BEFORE THE OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

USTR-2018-0018

HTSUS Subheadings 8536.30.80; 8536.50.70; 8501.10.60; and 8501.31.40

Testimony of Nathan Walker, Senior Vice President,

Goodman Manufacturing Company, L.P.

Mr. Chairman and members of the committee, I am Nathan Walker, Senior Vice President, Goodman Manufacturing Company, L.P., a Texas-based U.S. manufacturer of HVAC equipment since 1975. I am here today to discuss the reasons USTR should remove certain components that Goodman uses in the production of heating, ventilation, and air conditioning ("HVAC") equipment from the proposed list of products subject to additional tariffs. Goodman's products impacted by the proposed list include certain power cords, pressure switches, accumulators, electronic expansion valves, permanent split capacitor ("PSC") motors, and electronically commutated motors ("ECM") motors. The top of my written testimony contains the specific HTSUS subheadings at issue, which Goodman discusses more fully in its written comments.

I will start with a brief summary of the major investment Goodman is making in U.S. manufacturing and jobs, followed by details of the following three reasons why we ask USTR to exclude four specific HTSUS codes from tariffs:

1. The proposed 25% tariffs create a "non-level" playing field, which advantages companies that have invested on foreign soil over companies like Goodman that are investing the United States.
2. The HVAC components in question are not high-technology items that are subject to the USTR's concern over China's practices related to technology transfer, intellectual property, and innovation.

3. Avoiding these tariffs by changing sources away from Chinese suppliers is not a viable option.

In 2012, Goodman, which is one of the largest HVAC manufacturers in the United States, was purchased by Daikin, one of the largest HVAC manufacturers in the world. Started in 2015, we have constructed a factory outside of Houston, Texas at an investment cost of approximately $500 million, known as the Daikin Texas Technology Park or DTTP, and it is no ordinary plant. It is the third largest manufacturing plant in the United States. To put its size in perspective, the roof covers the equivalent of 74 football fields. We anticipate having 7,000 skilled American workers at the DTTP by 2020. Included within the DTTP is the North American Research and Development Center, which has increased the number of engineers and technical professionals it employs by 2.5 times the number of American workers it had employed prior to Daikin's acquisition of Goodman.

Our goal is to manufacture as many Daikin and Goodman products as possible for the North American HVAC market in Texas at the DTTP. In order to produce the Daikin and Goodman products at the DTTP, Goodman purchases components from the United States, as well as globally, including from China.

Imposing a 25% tariff will negatively impact Goodman, our employees, and the American consumer by significantly increasing the costs of operating in the United States. Goodman understands the philosophy of the administration is to have "short-term pain" for U.S. companies for a greater long-term success. However, this is feasible only when all of the competitors are located in the United States and can share equally in the burden. Goodman's position is that this policy is not appropriate for the HVAC industry as many of Goodman's U.S. competitors have moved production of some products sold in the U.S. market to other countries,

such as Mexico, and therefore will not be subject to the same tariffs on the components in question. Goodman's U.S. manufactured HVAC equipment is then competing with HVAC equipment manufactured outside of the U.S. with components not subject to these tariffs. Goodman's competitors that have moved production outside of the United States to Mexico will not share in the same "short-term pain" as Goodman. This, in essence, rewards companies that have invested outside the U.S. and punishes companies, like Goodman, that have invested heavily in the U.S. We believe this is the opposite of what the administration is trying to accomplish.

In addition, according to the USTR, these tariffs are for the purposes of addressing unfair practices from China regarding technology transfer, intellectual property, and innovation. Quite simply, the components in question do not fall into any of these categories. The subject HVAC components that Goodman imports are produced from mature technologies that are neither strategic nor advanced. For example, the technologies for the pressure switches, accumulators, and PSC motors have been around for decades. For the power cords that Goodman imports, the technology is almost 12 years old. Moreover, an affiliate of Goodman makes the ECM motors that Goodman imports in China. Given that the components in question come from mature technologies that are largely commoditized, we find it highly unlikely that their inclusion in these tariffs would change China's practices regarding advanced technology and intellectual property.

It should also be noted that Goodman knows of no U.S. manufacturers for many of the parts it imports on the proposed list. Moreover, for some of these products, Goodman's Chinese vendor specifically designed the product for Goodman.

Even if Goodman were able to find a supplier qualify supplier for these components outside of China, qualifying components from new suppliers in Goodman's finished products is a very time-consuming and complex process because Goodman's products are regulated by several federal regulations and agencies, such as the Environmental Protection Agency and the Department of Energy. Goodman has to verify the compliance of its finished products with those agencies. Therefore, any time Goodman modifies components within a finished product, it has to re-evaluate the product's performance via extensive engineering analysis, testing, documentation review, simulations, and submission of significant data to these agencies. Goodman's products must also comply with product safety standards, such as those promulgated by the Underwriter's Laboratory and mandated by OSHA and by building codes such as the International Mechanical Code and the Uniform Mechanical Code. This often requires further testing and analysis. Therefore, assuming arguendo that Goodman could identify a supplier with enough capacity to supply these components, it would take a considerable amount of time and efforts to change suppliers. Again, this would hamper Goodman's efforts to produce HVAC products in the United States, something that our U.S. competitors that moved production outside of the United States would not be required to do.

Based on the foregoing, Goodman urges the USTR not to impose a 25% tariff on parts that Goodman uses to manufacture HVAC products in the United States. Thank you for the opportunity to testify today. I would be glad to answer any questions that you may have.

Daikin Texas Technology Park – Third Largest Production Facility in US

Examples of Goodman HVAC Products Manufactured in the United States