Testimony of Blake H. Phillips on behalf of EQI, Ltd.
before the
U.S. Trade Representative and Section 301 Committee
Hearing on the Proposed Determination of Action Pursuant to Section 301

May 15, 2018

Good afternoon. My name is Blake Phillips and I'm here today on behalf of EQI, Ltd., where I serve as the President and CEO. I've been with EQI since 2010 and have worked in the foundry industry for nearly 15 years. Prior to entering the private sector, I proudly served as a Naval Flight Officer in the United States Navy for 8 years.

EQI provides tailored design, engineering, procurement, and logistics services to a broad base of U.S. Original Equipment Manufacturers, or OEMs, in the heavy equipment and industrial markets. We are headquartered in Norton Shores, Michigan and currently employ 27 salaried and fully benefited employees working in highly skilled technical, customer service, financial, and operational roles. We are a diverse group that is representative of many small-to-medium sized businesses that form the backbone of our national economy.

I would like to emphasize that EQI supports the Administration's efforts to ensure free and fair trade with China. China's discriminatory and restrictive intellectual property policies are bad for business and should not be tolerated. We are in favor of imposing a specific and narrowly targeted tariff on products that have benefitted from China's policies in order to restore a level playing field in the U.S. market.

The proposed tariff on gray iron counterweight castings, however, will not serve to achieve the objectives of the proposed tariffs. There is no relevant intellectual property associated with these commodity products and their production has no bearing on any existing U.S. – China technology dispute or claim. More importantly, and for the reasons I will be

discussing today, a 25 percent tariff on counterweight castings will be ineffective in eliminating the Chinese policies at issue; however, the imposition of such a tariff will cause disproportionate and undue harm to U.S. manufacturers and American workers.

As shown in the photographs attached to my testimony, counterweight castings are required to safely and efficiently operate utility vehicles and machinery in the material handling, aerial work platform, construction, forestry, and agriculture industries by balancing the weight of large loads. EQI was established in 2004 to fill a specific gap in the U.S. market for these types of counterweights.

The foundry industry in the United States has, for the past 20 years, focused on manufacturing higher complexity castings – both in design and in cast materials. As a result, approximately 75 percent of the global capacity to produce simple gray iron counterweight castings resides in China. There is only one counterweight foundry operating in the United States and it is wholly owned, operated, and subsidized by Toyota primarily for its exclusive use.

EQI imports counterweight castings from third-party suppliers in China in a semi-finished state under four HTSUS subheadings, depending upon the specific equipment or machinery in which they will be used. After importation, the castings are then processed, finished, and warehoused by our supply chain partners in Pennsylvania, Kentucky, Virginia, Iowa, Indiana, and Illinois. EQI's castings are used by American businesses including Caterpillar, John Deere, Oshkosh/JLG, Crown Equipment, and Hyster-Yale to support their large-scale manufacturing operations in the United States, as well as several smaller scale and niche equipment manufacturers.

Counterweight castings are an essential element in the production of heavy equipment and utility vehicles. They are not optional equipment, and our OEM customers depend on a

reliable supply. At present, there is no viable U.S. option from which these American businesses can source counterweights other than China - domestic capacity at the scale required simply does not exist.

Moreover, given the large capital investment and small profit margin for counterweight castings, new counterweight foundry capacity is not being built in the U.S. and likely never will be. The return on investment is simply too long and the margin on this commodity product too narrow to justify the expense. The likelihood that major capital investments will be made based solely on the benefit that the tariff might provide to the domestic foundry industry is virtually zero, as any tariff can easily be reversed in the future by a subsequent administration.

Because counterweight production largely resides in China, counterweight castings will continue to be imported, regardless of any tariff imposed. A 25% tariff on counterweight castings will therefore function as little more than a penalty tax on U.S. manufacturers. The tariff will increase EQI's prices from its supply chain partners and we will, in turn, be forced to increase our own prices to the OEMs. These higher costs will reduce demand and threaten hundreds of thousands of jobs at the OEMs and their downstream suppliers, many of which are small- and medium-size businesses like EQI. The end result will be fewer jobs throughout the United States, particularly in centers of U.S. manufacturing where our OEM customers operate their own manufacturing facilities; including, Pennsylvania, North Carolina, Kentucky, Ohio, Indiana, Iowa, and Illinois.

For these reasons, we respectfully request that counterweight castings be removed from the proposed list of products that will be subject to the additional 25% tariff.

Thank you for your consideration.

I'm happy to answer any questions you may have.

Attachment 1

Yale Fork Lift Truck and Counterweight

Counterweight Castings (semi-finished)