The Flexitallic Group

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TESTIMONY OF JON D. STOKES, CEO, THE FLEXITALLIC GROUP

Good Afternoon, my name is Jon Stokes and I am the CEO of The Flexitallic Group. I appreciate this opportunity to appear before the 301 Committee and address the proposed inclusion of spiral wound gaskets under HTS 8484.10.00 on the Annex List.

Flexitallic developed and patented the first spiral wound gasket used in the United States in 1912. Flexitallic is the leading global manufacturer of spiral wound gaskets, and the market leader for the production of spiral wound gaskets in the United States. Flexitallic has always owned and controlled the intellectual property used to manufacture its products. Today, the owner of that technology and intellectual property is Flexitallic Investments, Inc., a U.S. subsidiary. None of it is owned or controlled by any entity in China. Our U.S. intellectual property and technology is used in China by Flexitallic Gasket Technology, another wholly-owned Flexitallic subsidiary, to produce a significant quantity of standard spiral wound gaskets that Flexitallic sells in the United States.

As Flexitallic has previously indicated, the proposed inclusion of spiral wound gaskets on the Annex List will cause a disproportionate negative impact to the economic interests of the U.S. economy, including U.S. based manufacturers of spiral wound gaskets, such as Flexitallic, and the U.S. based refineries, chemical plants, petrochemical plants, power plants, and pipelines that are the end-users of spiral wound gaskets.

Additionally, imposing these proposed duties on spiral wound gaskets will have no practicable effect or impact on the elimination or reduction of the alleged unfair trade practices of China for at least two reasons.

First, these products have no connection to any of those alleged unfair trade practices. These tariffs address unfair trade practices that, in our experience, are not found in this industry. Targeting a remedy for unfair trade practices against an industry that trades fairly almost certainly dilutes the effectiveness of that remedy.

Second, these tariffs, if imposed, will not change the volume or profit margin for Chinese producers. End-user demand for spiral wound gaskets is driven by maintenance activities and construction projects; a tariff-adjusted higher price will not reduce near or mid-term demand. Most U.S. customers and end-users view standard spiral wound gaskets as a commodity, and price is the primary factor in the U.S. market. As a consequence, Flexitallic, and virtually all of its U.S. competitors, source their standard spiral wound gaskets from China.

Additionally, there is no significant alternative production in the United States—the domestic industry produces higher end, more technologically sophisticated gaskets and, even

with the tariff applied to imports, would probably not find domestic production of standard spiral wound gaskets economically desirable. In fact, the recently introduced steel tariffs have already had the effect of increasing the cost of domestically sourced raw materials, further increasing the cost of U.S. production. As a result, in the near- and middle-term the only effects of the tariff on this market is that U.S. end-users would pay 25% more—Chinese producers probably would not see their margins or volumes impacted at all.

There is no intellectual property related to standard spiral wound gaskets that can be or would be stolen simply because the U.S. manufacturers of these products have them made in China. Flexitallic Gasket Technology has operated in China for several years, and the government in China has never exerted any pressure on Flexitallic to transfer any Flexitallic technology or intellectual property to China. China has never taken any action regarding spiral wound gaskets that has placed Flexitallic at any competitive disadvantage to any Chinese company.

The proposed tariffs on spiral wound gaskets have a substantial and disproportionate negative impact to the US economy. The increased cost will be passed on to the variety of end-users of spiral wound gaskets, and those increased costs to the end-users will be ultimately passed on to the U.S. consumers of gasoline, oil, natural gas, plastics, petrochemicals, chemicals, paper goods, and electric power.

Flexitallic respectfully requests that this 301 Committee delete HTS 8484.10.00 from the Annex List, because the inclusion of those products will only harm the U.S. economy and the interests of U.S. gasket manufacturers, their distributors, the U.S. end-users who purchase spiral wound gaskets, and the U.S. consumers of the products produced by those end-users.