Statement of Gary Lobaza
MTD Products Inc
USTR Section 301 China Hearing
July 24 & 25, 2018

I am Gary Lobaza, President, U.S. Strategic Business Units of MTD Products Inc. MTD is a third-generation family-owned company, founded over 80 years ago in Cleveland Ohio, where its headquarters remain today. MTD has grown from a small tool and die maker to a global manufacturer of a wide array of powered lawn and garden equipment for residential and commercial use.

MTD makes walk behind and ride-on lawn mowers, residential zero-turn lawn mowers, garden tractors, snow throwers, tillers, edgers, and other lawn and garden equipment products. You will see our products in retail outlets such as Lowe's, The Home Depot, Ace Hardware, Sears, WalMart, Amazon, and other stores where U.S. consumers shop every day. In addition, our products are both sold and serviced by over 1,300 locally owned independent dealers. Our well-known brands include Cub Cadet, Troy-Bilt, Remington and Yard Machines. We also private label manufacture many more products under such brand names as Craftsman, Snapper, and Murray.

Historically, MTD has kept production close to its markets and currently has manufacturing operations in Willard, Ohio, Leitchfield, Kentucky, Martin, Tennessee, Verona, Mississippi, and Tempe, Arizona. At these locations, MTD employs over 4,000 workers who build and assemble MTD's vast array of lawn and garden products. MTD's other U.S. business operations employ another 1,500 people across the United States in corporate, R&D, sales and marketing, and customer support positions.

MTD imports small engines for inclusion in the manufacture of several lawn and garden equipment products, including snow throwers. These engines were included on Annex C of USTR's section 301 notice, and could be subject to an additional 25 percent duty as a result of this proceeding. MTD seeks the removal of these small engines from this list, as their inclusion would cause significant harm to MTD's operations and force the company to consider drastic alterations to its present business model, making it unprofitable and impossible to keep manufacturing operations in the United States – a result MTD does not desire.

MTD is dedicated to keeping jobs in the United States. For example, in 2007 the company moved production operations from Canada to the U.S. as part of its model to produce close to its consumers. MTD also prioritizes sourcing intermediate components domestically where possible. The reality, however, is that we must import some components to remain competitive – and importantly – keep manufacturing jobs in the United States.

MTD is the largest producer of snow throwers in the U.S., which are made by workers in our Ohio and Mississippi facilities, which employ up to 1,000 and 1,200 workers, respectively. The engines that we use to make these snow throwers are imported because there is no domestic production of these specific, small engines. The one domestic company that had the ability to produce these engines went out of business in 2008. Even if there were an alternative domestic or foreign supplier, switching to a new component is not something that can be done immediately. Identifying and testing an alternative engine that would meet our strict technical specifications and become certified as compliant with U.S. EPA emission standards would take 2 to 3 years. The reality is we have no alternative choice, and will have to absorb the extra cost of the potential tariffs, if imposed. This will come at a tremendous expense to our company. Without the engines

we cannot make the snow throwers – without the ability to make snow throwers we cannot employ our workers.

To be clear, MTD supports the Administration's objective of curbing China's abuse of IP laws and technology theft. We have experienced the negative impact of these unfair practices first-hand. Our products are being reversed-engineered by Chinese competitors – leading to situations where we have been forced to compete with cheap Chinese versions of our products. There is no doubt that MTD would benefit from IP reform and enforcement in China. We are concerned, however, that the Administration's approach will have severe unintended consequences for our company and workers because it does not take into account the relationship of imported components and U.S. manufacturing.

In this proceeding our main concern is the potential application of additional tariffs on our small engine imports. This concern is not theoretical. Our company has already felt the impact of raw material cost increases of steel and aluminum – key components of virtually all of our products – as the result of the Section 232 tariffs. Moreover, we also are importing a number of products that were included on USTR's Section 301 Annex A list – that as of July 6, have been subject to an additional 25 percent tariff.

None of these tariffs – either proposed or in effect – cover the downstream finished imported products that our domestically-produced products compete with. As a result, we are currently experiencing increased competition from low-priced Chinese imports. If these downward price pressures were not enough, we are also facing potential increased duties of 10 percent on literally thousands of additional manufacturing components that were included in the Administration's most recent Section 301 action, targeting $200 billion of Chinese imports. Well over 90 percent of our imported components are now on one of the three Section 301 tariff lists.

The imposition of these tariffs will make it difficult, if not impossible, to reflect these added costs into price quotes already developed for 2019. This will impose a significant financial hardship on the company. For MTD, its company and its workers, the present conditions and tariff uncertainty are unsustainable and threaten a potentially devastating outcome.

We do not see how increasing tariffs on component products used in American manufacturing will achieve the Administration's desired effect of curbing China's behavior with respect to IP violations, or targeting Made in China 2025 priority products. The small engines we import do not employ the cutting-edge technology that has been the target of Chinese IP theft, or are supported by industrial policies. What is certain, however, is that the imposition of tariffs will harm MTD's manufacturing operations, and threaten the jobs of its employees. The only apparent beneficiaries are Chinese companies of unfairly-traded downstream products, who will be well positioned to capture our market share. Such an outcome could not have been the Administration's intent.

On behalf of MTD Products Inc, I urge the Administration to reconsider its approach and create a more appropriate Section 301 remedy list that supports U.S. manufacturing interests. Thank you for allowing me to present this testimony. I'm happy to answer any of your questions.