MERCURY

Before the Office of the United States Trade Representative

Hearing on the Proposed Determination of Action Pursuant to Section 301 of the Trade Act of 1974: China's Acts, Policies and Practices Related to Technology Transfer, Intellectual Property, and Innovation

Testimony of John Pfeifer, President, Mercury Marine
May 16, 2018

Good morning Mr. Chairman and members of the Committee. I am John Pfeifer, President of Mercury Marine, a Wisconsin-based global leader in the development and manufacture of marine propulsion systems for recreational and commercial applications. Mercury has been making marine engines right here in America for over 75 years and exporting them around the world. Mercury Marine is the only manufacturer in America of four-stroke marine engines, the industry standard.

Through investments in American manufacturing, Mercury has grown and thrived. We employ over 4,800 skilled American workers and contribute billions of dollars every year to the U.S. economy. Since 2009, we have invested over $1.2 billion to increase the capacity and enhance the cutting-edge technology of our U.S. facilities, earning over 280 new patents in the process.

While the vast majority of our products are U.S.-made, we do assemble smaller, simpler 40 to 60 horsepower outboard engine models at our wholly-owned facility in Suzhou, China. While they are assembled in China, these engines use many critical parts made by our U.S. plants. And, like our other products, our U.S. engineers and craftspeople designed these engines right here in America.

These outboard engines serve the price-sensitive and very popular entry-level boating segment, providing power to a large number of recreational boaters, especially people involved

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in fishing and family recreational activities. These engines are also essential to our global sales where performance, value and reliability are important. They provide a vital source of revenue to support Mercury's continued investments in this country.

Our imports of these engines enter under HTS subheading 8407.21.00. While the details are confidential and in our written comments, I can assure you publicly here today that a very high percentage of all imports of outboard engines from China in this category are ours, and are assembled from parts that we design, engineer, and make in this country.

Given the importance of these engines to our U.S. operations, our American workers, and U.S. consumers, it would be tremendously harmful if USTR were to impose a 25 percent tariff on these products. In fact, we forecast that the tariffs would raise the average cost of a small recreational boat by nearly $2,000. This is a huge price increase. In fact, in the past we have seen similar price jumps reduce demand by over 50 percent in a similar highly price-sensitive segment of the market.

The consequences would be severe. And the impact of the tariff would hit not only Mercury Marine's sales, but those of U.S. boat builders, retailers, and service professionals, and the tens of thousands of Americans employed by these industries.

At the same time, the tariffs are unlikely to have any meaningful impact on the Chinese government policies highlighted in USTR's Section 301 Report. Since its founding in 2003, Mercury's China operation has been wholly-owned and controlled by us and has not been a target or recipient of any of the policies outlined in the Section 301 Report. We have not transferred or licensed our technology or know-how to anyone and have no intention of doing so.

The only beneficiaries of the tariffs would be Mercury Marine's competitors, who are based in Japan and Canada, and manufacture elsewhere in Asia. These competitors make

competing outboard engines in third countries. Their engines will not be subject to the Section 301 tariffs because their country of origin is not China. In fact, they can – and will -- continue to source parts and components from China to use in their own engines with absolutely no impact from the Section 301 tariffs. The only ones who will pay the price are Mercury Marine, its workers, and the countless downstream companies and consumers who rely on our products. Tariffs on outboard engines from China would be a classic case of the U.S. shooting itself in the foot.

On behalf of my Mercury colleagues and the 15,000 employees of our parent company Brunswick Corporation, we deeply appreciate this opportunity to present the facts. While Mercury Marine supports the policy goals of this Section 301 action to provide a level playing field for U.S. companies and all Americans, we respectfully submit that the proposed tariffs would have precisely the opposite of their intended effect if applied to imports of outboard engines from China. Accordingly, USTR should remove outboard engines under HTS 8407.21.00 from the proposed Section 301 tariff list.

Thank you for your attention and I welcome any questions that you may have.

MERCURY MARINE

By: _____
John C. Pfeifer
President

Date: May 8, 2018