Testimony of Ryan Rasmussen on behalf of Apergy ESP Systems, LLC before the U.S. Trade Representative and Section 301 Committee

Hearing on the Proposed Determination of Action Pursuant to Section 301 May 16, 2018

Good afternoon. My name is Ryan Rasmussen. I am here today on behalf of Apergy ESP Systems, LLC where I serve as the Vice President and Managing Director of electrical submersible pumps, or "ESP", division. I've worked in the artificial lift field for nearly 15 years.

Apergy ESP Systems, LLC is a former subsidiary of the Dover Corporation and is based in Broken Arrow, Oklahoma. As of May 2, 2018, we are now a subsidiary of Apergy Corporation headquartered in The Woodlands, Texas.

We are all aware of the resurgence of US Oil and Gas production in the shale plays due to advancements in horizontal drilling and hydraulic fracturing. What you may not have heard about are the ESP systems that are actually used to produce these wells after the "frac" has been completed. ESP systems are an essential form of artificial lift used by the U.S. oil and gas industry to produce most oil wells, including the prolific shale wells in the Permian Basin of Texas and New Mexico and the Bakken formation in North Dakota. Our innovative ESPs optimize field production and mitigate risk in challenging well scenarios, such as high-volume wells, horizontal and highly deviated wells, and deep, high-temperature wells.

We import certain ESP components, power cables, motor leads, and surface transformers from China. The components are imported under HTS subheadings 8544.60.20, 8544.60.40, 8413.91.90, and 8504.21.00. The U.S. Trade Representative has included these ESP components on its list of products subject to a 25 percent tariff pursuant to Section 301. For the reasons I will be discussing today, a tariff on these imported products will undermine the Administration's stated policy objectives of protecting American manufacturing jobs, promoting lower-cost energy sources, and reducing our dependence on foreign oil.

Although we import foundational ESP components from China, these products are simply inputs which support downstream American manufacturing jobs in the United States at our 100,000 square-foot headquarters and technology center in Broken Arrow, Oklahoma and at our facilities in North Dakota and Texas. Apergy employs over 2500 salaried and fully benefited U.S. workers, who design and assemble our customized application engineered systems in the United States. Our ESP systems support thousands of additional American jobs in the oil and gas sector.

The proposed tariff will cause Apergy's overall ESP system costs to increase by as much as 20 percent. These additional costs will be passed on to U.S. consumers through increased prices in the U.S. market. Because ESP systems are used to produce 90 percent of U.S. shale oil and gas wells, consumers in the industry will be forced to absorb these higher costs or look to alternative sources. Like Apergy, other American suppliers depend heavily on China for ESP inputs, so the

tariffs will put our foreign competitors at a significant cost advantage. Apergy and other U.S. suppliers will likely lose market share to our primary competitors, which are Russian-based companies.

Not only will Apergy's business have a substantial negative impact, it will result in a rise in production costs for all the major shale oil and gas producers that depend on a reliable and cost-effective supply of ESP systems. Such a substantial increase in cost would jeopardize these downstream businesses and their employees, and could ultimately lead to downsizing and layoffs.

At the same time, a tariff on ESP components will be ineffective in combatting the Chinese intellectual property practices the U.S. government seeks to change. The basic imported components of the ESP system that I reference today have been manufactured in China for nearly three decades and do not contain sensitive technology or intellectual property. These lower-cost and technology inputs from China are foundational elements that support higher-level operations in the United States. Again, the components are uniquely configured into more complex systems by our applications and field engineers in the United States, not in China.

For all of these reasons, the proposed 25 percent increase in the rate of duty on ESP components and subcomponents is detrimental to important U.S. interests and policy goals.

We respectfully request that these products be removed from the USTR's list of covered products. Thank you for your attention. I'm happy to answer any questions you may have.