SCHNEIDER

Before the Office of the United States Trade Representative

USTR-2018-0018

Containers Classified in HTSUS Subheading 8609.00.00

TESTIMONY OF DANIEL DRELLA

Hearing Date: July 24-25, 2018

My name is Daniel Drella, and I am here on behalf of Schneider National, Inc., and its affiliated companies ("Schneider") and serve as its Director of Safety and Training. Schneider is one of the largest transportation service providers in the country and provides both truckload and intermodal dray services to many shippers, including Fortune 500 companies and numerous middle market and small businesses. Among other products, Schneider provides transportation of raw materials on behalf of manufacturers, as well as a wide variety of consumer-ready goods, including retail products, food products, paper products, clothing, and other goods that are critical to the U.S. economy. In order to provide these services, Schneider employs almost 12,000 drivers, and owns and operates approximately 11,000 tractors and 20,000, 53-ft domestic intermodal containers. Schneider is providing this testimony to request the exclusion of HTSUS Subheading 8609.00.00 from the imposition of the twenty-five percent (25%) Section 301 Tariff.

By way of background, U.S. domestic intermodal container on flat car transportation refers to the transportation of freight in containers by truck and rail which generally includes three (3) distinct legs – (1) a short truck movement from the shipper to a rail terminal; (2) a lengthy movement of the container via train (typically 1,000 to 2,500 miles); and (3) a short, final truck movement of the container from the ending train yard to the final destination. Dry Intermodal containers are divided into 2 groups: (1) oceangoing international containers that are 20-ft, 40-ft and 45-ft long, and (2), domestic containers that are 53-ft long, used for most inland intermodal transportation in North America and which don't travel back-and-forth by ocean vessel. Our testimony relates to these 53-ft containers which are vital to the U.S. intermodal transportation industry. While this size container is not used in Europe or most other markets, it is the prevalent domestic intermodal container size in the U.S.

There are no viable or sustainable U.S. domestic manufacturers of 53-ft containers; as a result, imposition of a tariff on 53-ft containers would not achieve the Trade Representative's stated goals of reducing harm to the U.S. economy and eliminating China's harmful acts, policies, or procedures. In 2014 and 2015, at the request of Stoughton Trailers, a then-domestic producer of dry containers, the

International Trade Commission ("ITC") conducted an *extensive* investigation into whether the establishment of an 53-ft domestic container industry in the U.S. was materially retarded by reason of the import of 53-ft domestic dry containers from China.[1] In that Investigation, the ITC ultimately (and unanimously) determined that no such retardation existed and declined to impose any antidumping or countervailing duties on 53-ft containers imported from China. Notably, the ITC indicated that the domestic industry for 53-ft containers, to the extent it existed at all, would have only been comprised of Stoughton, American Intermodal Container Manufacturers ("AICM"), and Navistar (through a joint venture with AICM). To date, AICM and Navistar have not produced a meaningful quantity of 53-ft containers for sale, and Stoughton no longer manufactures containers. In fact, in the fourth (4th) quarter of 2017, Schneider issued a request for quote ("RFQ") with respect to its upcoming purchases of containers. Stoughton and AICM were invited to participate in the RFQ, but Stoughton declined to provide any bid at all and AICM had (and currently has) no capacity to produce any containers. As a result, the ITC's findings are even stronger now than they were when first announced in 2015. Quite simply, there is no viable or sustainable domestic source for 53-ft. containers. Since there is no viable U.S. source, imposing this tariff would actually cause disproportionate economic ***harm*** to U.S. interests – purchasers of containers would be forced to pay more for a product which, for all intents and purposes, is not available for purchase within the U.S., and no domestic producer (as they don't exist) would economically benefit from the imposition of this tariff.

