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May 9, 2018

Via: www.regulations.gov

Hon. Robert E. Lighthizer
Office Of The United States Trade Representative
600 17th St NW,
Washington, DC 20006

Re: Docket Number: USTR-2018-0005
Response to Request for Public Comments & Request to Appear

Dear Trade Representative Lighthizer:

I, Richard H. Wolff, Vice-President of Business Development for JST Power Equipment, request to appear and testify at the Section 301 Committee public hearing scheduled for May 15, 2018.

The specific products sold by our company subject to the increased duties proposed by your office are medium voltage cast epoxy resin transformers which fall under the following HTS subheadings:

HTS subheading	Product Description
85043300	Electrical transformers other than liquid dielectric, having a power handling capacity exceeding 16 kVA but not exceeding 500 kVA.
85043400	Electrical transformers other than liquid dielectric, having a power handling capacity exceeding 500 kVA.
85049096	Parts (other than printed circuit assemblies) of electrical transformers, static converters and inductors.

Summary of Testimony

For the reasons that follow, we request that you remove the foregoing products from the list of those targeted for action by your office:

1. <u>Absence of technology transfer for these specific products from the US to China.</u>

The technology for cast epoxy resin transformers is not new and the US has historically not been a leader in the field. The technology was initially developed in Europe in 1962. Soon thereafter, the markets in Europe and East Asia were developed for this type of transformer. Eventually, China become the largest market as the result of building codes adopted in the country around 1993 which required the transformers to be used in any building having public access. In contrast, market factors in the US were such that the technology for the transformers developed at a much slower pace, and as demand arose in the US, the technology was simply imported from Europe rather than being created domestically.

Thus, in general, the technology for medium voltage transformers is very mature and common worldwide. Consequently, there is no risk that the US will lose a competitive edge in the manufacture of such products and the proposed tariffs will do very little to protect any technology interest of the US. On the contrary, JST Power Equipment has been able to leverage the robust market conditions in China to reinvest in R&D and develop technology which it has brought to the US. As a result, the technological transfer in this case is going from China to the US, not the other way around.

2. <u>Little to no influence with respect to a shift in China's policies as the stated objective.</u>

The tariffs being contemplated will have little to no effect on the trade policies being pursued by the Chinese government which you find objectionable.

First, JST Power Equipment is not a state-owned enterprise and the Chinese government has never held any interest in the company. Therefore, it will not be directly affected by any tariffs which are imposed upon the company's products.

Second, the company's sales in the US are frankly too small to adversely affect the company's Chinese operations and thereby indirectly influence the Chinese government into reforming its trade policies. As stated, the US remains a niche market for cast epoxy resin transformers and only accounts for about $150 Million in annual sales versus over $1 Billion in China. The European market is also much larger, being over twice that of the US.[1] Since the company's share of the US market is only 6.4 %, the tariffs being contemplated by your office will only affect $9.5 Million of its worldwide sales which is not significant enough to induce the Chinese government to alter its path on trade. [ł.]

3. Disproportionate economic harm to US interests, including small- or medium-size businesses <u>and consumers</u>.

While the proposed tariffs are unlikely to have a significant effect on the company's operations in China, they will have a huge impact on its operations and customers in the US.

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1 2015 Markets and Markets Report "Dry Type Transformer Market – Global Forecast to 2020"

Simply stated, if implemented, the tariffs will put the company at such a disadvantage domestically as to make its continued presence in the US untenable. This would be unfortunate, because the company has established assets in the country to manufacture, test and provide field service for its products. Obviously, this adds to the local economy by providing employment, generating tax revenue, and offering a cost-effective product which helps to build US infrastructure. Ultimately, American jobs will be lost if the company were to cease its US operations and, given the relatively small size of the market here, it is highly unlikely that a domestic company will take its place.

The company has also established an international purchasing function at its Carlstadt, New Jersey facility which sources components from US vendors to be used in manufacturing operations in China. As a result, the company's withdrawal from the US market would likely have a ripple effect which would add to the potential loss of employment and tax revenue.

The proposed tariffs would also artificially increase the cost of the company's products for its American customers. Although the market in the US for medium voltage cast epoxy resin transformers is relatively small, there is still a demand for the product. In fact, there are many applications where its use is preferred and it cannot be easily replaced. For instance, projects designed to be environmentally-friendly; those located indoors or in densely populated urban areas; or those subject to harsh operating conditions. The transformers are also found in a broad array of buildings including hospitals, subway stations, airports, university campuses, factories, mills, processing plants, and high-rise commercial and residential buildings. With the market being an oligopoly, the tariffs would be a severe detriment to all stake-holders involved eventually leading to an increase in the cost of electrical infrastructure.

In light of the above, it is apparent that the tariffs under consideration will cause economic harm to the US in terms of lost employment opportunities, decrease in scale, higher infrastructure costs, and less commercial activity associated with the purchase of electrical components and services in the US. The net effect will be a drain on the US economy with very little upside.

Summary

In sum, the harm caused by the tariffs will far outweigh any expected benefit to the American economy and consumer, and the tariffs will be unlikely to alter the behavior of the Chinese government when it comes to trade. As a result, it is respectfully requested that the products listed under HTS subheadings 85043400, 85043300 and 85049096 be removed from the list of products being considered by your office.

Sincerely,

/s/ Richard H. Wolff

Richard H. Wolff