added are **8415.10.30, 8415.10.60, 8415.10.90, 8415.81.01, and 8415.82.01.**

Inclusion of these additional HTS codes on the Section 301 tariff list would not cause disproportionate economic harm to U.S. interests. With our recent capital investments in manufacturing operations, we have sufficient capacity to react to an increase in domestic demand. And other domestic and non-Chinese foreign suppliers of air conditioners also have capacity to meet demand.

I thank you for your time and for your continued efforts on behalf of the interests of U.S. manufacturers and their workers.