



Ray Crosby, president of Champion Safe Company will present the following testimony:

I attend this hearing with disappointment at seeing our once strong American safe industry now relegated to China. The rush to China to get lower cost products has devastated the American safe manufacturing industry.

Over the last 36 years I have been involved in the founding and management of the following safe manufacturing companies:

1. Fort Knox Safe Company, founded in 1982
2. Liberty Safe and Security Products, founded in 1988
3. Champion Safe Company, founded in 1998
4. Superior Safe Company, founded in 2007
5. Safe Guard Safe Company, founded in 2013

These safe companies represent a combined aggregate production of about 4,000,000 units, equating to roughly 3-4 billion dollars in domestic sales.

Today, Champion Safe, Superior Safe, and Safe Guard Safe are three of the last surviving American domestic safe manufacturers that have *never* imported China-made safes. Fifteen years ago, Utah was the safe manufacturing center of our country, today it is Ningbo, China.

### Tariff Inclusion of Safe and Vault Related Products

USTR's Docket number USTR-2018-0005 subsection E, under requests for public comments states, "in response to the acts, policies, and practices of China determined to be unreasonable or discriminatory, and to burden or restrict U.S. commerce".

Section E, first bullet point asks, "***whether products not currently on the list should be added***".

After reviewing the docket USTR-2018-0005 and Annex, I find no inclusion for safes and vaults listed under **HTSUS 8303.00.0000** "***Armored or reinforced safes, strong-boxes and doors and safe deposit lockers for strong-rooms, cash or deed boxes and the like, and parts thereof, of base metal.***"

**Is there a reason why safes and vaults are not included within the Annex?**

**Safes and vaults should be included in the Annex for the following reasons:**

1. The 232 tariff burdens the American domestic safe producers with 30% higher steel prices, while Chinese safe exporters are unaffected.
  - a. A quality safe is a steel intensive product containing by weight 40-70% steel.
  - b. The 232 Tariff significantly increased Champion Safe's steel cost by 30%, from \$ 0.45 to \$ 0.60 per pound. Champion Safe consumed 15,000,000 pounds of US steel in 2016, hence a projected cost increase of \$2,250,000.
  - c. A 30% steel cost increase raises the retail price on a safe containing:
    - i. 350 pounds of steel = \$100.00 more
    - ii. 500 pounds of steel = \$150.00 more
    - iii. 1,000 pounds of steel = \$300.00 more
  - d. The 232 tariff provides a 25-30% steel cost advantage to Chinese safe producers.
2. Low-cost market pressure caused by saturation of China-made safes prevent American safe manufacturers from passing 232 cost increases to consumers.
3. Raising the price on raw materials to US manufacturers through tariffs without raising tariffs on finished goods being imported from China is contrary to the administration goal of protecting American manufacturing.
4. How can American domestic safe producers survive present market conditions competing against Chinese government subsidized products?

### Tariff Recommendation

Section E, second bullet point asks, “*The level of increase, if any, in the rate of duty*”.

#### **Rate of duty increase:**

1. Over the last five years, the China-made safe has become a commodity, sold by all large retailers and found in all major shopping areas. These China-made safes retail from \$300-\$800.
2. The cost to build a similar size American-made safe with American labor and steel is higher than what a Chinese safe retails for.
3. Many people prefer to buy American-made products when the cost differential is low. In my experience, when the cost differential exceeds 20%, the pain in the pocket book will cause American buying loyalty to erode.
4. According to the HTSUS 8303.00.0000 index, the current duty on safe and vault related products is 3.8%.
5. I would recommend a tariff rate increase of 25-35%. Translated into cost, a safe now retailing for \$500 would increase to between \$666-\$769.

A 25-35% tariff range would help adjust cost equality between American-made safe products and China safe imports.

## Elimination of China's Oppressive Trade Policies-Part 1

Section E, third bullet point asks, “*whether imposing increased duties on a particular product would be practical or effective to obtain the elimination of China's acts, policies, and practices*”.

The last five years, I have seen our U.S. market shares suffer, being negatively impacted by cheaper imported goods of very questionable quality. The importation of China-made safes has resulted in lost business growth, lost product expansion opportunity, and much lower gross margins.

### **What is the extent of China's tax incentives and export subsidies on safe costs?**

1. 1988, my brother and I were the founders of Liberty Safe and Security Products based in Provo, Utah.
  - a. Included in your packet is a 1989 Liberty Safe brochure and a November 1, 1989 dealer wholesale price sheet.
  - b. On the next to last page, you will find the Lincoln 25 model. This was our number one selling model, accounting for 52% of our production. It weighed 540 pounds and had a dealer price of \$718.00 and retailed for \$999.00.
  - c. Move the clock forward 29 years. Champion's number one selling safe is the Model T. It weighs 500 pounds and accounts for 30% of what we build. It has a dealer price of \$649.00 and retails for \$899.00.
  - d. Today our bestselling safe has a dealer price of \$67.00 less and retails for \$100.00 less than a similar safe 29 years ago.
  - e. Steel costs:
    - i. 1989: steel cost was \$0.18 per pound.
    - ii. 2018: today we pay \$0.5825 per pound.
    - iii. Today, steel costs three times as much.
  - f. For comparison sake, a 1989 Ford F150 pickup 4 x 4 crew cab cost \$14,874, today it is \$59,000. For the Chevy fans, cost was \$13,705.
2. Because of labor, steel cost, and government subsidies to Chinese exporters, increased duties will be practical and effective at providing cost equalization and returning industry and jobs to the U.S.

