Testimony of Paul D. Arling, Chairman and CEO of Universal Electronics Inc.

Hello. My name is Paul Arling and I am the Chairman and CEO of Universal Electronics Inc., which I will refer to throughout my testimony as "UEI." I'd like to start by thanking the Committee for allowing me to testify today.

UEI is a U.S. publicly traded company that was founded in 1986 and began operations in Twinsburg, Ohio in 1987. UEI develops control and sensor technology solutions and manufactures a broad line of pre-programmed and universal control products, audio-video accessories, and intelligent wireless security and smart home products dedicated to redefining the home entertainment, automation, and security experience. UEI's principal markets are the subscription broadcast, consumer, mobile electronics and residential security markets. UEI's customers include service providers (such as Comcast, DISH and DIRECTV), original equipment manufacturers (such as BOSE), retailers (such as BEST BUY and WALMART), private label brands (such as RING), pro-security dealers, and companies in the computing industry (such as MICROSOFT).

UEI has approximately 300 employees in the United States, with more than one-half of our employees working in high paying engineering and research and development roles.

The vast majority of our remote control products, that are used by U.S. consumers every day, sometimes for more than 4 hours, are manufactured in China at factories owned and operated by UEI. These factories were acquired as part of an acquisition that we made in 2010. The proposed action under Section 301 of the Trade Act of 1974 would impose additional duties on imports of those products into the United States. Those products are classified under subheading 8543.70.99 of the Harmonized Tariff Schedule of the United States.

I'd like to take a few minutes to explain to the Committee that imposing additional duties on these products would: (i) not be practicable or effective to eliminate China's acts, policies,

and practices; (ii) cause disproportionate economic harm to U.S. interests, including small- and medium-size businesses and consumers; (iii) have a significant negative impact on UEI's U.S. operations and UEI's ability to continue to develop and innovate new and existing products and technology in the United States; and (iv) impact the quality of remote control products available in the United States.

Please allow me to expand on each of these points.

First, all of UEI's intellectual property is developed, owned, and protected in the United States. All of the engineers who design and develop our products and create our award-winning technologies work in one of our four California development centers. All our intellectual property is created out of their efforts, patents are filed in the U.S. and owned solely by UEI. All of our intellectual properties are developed, maintained and remain in UEI-owned facilities in the United States. Third parties, including third parties located in China, are never given access to these core assets, making it next to impossible for our intellectual property to be stolen or used improperly in China. For these reasons, imposing additional duties on the products would not be practicable or effective to eliminate China's acts, policies, and practices.

Second, additional duties on the products we produce will inevitably result in higher subscription costs that could significantly affect the price U.S. consumers pay for the television programming they watch every day. According to Nielsen, the percentage of total U.S. homes with televisions receiving traditional TV signals via broadcast, cable, satellite or Telco, or via a broadband Internet connection connected to a TV set is currently at 96.5%. We anticipate that our customers will pass on the additional equipment cost they incur to purchase remote control products from UEI to U.S. consumers in the form of higher subscription fees. This would cause disproportionate economic harm to U.S. interests, including small- and medium-size businesses

and consumers since our U.S. customers represent nearly 80% of U.S. households that subscribe to operator-delivered video services.

Third, additional duties on the products would have a significant negative impact on UEI's U.S. operations, including the potential need to terminate U.S. employees, many of whom are employed in high paying engineering jobs, with the potential that many of those positions would move outside the United States to offset product cost increases attributed to the additional tariffs. Near-term, we anticipate that the reduction in U.S.-based creative talent in our company will negatively impact UEI's ability to develop new and innovative products and technologies in the United States. It should be noted that, within the entertainment control industry, UEI is one of the few, if not the only, business that maintains a significant U.S.-based operation. All of our competitors have entirely off-shored their operations while maintaining a small sales presence in the U.S. I strongly believe that our investment in local, creative talent has been the primary driver for our business success and market share leadership.

The additional duties imposed on our products would have a significant negative impact on UEI generally, as the vast majority, if not all, remote control products are currently manufactured outside of the United States and the duties imposed on imports from China would provide a competitive advantage to UEI's non-U.S. competitors that manufacture similar products outside of China, namely Korea, Taiwan, Vietnam, and Indonesia. None of UEI's competitors undertake any engineering or research and development in the United States. It is very likely that UEI's customers in the United States would turn to those non-U.S. competitors to purchase remote control products that are not subject to the additional tariffs. This would have a significantly negative impact on UEI and ultimately could result in the loss of the only U.S. company that designs, develops, manufactures and sells remote control products in this market.

Finally, the additional duties on the products would impact the quality of products available in the United States because the products manufactured by UEI in China offer superior quality to similar products manufactured by our competitors outside of China. Our non-U.S. competitors do not offer the features and functionality available in the products we currently manufacture in China. For example, our industry-leading QuickSet technology, developed in 2010 and today considered the industry standard for universal AV system control, has been designed into platforms and applications that represent nearly 40% of the worldwide smart TV market and nearly 30% of the global payTV market. Additionally, in 2018, our remote control voice recognition technology was awarded a Technology & Engineering Emmy by the National Academy of Television Arts & Sciences.

For the reasons discussed above, UEI respectively requests that subheading 8543.70.99 be removed from the list of products potentially subject to additional 25 percent duties pursuant to Section 301.

That concludes my testimony. I'd like to thank you again for allowing me to testify today and I welcome any questions the Committee may have.