**Hearing Testimony of Alps Electric (North America), Inc.**
**Section 301 Proceedings (List 2)**
**Docket Number USTR–2018–0018**

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I am Gregory Husisian, from the law firm of Foley & Lardner LLP. On behalf of Alps Electric (North America), Inc., I thank the Office of the U.S. Trade Representative for the opportunity to submit comments on the proposed Section 301 tariffs and to provide testimony today.

***Background on Alps.*** Alps North America is the U.S. distributor for Alps Electric Co., Ltd., which is a global corporation headquartered in Japan. Alps North America is a leading provider of electronic switches and controls. Alps sells the internal electric components that allows its customers to develop, manufacture, and sell the types of electronic products that are essential to any modern economy, including sensors, switches, capacitive touch panels, and other electronic components that are needed for automotive systems, auto infotainment, game consoles, smart phones, and other familiar electronic devices.

Manufacturing and selling electronic switches and controls is an essential, but not particularly high-margin, business. Competition is fierce within the industry and operating profitably requires relying on a far-flung global supply chain that allows Alps to meet the demands of its global customers for highly reliable, low-cost electronic components. Relying on the Alps global supply chain – including factories located in China – Alps North America is able to supply electronic components goods to numerous U.S. companies, indirectly supporting U.S. jobs and U.S. companies, which in in turn export their own products to countries around the world.

***The Impact of the Proposed Section 301 Tariffs on Alps.*** The Office of the U.S. Trade Representative has acknowledged concerns that the proposed Section 301 tariffs should not place an unnecessary burden on U.S. producers. Indeed, the entire aim of the Section 301 process is

supposed to be aiding U.S. competitiveness by combating any actions that the Chinese government may have taken to force the transfer of U.S. intellectual property rights and know-how to Chinese companies, all while avoiding imposing an undue burden on U.S. manufacturers. In the case of Alps, however, the proposed tariff lines fail on both counts.

Three tariff lines from the second list of announced potential tariff lines illustrate the disastrous impact that these tariffs, as proposed, will have on Alps and its downstream customers – HTS tariff lines 8543.70.9960, 8529.10.9100, and 8543.70.4500. Now, these tariff lines hardly represent items familiar to most consumers. Tariff line 8529.10,9100, for example, is a form of specialized antenna, and HTS 8543.70.4500 is a type of electric synchro. It is safe to say that few consumers directly purchase these parts.

Yet Alps North America sells millions of dollars of these types of parts every month to key U.S. producers, such as the U.S. automotive industry. These producers incorporate these products into their own products, supporting high-paying manufacturing jobs. If Section 301 tariffs are placed on these products, Alps North America will have no choice but to pass on these tariffs to its customers. The low-margin nature of the Alps business forces this result.

This means that Alps North America's loyal customers will be paying 25 percent more for the same electronic parts and components that their competitors can access overseas without paying any tariff at all. Putting substantial extra tariffs on these products accordingly is a tax not only on Alps North America, but also on the downstream producers who rely on Alps products to support their own production. To force U.S. manufacturers to pay a tax that their foreign competition entirely avoids runs directly counter to the purpose of the Section 301 process, which is to aid the global competitiveness of U.S. industries.

In considering the impact of these tariffs, it is important to note that Alps largely produces the products it sells to U.S. companies within its own facilities, including its facilities located in China. It is not possible for Alps North America to duplicate these factories within the United States, as it is not cost-effective in the low-margin electronic components industry to manufacture these products here. The low margins inherent in the industry preclude this approach, even if it didn't involve unnecessarily duplicating existing factories. Instead, by importing these products from its factories in China, Alps North America benefits the U.S. economy by working with its customers to develop products that allow for continuing U.S. innovation, substantial downstream production, and the maintenance of good, high-paying manufacturing jobs at our customers.

***Chinese Intellectual Property Practices.*** Putting these types of tariffs in place for electronic parts and components is particularly pernicious for a company like Alps, which produces most of the products sold in the U.S. market in its own factories. Alps has never experienced any type of pressure to share its intellectual property, manufacturing know-how, or production techniques with the Chinese government, any Chinese state-owned entity, or indeed with any Chinese competitor. Nor has Alps itself benefited from any such acts by the Chinese government. Alps produces products that it has developed and designed itself, based on its own intellectual property and research and development. The only companies benefiting from Alps' investment in product innovation are Alps and Alps' customers.

In fact, Alps is not aware of any Chinese producer of the types of products covered by HTS tariff lines 8543.70.9960, 8529.10.9100, or 8543.70.4500 that has benefited from the forced transfer of intellectual property, manufacturing know-how, or any other type of intellectual property infringement. This is not the type of product that has been the focus of the Chinese

government. It is not an industry covered in the "Made in China 2025" or other Chinese industrial advancement policies. Whatever steps China is taking to advance its own industrial interests have not made their way to the type of electrical parts and components manufactured and sold by Alps.

***Conclusions.*** Alps North America is sympathetic to the fine line that the U.S. Trade Representative needs to follow in these proceedings. But the goal has to be to try to counter and deter alleged Chinese intellectual property abuses while minimizing any impact on U.S. manufacturers and the U.S. economy. Imposing a 25 percent tariff on products that are relied upon by such important downstream U.S. manufacturers as the U.S. automotive and electronics industries achieves the exact opposite of these goals. Alps Electronics accordingly requests that the U.S. Trade Representative delete HTS tariff lines 8543.70.9960, 8529.10.9100, and 8543.70.4500 from its proposed second round of Section 301 tariffs.