



## Testimony of

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Office of the U.S. Trade Representative

Hearing on Section 301 Proposed Modification of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation

Docket No. USTR-2018-0026

Panel 27 | August 23, 2018

Members of the USTR Trade Policy Staff Committee, thank you for the opportunity to testify today on the Administration's proposal to implement tariffs of up to 25% on an additional \$200 billion worth of products imported from China. I am Kerry Stackpole, CEO & Executive Director of Plumbing Manufacturers International (PMI).

PMI is the leading trade association in the U.S. for the plumbing fixtures and fittings manufacturing industry. Producing 90% of the United States' plumbing products and representing more than 150 brands, PMI's members are industry leaders in manufacturing innovative, reliable and water-efficient plumbing products and related supplies. These products, sold and distributed in all 50 states, include toilets, faucets, showerheads, bathtubs, sinks, urinals, drinking fountains, eye wash stations, as well as hundreds of types of components, valves and piping, which are key to our plumbing systems. Our members supply these essential products to residential, commercial and not-for-profit customers, including schools, hospitals, nursing homes, restaurants, hotels, manufacturing facilities, correctional facilities, and military bases.

Our members operate facilities and warehouses in more than 30 states. Overall, the American plumbing fixtures and fittings manufacturing industry, their workers, and the products they manufacture drive the American economy by creating more than 464,000 jobs and more than \$26 billion dollars in wages when you factor in their direct impact on retailers, wholesalers, suppliers, distribution, and the entire supply chain.<sup>1</sup> Many of our members have been in business for more than 75 years and remain family-owned. They play a critical role in providing communities with high-quality U.S. manufacturing jobs, supporting thousands of American families and fueling the success of the U.S. economy.

Plumbing fixtures and fittings are typically sold through home improvement stores, hardware stores, distributors, showrooms, and plumbing wholesalers. These merchants include The Home Depot, Lowe's, Menards, Walmart, Target, Ace Hardware, True Value, locally owned hardware stores, plumbing wholesalers and distributors, such as Ferguson Enterprises, Winsupply, and Thos. Sommerville, and more.

On behalf of PMI and its members, I appreciate the opportunity to express our shared concerns about China's policies, and practices that have harmed U.S. businesses. Our industry supports policies to protect intellectual property and enforce intellectual property laws here in the U.S. and around the globe – including China. PMI shares the Administration's concerns regarding Chinese industrial policies that attempt to force U.S. companies to hand over valuable technology, restrict foreign investment, and promote technology localization, such as "Made in China 2025."

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<sup>1</sup> Economic Impact of the Plumbing Manufacturing Industry, produced for Plumbing Manufacturers International, by John Dunham & Associates (2018).

Our members are very concerned about the proposed tariffs covered in this Proposed Notice of Action under List 3, as many are related to plumbing products and fittings. These tariffs will result in significant supply chain disruptions and increased costs that would significantly harm and impact American plumbing manufacturers and their workers, as well as retailers and consumers.

For instance, tubes, pipes, hoses, and faucets are included on List 3. While these List 3 products may be available from other countries, our members rely upon complex manufacturing supply chains that have taken years to develop. Rebuilding these supply chains drains resources and will take years to source around these tariffs. It's important to note, that most, if not all, of the products and components we are requesting be removed from List 3 are primarily materials or parts that are not linked to China's 2025 advanced industrial policies or China's intellectual property practices.

PMI believes the proposed imposition of unilateral tariffs on an additional \$200 billion worth of imports from China will not address the underlying issue of improper transfers of technology in China or be effective in eliminating China's discriminatory behavior against U.S. companies. Rather, these proposed tariffs will cause disproportionate harm to U.S. economic interests and in particular, plumbing manufacturers, our workers, suppliers, distributors, retailers, and consumers. We urge USTR to remove plumbing products included on the detailed list of the tariff numbers we submitted with our request to appear at this hearing.

