Testimony of Judd Larned
President, North America
Culligan International Company

Hearing on Proposed Determination of Action Pursuant to Section 301
Docket Number USTR-2018-0005
Panel 12 - May 16, 2018

Members of the Committee:

Thank you for the opportunity to appear today. My name is Judd Larned and I am the President of North America at the Culligan International Company. Culligan is a U.S. company, founded in 1936, that specializes in the manufacture and distribution of water filtration and treatment systems. We are based in Rosemont, Illinois, and directly employ approximately 300 people in the United States. Today, our products are in over 2 million homes and countless businesses across the country.

Culligan respectfully requests that USTR remove water filtration and treatment products and parts (covered by HS codes 84212100 and 84219900) from the list of products on which USTR intends to impose increased tariffs. We expect that the proposed tariff on these products would affect approximately $85 million – 70 percent – of Culligan's sales to our independent distributors. Overall, the estimated cost to Culligan of the proposed tariff would be almost $6 million.

The tariffs could also have a significant detrimental impact on our over 500 independent Culligan franchises, which operate across 49 states. These franchises each employ, on average, about 10 people. If they absorbed the price increase of the proposed tariff, or if Culligan's ability to supply products were disrupted, these franchises would almost certainly lose jobs.

Our subsidiary, Paragon Water, will also be negatively affected. Paragon is a U.S. company based in Clearwater, Florida. The Paragon facility in Florida manufactures and exports carbon blocks to China for incorporation in its water filtration products, which are then imported back into the United States. The proposed tariff would force Paragon to shut down the operation of several crucial product lines, including refrigerator filters, which would cause Paragon to reduce its U.S. workforce significantly as demand for carbon block would be significantly reduced. Paragon expects that their estimated cost of the proposed tariff could be up to $10 million next year, for a business with revenue of only $70 million.

Culligan, our independent distributors, and Paragon all have a very limited ability to bear the burden of a significant cost increase. We may have to consider raising our prices by up to 25%, to the detriment of our customers, who are mainly single-family households and small businesses. In the water softener market, this corresponds to an increase of around $650 per unit, on average. In the drinking water systems market, this corresponds to an increase in price of around $250 per unit, on average. Any increase in price would likely significantly depress sales, and further harm our business and that of our distributors. In addition, elevating costs in this market could have an impact on U.S. citizens being able to access clean, healthy drinking water

in their homes when there are issues with the local municipal water supply, which unfortunately are happening with greater frequency as our infrastructure ages.

A tariff increase on our products would also put both Culligan and Paragon at a disadvantage with respect to our competitors. For example, in the drinking water systems market, one of Culligan's competitors is Haier, a Chinese-owned company. Our understanding is that Haier's drinking water systems are sourced from Kemflo, a Taiwanese company, Microfilter, a South Korean company, and from Paragon, our U.S.-based subsidiary. Paragon would be affected by the proposed tariff increase, and as a result, Haier could decide to source exclusively from the Taiwanese and South Korean companies. In this way, Haier would likely be able to insulate itself from the tariff increase. In short, a Chinese company, Haier, would come out the winner, while two U.S. companies, Culligan and Paragon would be placed at a severe competitive disadvantage.

The proposed tariff on our products would ultimately not advance USTR's objectives in addressing China's technology transfer and innovation policies. USTR has not found that Chinese manufacturers of water filtration and treatment systems like ours benefited from Chinese industrial policies or any of the harmful practices identified in its Section 301 Report. Furthermore, our products are not technology-intensive.

For these reasons, Culligan urges USTR to remove our water filtration and treatment systems from its list of targeted products. Our products are only a small portion of the two tariff headings I have identified. Our written comments suggest a way for USTR to carve out a narrow category of products, like ours, that are incorporated directly into plumbing systems and used for softening or filtering water flowing through sinks, refrigerators, showers, toilets, and tubs. This approach would be consistent with USTR's focus on minimizing the impact on consumers and small businesses. Thank you for your time.