UNITED STATES TRADE REPRESENTATIVE
SECTION 301 COMMITTEE
SECTION 301 TARIFFS PUBLIC HEARING

JULY 24-25, 2018

Testimony of

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My name is Steve Korn. I am the Vice President of North American Operations for Kimball Electronics. On behalf our entire company and in particular our 1,000 U.S. employees whose livelihoods could be affected by new tariffs, I thank you for the opportunity to provide remarks today.

Kimball Electronics is a leading manufacturer of durable goods electronics serving a variety of industries on a global scale with total sales of approximately $1 billion. I am here today to request that USTR remove HTS codes covering diodes and electronic integrated circuits from the proposed list of products subject to Section 301 duties. These are: 8541.10.00, 8541.40.60, 8542.31.00, 8542.32.00, 8542.33.00, 8542.39.00 and 8542.90.00. I do not exaggerate when I say that 25% duties on these products will kill domestic durable electronics manufacturing.

We have domestic manufacturing facilities in Indianapolis and Jasper, Indiana and Tampa, Florida. These facilities employ approximately 1,000 people with a total revenue of $300 million

annually. We focus on manufacturing for customers in the medical, automotive, and industrial markets who require highly reliable and durable electronics in their products.

For the diodes and electronic integrated circuit parts that we use in our American manufacturing, there is no readily available substitute from ANY country other than China. Without access to these parts sourced from China that are subject to Section 301 duties, we cannot continue to competitively manufacture in the United States. If these parts are subject to the 25% duties, it will put all U.S. electronics manufacturing at a significant disadvantage to the rest of the world. Kimball has been very successful at winning new automotive, medical, and industrial contracts over the past five years and we have invested significantly in our U.S. manufacturing locations. The 25% duties on these products only affect U.S. manufacturing and will force Kimball and our customers to assemble products using these parts in other geographic areas that can then be delivered to the United States with no tariff impact. The cost impact on Kimball and our customers cannot be absorbed. In one specific automotive example, Kimball was awarded a significant program that supports a large U.S. OEM with their next generation of electronic power steering. The previous version was built in Mexico. Kimball was able to provide a very competitive total cost of ownership price to our customer which allowed them to source this product in the U.S. These tariffs with product from list 1 and list 2 of Section 301 will have a $1.87 impact on this product and a cost impact $1.87 million annually to our customer. This program will run for 7 years with a total impact of $13.09 million over the life of the program. We believe with high confidence that our customer will force us to move this product to Mexico to avoid this impact.

Even if there were domestic substitutes, there are two nearly insurmountable barriers unique to our industry that make domestic substitutes untenable. First – Parts Qualification. We

could not switch our supply chain with the speed necessary to do business because we have a very lengthy qualification process. Thorough qualification of new suppliers and extensive testing of new parts is critical in our business. The safety and quality of our component parts is literally a matter of life and death - these parts go into medical life saving devices and safety critical automotive applications such as anti-lock braking and electronic power steering.

Second - Worldwide Parts Shortages. Currently, there is a worldwide shortage of most of the parts we import from China due to increased demands driven by strong worldwide economic growth. A significant number of these parts have lead times of 40 weeks to 52 weeks. We currently have to work with our suppliers around the world on a daily basis to beg and borrow to secure a supply to keep our production lines running. As a critical supplier to industries such as automotive, our inability to produce could easily shut down vehicle assembly lines in the United States.

There are electronics manufacturing service companies in many other countries just like Kimball Electronics that manufacture the finished goods such as PCBs (printed circuit boards). These manufacturers will continue to have access to Chinese component parts without 25% duties. This puts our own American manufacturing at a severe disadvantage. In fact, Kimball Electronics itself has a Mexican manufacturing facility. We have already had inquiries from our customers about moving production from our U.S. facilities to our Mexican plant. We imagine there are many more U.S. companies who are similarly situated.

I cannot stress this enough – we do not want to relocate our American manufacturing – but our hands are tied. We simply cannot absorb a 25% increase on the price of our materials. I worry that USTR's tariffs are trying to punish China but actually assisting other countries at the expense of U.S. manufacturing.

We applaud the USTR's focus on Chinese intellectual property violations and shortfalls in the Chinese system. We have experienced this first hand in the form of "counterfeit" electronic parts in our supply chain, made possible by Chinese duplication and "knock-off" of U.S. manufacturing technology. However, in our experience, the Section 301 duties are doing nothing to address the root problem. We urge the USTR to consider narrowly-tailored solutions that would encourage Chinese intellectual property reform. The blunt instrument of tariffs hampers U.S. manufacturing, such as our own, and makes us less competitive globally.

We want to maintain our U.S. manufacturing and continue to employ the 1,000 highly-skilled Americans in our facilities. For these reasons, we respectfully ask that USTR allow us to do so by removing the HTS codes in Chapter 85 for diodes and electronic integrated circuits from the proposed list of products subject to Section 301 duties.