Section 301 Hearing, July 24, 2018, Testimony of Mike Gray of the Valmet Corporation

Thank you for the opportunity to participate today and present the views of Valmet Corporation. My name is Mike Gray, and I am the Sr. Vice President of Valmet's North America Capital Business operations. Valmet is the leading global developer and supplier of technologies, automation and services for the pulp, paper and energy industries.

We are headquartered in Finland and have fifteen U.S. locations in a number of states. We supply our U.S. customers with papermaking machinery and energy products, employ 1,200 U.S. workers, and generate revenues for local communities. We have production facilities in Finland, Sweden and China. In our Chinese facilities, we produce components of machines that are imported into the United States for assembly and installation by U.S. workers.

Valmet shares the Trump Administration's commitment to combatting China's policies that harm U.S. companies and workers. Taking into account our mutual commitment, Valmet respectfully urges USTR to remove from its tariff target list machinery for pulp, paper or paperboard, and boilers; and related components. As I discuss here, tariffs on these products will cause disproportionate harm to U.S. interests, and will not be effective to obtain the elimination of the Chinese acts, policies, and practices found to be in violation of Section 301.

Duties on these products will impact U.S. consumers and jobs, and result in revenue decreases for Valmet's numerous U.S. facilities, impacting investors and local governments. We, as well as our largest competitors, both of which have production facilities in China, supply papermaking machinery to large paper and packaging manufacturers across the United States, including Green Bay Packaging, International Paper, Graphic Packaging, and Pratt Paper. By doing so, we support the U.S. papermaking industry, which employs thousands of workers across the country, including in Wisconsin and Ohio. The proposed tariffs would require us to modify our supply chains, resulting in disruption and increased costs to our papermaking customers and, in turn, end consumers of paper products. As a result, demand for our product offerings will decrease, impacting U.S. workers and our revenues.

As to impact on jobs, we or our customers employ thousands of U.S. workers each year to assemble and install our equipment or for repair or servicing. In total, the duties will put at risk approximately 6,000 direct and indirect jobs a year across the United States.

Revenues will decrease in Valmet's facilities. According to a first estimate based on our three-year strategy, the annual impact of the tariffs will be in excess of $ 50 million on our sales. The tariffs that have been implemented and the proposed tariffs are key components in the context of our negotiations with our U.S. customers. We recently lost a sale and expect to be further impacted in the fall. In turn, rates of return of investors as well as tax revenues across the country will decrease, impacting local communities.

The magnitude of these impacts will not be offset by increases in domestic production. These products have not been produced in the U.S. at least 15-20 years, and the U.S. does not currently have a facility that is large enough to produce our machinery. Restarting production would require the building of special facilities with significant foundations and equipment, and would take multiple years to implement.

What's more, the increased duties will not address concerns articulated by USTR.

As to technology transfer, we do not transfer our sensitive technology to Chinese companies. High-tech components of our pulp and papermaking machinery which are produced in China are produced in Valmet's wholly-owned facilities with a majority being produced in Finland. No high-tech components are produced in Valmet's Chinese JVs. High-tech components of our boiler machinery are produced in Finland and imported directly into the United States.

As to licensing practices, we have only licensed technologies to our wholly-owned Chinese enterprises and JVs in China, and in the latter case, we licensed the technologies by choice and on market-based terms.

As to Chinese outbound investment, our company has not previously been approached by Chinese investors that seek to acquire our business.

As to cyber-theft, our business confidential information has not previously been stolen by the Chinese government

In addition, the papermaking and boiler industries in China are dominated by private as opposed to state-owned enterprises, and are not targeted by China in relation to the concerns identified by USTR. Also, we do not operate in any of the 10 target industries identified in the Made in China 2025 plan.

In short, the concerns USTR seeks to address do not apply to our operations in China and to our knowledge, do not apply to those of our largest competitors. The tariffs will only cause a disproportionate impact on U.S. interests, including on jobs and consumers, as I described above.

Thank you again for this opportunity to present our views on a matter of serious concern to our company, and I look forward to your questions.