As a result of this tariff, container purchasers would have to pass through higher costs to their shipping customers who will, in turn, pass these costs through to the ultimate U.S. consumer(s). As a result, this tariff will have a substantial, detrimental economic impact on manufacturers and distributors of goods, and end consumers alike. To provide some context to the extent of the economic impact, consider that according to industry analysts and research, approximately 20,000, 53-ft. containers were added into the domestic market annually. Assuming a predicted intermodal growth of seven percent (7%), it can be expected that approximately 21,400, 53-ft. domestic containers will be added to the market in 2018. Assuming an average purchase price of $12,000 per container, the imposition of a 25% tariff would cause an increased capital expenditure, across the industry, of approximately $64.2 million in a *single year*. Were the tariff to apply for even five (5) years (the proposed length of the tariff's effectiveness is unknown), the net impact would be approximately *$370 million* (assuming continued growth of seven percent (7%) per year). All of this increased cost will, in some manner, be passed along to the individual end consumer, further exacerbating inflationary economic conditions. These increased costs are significant to Schneider, and they will be significant to the intermodal industry. Further, these higher

[1] See 53 Foot Domestic Dry Containers from China, Investigation Nos. 701-TA-514 and 731-TA-1250 (Final), USITC Pub. 4537 (June 2015).

costs would also harm the many small drayage truckers that provide the local transportation at either end of the intermodal rail move, and the many medium and small businesses that ship goods via the intermodal method. While this increased cost could potentially be justified if there was a domestic industry being harmed by China's practices, as stated above (and as already found by the ITC) there simply is no domestic industry which would benefit by the imposition of this tariff.

Furthermore, the government's concerns regarding improper transfer of technology to China is not implicated in the container industry. While a significant amount of engineering goes into the production and design of the containers, at their core they are very simple products – a steel box. The containers are not "technology" products. The containers are not produced with U.S. trade secrets, nor do the U.S. importers of the Chinese containers provide the Chinese manufacturers with any unique technology. Rather, China has developed a design that significantly improved alternate designs. The current models meet the trucking industry and U.S. concerns for safety on our roads and highways. The Chinese manufacturers have not exploited American "know how" to gain a competitive advantage. In fact, the ITC resolved that the containers imported from China were not produced through subsidies or other unfair trade practices. As a result, the tariff will not eliminate any known bad acts by Chinese manufacturers.

There are a number of advantages of intermodal transportation over long-haul truck transportation. Intermodal transportation has less impact on the U.S. environment than truck transportation, creates fuel efficiencies, and reduces the cost of delivering goods to domestic consumers. Further, substituting rail transportation for truck transportation reduces the congestion on our roads, thus reducing wear and tear on the U.S. infrastructure. As you can see, there are real benefits from intermodal transportation that would be negatively impacted if the costs of acquiring intermodal containers from China are increased. Because of the relatively small rate difference between truck and intermodal transportation, if the cost of intermodal transportation increases, shippers will likely shift to truckload transportation; if shippers make that shift, all of us will lose the benefits provided by the intermodal mode of transportation.

As a final matter, money spent on this proposed tariff would need to be diverted from our operations. We will have less money to spend on training and recruiting necessary workers. We will not have the same resources to apply to our safety programs and employee benefits. We may be forced to reduce investment in new technologies necessary for the U.S. trucking industry to remain efficient and competitive, and we will have less funds available to pay our workers and other U.S. business partners.

In summary, we believe that 53-ft containers are exactly the type of products that should <u>not</u> be subject to this 25% tariff: First, these types of containers, in the volumes needed annually in the U.S., are only available from China. As I explained previously, the ITC has already made this finding about 53-ft containers. Second, adding a 25% tariff on 53-ft containers from China would have serious, negative impact on U.S. interests; it would harm container purchasers like Schneider, it would harm all U.S. intermodal shippers (which involve almost all industries and sizes of business – large, medium and small), and it would harm all end users that buy products transported within the U.S. In other words, it would harm everyone in this country. Everyone is hurt, and because there are no viable U.S. container manufacturers, no one benefits from the tariff. Third, there is no evidence that the Chinese manufacturers of 53-ft containers have engaged in bad acts that would trigger concerns of the type meant to be addressed by a Section 301 tariff. The construction of a 53-ft container does not require the transfer of U.S. technology or IP to Chinese companies. The manufacturing of containers does not implicate national security. Imposing tariffs on this product will not achieve the Administration's goal of protecting U.S. interests from China's unfair trade practices.

For all the foregoing reasons, Schneider respectfully requests that HTSUS subheading 8609.00.00 be eliminated from the products to which a 25% Section 301 tariff would apply.