Testimony of Rusty Tharp of Goodman Manufacturing Company, L.P.

Before the Office of the United States Trade Representative

Proposed Determination of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation

Panel 12, May 16, 2018

Good afternoon. I am Rusty Tharp, the Director of Regulatory Affairs for Goodman Manufacturing Company, L.P. Goodman is part of the Daikin Group. I am here today to respectfully request that the USTR remove certain parts that Goodman uses in the production of heating, ventilation, and air conditioning ("HVAC") from the proposed list of products subject to additional tariffs. The HTSUS codes at issue are 8414.30.40, 8414.30.80, 8415.90.40, 8415.90.80 and 8421.29.00.

I want to provide you with a brief background on Goodman and Daikin. Daikin is the one of the largest HVAC manufacturers in the world, and Goodman is one of the largest HVAC manufacturers in the United States. In 2012, Daikin acquired Goodman. Why is this important? It is important because Daikin had a vision of making the United States a major manufacturing center for its HVAC products. And it followed through. After acquiring Goodman, Daikin and Goodman constructed a factory outside of Houston, Texas at an investment cost of half a billion dollars. This facility, which began producing HVAC equipment a year ago, is known as the Daikin Texas Technology Park or DTTP. This is no ordinary plant. It is the third largest manufacturing plant in the United States. To put it in perspective, its roof covers the equivalent of 74 football fields. Daikin and Goodman anticipate having 7,000 skilled American workers at the DTTP by 2020. Included within the DTTP is the North American Research and Development Center, which has already resulted in a 2.5 times increase in the number of engineers and technical professionals since the acquisition by Daikin of Goodman in 2012.

The goal of Daikin and Goodman is to manufacture as many Daikin and Goodman products for the North American HVAC market as possible at the DTTP. In order to produce the Daikin and Goodman products at the DTTP, Goodman purchases parts from the United States, as well as globally, including from China. The imposition of a 25% tariff will negatively impact Goodman and the American consumer by significantly increasing its costs of operating in the United States. Goodman believes that it is a poster child for what President Trump and this administration is trying to accomplish: making U.S. manufacturing great again. But imposing tariffs on some HVAC parts used by Goodman – a company that is investing very heavily in U.S. manufacturing, creating significant new jobs, transferring R&D to the United States, and producing new and innovative products in the United States – would be counter-productive.

At the same time that the tariffs will harm Goodman, its competitors that manufacture finished products in facilities outside of the United States will not be impacted by such tariffs. Because several other companies who sell HVAC products in the United States have production facilities outside of the United States, the finished HVAC products that they import will not bear the same cost because their finished products would not face additional tariffs when sold in the United States. We do not believe that this is the result that the administration intends.

As stated in our written testimony, the HVAC parts that Goodman is importing are produced from mature technologies that are not considered by China to be strategic or advanced. In addition, the HVAC parts imported by Goodman are not going to advance China up the value chain in any way. In short, imposing tariffs on imports of the HVAC parts that Goodman imports from China would not in any way influence the Chinese government to alter or change the policies and practices identified by USTR in its Section 301 Report.

In conclusion, Goodman applauds the administration's efforts to remedy the intellectual property issues impacted by China's IP policies and practices. Nevertheless, the additional tariffs that would be imposed on certain HVAC parts that Goodman imports from China would have a detrimental impact on Goodman and our customers. Harming a company like Goodman -- which is investing heavily in U.S. manufacturing -- should not be the goal or unanticipated consequence of the tariffs. Therefore, Goodman urges the USTR not to impose a 25% tariff on rotary compressors and other parts for air conditioning products that Goodman uses to manufacture HVAC products in the United States.

Thank you for the opportunity to testify today.