### **Impact of Sec. 301 Tariffs – List 3 on PMI Members & American Consumers**

If the dozens of plumbing tariffs on Annex C and List 3 are implemented, our manufacturers will be faced with having to make an unpalatable choice: raise prices and likely lose sales, lay off workers to cut costs, or shift production of those final products outside of the United States. Our members will also be injured by the loss of sales if China imposes its proposed retaliatory tariffs on U.S. exports. In the meantime, the tariffs applied to these products undercut these companies' competitiveness, providing a clear advantage to competitors in Europe, Japan and elsewhere in global markets, even China. Our members have already experienced increases in their metal costs with new steel and aluminum tariffs instituted earlier this year.

In short, with the goods covered in List 3 for new tariffs, we will see:

- higher prices for plumbing products and components on American consumers;
- higher costs for American plumbing manufacturers;
- decreased demand for American-made plumbing products;
- loss of market share to non-American, competitor companies;
- decreased global competitiveness for American exporters;
- curtailment in investments in R&D;
- reduction in capital spending and facility improvements; and,
- ultimately fewer jobs and less income for American workers.

### **Impact of Sec. 301 Tariffs on Construction & Home Improvement Sector**

The plumbing manufacturing industry relies heavily on the downstream demand for construction and renovation work. PMI believes the tariffs already in-place and those proposed in List 3 will also unnecessarily impede the growth of the construction sector. With the growing list of goods hit by tariffs, consumers who are buying new homes or homeowners remodeling kitchen and baths will face increased costs for building materials, household appliances, cabinets, and lighting, as well as higher prices for plumbing fixtures, such as faucets, showerheads, sinks and bathtubs, and all types of fittings. Homebuilders are already reporting that higher materials costs are starting to hammer their industry.

As home prices continue to rise, potential buyers have less and less wiggle room in their wallets. Mortgage rates jumped sharply in April, with the average rate on the popular 30-year fixed hitting its highest level in seven years. Nationally, for every \$1,000 increase in the price of a home, about 152,903 households are priced out of the market.<sup>2</sup>

Ultimately, the American consumer will pay the price of new tariffs, which are effectively taxes that will hurt job creation in the commercial and residential construction and home improvement industries, as well as in the domestic plumbing supply chain.

### **Supply Chain Disruption**

The use of tariffs does not adequately account for the role of the global supply chain in product production and assembly. U.S. plumbing manufacturers operate in a global supply chain of domestic and international suppliers and customers. Domestic capacity is simply not available for some of the necessary materials and parts relied on by our members.

Critical factors in maintaining a strong, secure supply chain are certainty and cost. Manufacturers need assurances that the products they produce can be made at the quality, quantity and cost our customers demand. Reliable suppliers are also critical to maintaining a dependable supply chain that not only meets our business needs, but also our business values. Shifting changing supply chains will increase risk, and ultimately drive up costs throughout the supply chain, resulting in higher costs to consumers.

These complex supply chains can take years to establish and cannot be easily shifted back to the U.S. or to different countries or facilities without compromising contracts and compliance, as well as quality and value for the consumer. Increasing the costs of these inputs will have significant negative impact on U.S. plumbing manufacturers that rely on those inputs for their finished and their exported products.

### **Conclusion**

PMI urges USTR to not move forward with broad-based tariffs and to remove plumbing-related products and components from the Section 301 lists as identified in our submission to testify. Another round of tariffs on China will not fix the problem.

Instead, PMI urges the Administration to get both parties back to the negotiating table to work together on the critical issues related to technology transfer, intellectual property, and innovation before implementing additional tariffs that will harm our industry, job creation, domestic investments, and the overall U.S. economy.

We look forward to working with the Administration to move forward with a strategic, solutions-oriented approach to address the underlying issues and to put U.S. manufacturers and our workers on a fair and competitive playing field with China.

PMI appreciates the opportunity to testify. We do plan to supplement this testimony with a post-hearing rebuttal submission. I am happy to respond to any questions.

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<sup>2</sup> Households Priced-Out by Higher House Prices and Interest Rates, National Association of Home Builders, May 2016, <https://www.nahb.org/en/research/housing-economics/housings-economic-impact/households-priced-out-by-higher-house-prices-and-interest-rates.aspx>