## Elimination of China's Oppressive Trade Policies-Part 2

### **China's theft of Intellectual Property:**

As a direct result of innovation and quality, our products are some of the most copied in the industry. Some of our design features, interior arrangements and security innovations have been repeatedly copied by Chinese safe producers.

Champion Safe possesses several U.S. registered trademarks and patents. The chief offenders of our IP have been Chinese safe producers who export their products to the U.S. through U.S. based companies. Although it is our intention to defend our IP, we find it expensive, time consuming and difficult, if not impossible, to protect. Even after repeated legal contact through American based companies, they refuse to cease their infringements.

Efforts to defend our patents and registered trademarks have been exclusively towards Chinese offenders. The IP issue is a tough one for smaller American companies. How does one go to China to serve a "Cease and Desist"?

Increased duty will not cure the IP problem but it will reduce its magnitude.

### Disproportionate Economic Harm

Section E, third bullet point also asks, “*whether maintain or imposing additional duties on a particular product would cause disproportionate economic harm to U.S. interests, including small- or medium-size businesses and consumers.*”

#### **Additional tariff effects to small- and medium-size businesses:**

1. Increasing the HTSUS 8303.00.0000 tariff 25-35%, will increase costs on imported safe products, just as American manufacturers have experienced due to 232 steel tariffs.
2. A 25-35% tariff increase would facilitate a return of American “domestic office only” companies who have moved their manufacturing to China.
3. The set-up time may give several “domestic office only” companies, who have strayed to China, to undercut their American competitors, some short-term pain. If these American companies display the same ingenuity as they did when they rushed to China, the long-term supply-chain problems can be quickly minimized.
4. After 36 years in the safe industry and setting up seven safe manufacturing plants, I can speak with some experience on plant setup. Like many businesses, the safe industry has its three main foundations: 1) production, 2) marketing, 3) distribution.
5. To repatriate a stray company with its sales and distribution in place is not an expensive or long-term process.
  - a. Safe manufacturing is not a high-tech, capital intensive business.
  - b. Time involvement requires about one year for permitting and plant set-up.
  - c. A 60,000 square foot building equipped with 8-10 million dollars of steel fabrication and finishing equipment will produce about 200-300 safes per week.
  - d. It is not like setting up a steel plant that takes 10 years and 15 billion dollars.

**Additional tariff effects to the consumer:**

1. A 25% tariff will increase the price of a safe from \$500 to \$666, a 30% tariff will increase the cost to \$715, and a 35% tariff will increase it to \$769.
2. How much pain is a 25-35% increase to the consumer when he is securing his most important possessions?
3. A safe and vault tariff will benefit the American consumer by providing a higher quality imported product. To compete with American production, the Chinese producers will have to improve their game. Presently, Chinese safe producers use low-grade, non-certified, steel of questionable quality. They provide a cleverly disguised imitation of an American product, which may look substantial, but is made from thin materials, and offer minimal levels of security. These low-cost products can be pried open in only a minute or two.

**Additional tariff effects on the American economy:**

Cheap goods of questionable quality diminish the American economy in several ways:

1. Low-cost product market saturation decreases price expectation and demand for high-quality products.
2. Safe Manufacturers know that low-cost pressure from large retailers cannot sustain high-quality manufacturing. So, they find ways to produce lower cost products, often using lower cost materials, or importing cheaper products.
3. Imported goods means a shrinking or eroding manufacturing base.
4. A shrinking manufacturing base means low quality jobs, lower salaries—hence a continuing need for lower prices.
5. Low-cost, throw-away products create environmental and landfill issues.

### Conclusion

**To help rebuild American safe manufacturing, Champion Safe requests the inclusion of HTSUS 8303.00.0000 into the USTR-2018-0005 Docket Annex.**

1. The 232 tariff burdens the American domestic safe producers with 30% higher steel prices, while Chinese safe exporters are unaffected.
2. Low-cost market pressures caused by imported safes prevent American safe manufacturers from passing 232 tariff increases on to consumers.
3. Without tariff equality adjustments, American safe manufacturers cannot be competitive with Chinese producers who receive a wide range of government incentives and subsidies to produce for the American marketplace.
4. By encouraging domestic steel production through the 232 Tariff, the USTR *must also* encourage downstream steel consumption.
5. Manufacturing industries that consume raw material and produce finished goods, create the most economic value to our economy. Why not return this wealth producing industry to the U.S?

Unlike most safe companies, Champion Safe has not ventured to China to buy cheap products to undercut American manufacturers. We have chosen to support the American economy with jobs and products, and to that end, we ask for the inclusion of HTSUS 8303.00.0000 into the 301 Tariff Annex and that 25-35% tariffs be placed on Chinese safe and vault related products.

With help from the USTR, Champion Safe remains committed to continuing our American presence and producing high-quality products sold through independent retailers across America.

Thank you for your role in rebuilding American industrial strength.