Signature Products Group
1490 North 2200 West
Salt Lake City, UT 84116

September 6, 2018

The Honorable Robert E. Lighthizer
U.S. Trade Representative
Office of the U.S. Trade Representative
Executive Office of the President
600 17th Street. NW
Washington D.C. 20006

RE: Post-Hearing Comments by Signature Products Group on the Proposed Modification of the Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation (Docket Number: USTR-2018-0026)

ATTN: William Busis, Chair, Section 301 Committee

Dear Sir:

On behalf of Signature Products Group ("SPG"), I wish to thank you and the Section 301 Committee for affording our company the opportunity to present testimony regarding the impact of the proposed additional duties on Chinese-origin goods on our company. An additional *ad valorem* duty of twenty-five (25) percent assessed on our imported Chinese-origin after-market automobile accessory product line will jeopardize this business and will have a serious detrimental impact on the profitability of our company. SPG is the U.S. importer of record (under Truck Shields LLC/Signature Products Group) as well as a U.S. Distributor of said goods. The automobile accessories in question are classified in subheading 8708.99.81 of the Harmonized Tariff Schedule of the United States ("HTSUS"). A detailed description of said goods are as follows:

- Automobile seat covers (includes bench seat covers) – The automobile seat covers are made from polyester fabric (cut and sewn) and are specifically designed for a wide range of automobile seat styles/models. SPG produces multiple color-schemes (per Licensor partner agreement) enabling its customers to customize the look of their vehicles.
- Automobile floor mats – The automobile floor mats are made of polyvinyl chloride and formed into a variety of patterns and styles. These floor mats come in various sizes to accommodate different automobile models. Many of the floor mats also incorporate areas that can be trimmed to further customize the floor mat to a given automobile. Some of the floor mat models also have polyester fabric sections printed with various design/logo patterns.
- Automobile steering wheel covers – The automobile steering wheel covers come in two main styles: a polyester fabric laminated to a styrene butadiene rubber neoprene, and: a thermoplastic rubber ring wrapped with polyester fabric (some models also incorporate polyvinyl chloride grips). These covers are put on an automobile's steering wheel to provide extra grip as well as to customize the look of an automobile with the colors, patterns, and logos of our Licensors.

See "Attachment" for a copy of catalog screenshots for the goods at issue.

To manufacture the above-mentioned automobile accessories requires a trained and specialized manufacturing process that takes time to set up. The use of costly, specialized equipment (as in the case of our airbag compatibility stitching on our seat covers) means that our sourcing options are limited. For example, regarding the airbag compatibility requirements (seat covers for driver and front passenger seats), in the event of a crash, the seat covers need to be able to separate at the side seams to allow the automobile's side airbags to deploy. To manufacture compatible seat covers requires the use of specialized machinery that can produce stitching that holds up to everyday use but allows the

automobile's side airbag to deploy - as needed. This specialized machinery costs approximately $30,000 to $60,000 and is not available at all manufacturing facilities.
The time needed to produce and set the molds used in the automobile floor mat injection molding machines needs to be done by competent workers who are skilled in the manufacturing processes necessary to produce said goods. Lastly, the manufacturing process associated with the automobile steering wheel covers requires strict adherence to sizing requirements to make sure that said goods fit precisely on our customers' automobiles. The quality standards that need to be achieved and maintained for said goods are not common, and we have not been able to find a suitable replacement to our current China sourcing. We can unequivocally state that there is no domestic sourcing of this kind available of the size and scale necessary to meet the demands of our U.S. retail partners and U.S customers.
The imposition of a twenty-five (25) percent *ad valorem* duty on the above-mentioned Chinese-origin after-market automobile accessories would have a significant detrimental impact on SPG's business. Said automobile accessories are a major portion of SPG's gross sales over the last 3 calendar years and our current 2018 gross sales numbers are in line with previous year's figures.

In summary, below are the reasons why the imposition of the twenty-five (25) percent *ad valorem* duty would harm SPG and not address China's offensive policies:

- The proposed increase in duty would cause harm to the overall financial health of SPG and its employees because of the profit margins associated with said goods.

PRODUCT	Current Tariff Rate	Proposed New Tariff Rate	Projected Profit Margin Impact
Automobile Floor Mats	2.50%	27.50%	- 6.76%
Automobile Steering Wheel Covers	2.50%	27.50%	- 5.75%
Automobile Seat Covers	2.50%	27.50%	- 6.93%
Automobile Bench Seat Covers	2.50%	27.50%	- 8.71%

- The proposed increase in duty would detrimentally impact SPG's various Licensor partners, which are trusted American brands, by placing the cost to produce their goods far outside of standard margins of profit.
- To date, we have found no alternatives to sourcing the above-mentioned goods outside of China that come close to the manufacturing costing and available output (including quality control), offered by our current business partners in China. Furthermore, while manufacturers outside of China can manufacture said goods, they do not have the manufacturing output required to fulfill our volume and demand in the U.S. market. For example, we have engaged in numerous alternative sourcing discussions with manufacturers in Pakistan, Vietnam, Indonesia, and Mexico. Not only did they quote much higher unit manufacturing costs (anywhere from 2-3 times the current cost), none of them could commit to the vigorous production schedule and volume that SPG requires. The lack of production capacity and infrastructure makes any sourcing outside of China impossible for SPG.
- There is currently no viable sourcing option within the United States for the subject goods on the scale demanded by SPG. The U.S. mass market production of these automobile accessories moved overseas and almost all of it is currently done in China. Specifically, over ninety-five (95) percent of automobile seat covers, automobile floor mats, and automobile steering wheel covers are produced in China and imported into the United States. Domestic production of said goods consists of small, niche custom-made goods, not those for production on a large scale or for mass market appeal. In sum, it would not presently be feasible for SPG to utilize domestic manufacturers because of the barriers associated with production output, the production timetable, and the cost-prohibitive manufacturing unit costs.
- The cost - from a financial and time perspective - to relocate our sourcing operations outside of China is prohibitive. The time it would take for SPG to visit and vet prospective manufacturers would put us behind schedule on our current order production. This process takes an average of at least 3-4 months and includes verifying the manufacturer's production processes, outlining our production requirements, examining sample product run-offs, testing (quality control) sample products, and approving costing and production timelines. All these things would need to be signed-off on before production would be allowed to begin. Furthermore, SPG would not be able to relocate its operations outside of China without disrupting current production orders associated with its U.S. retail partners. Lastly, SPG monitors its supply chain business partners via a system of audits and inspections and would need to bring in a third-party audit team to visit the prospective manufacturers, which would also contribute to scheduling delays and result in significantly disrupting potential sales. On a side

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note, SPG must also verify a prospective manufacturer's production processes and systems from a supply chain security perspective as required under U.S. Customs' Customs-Trade Partnership Against Terrorism program – of which SPG is a participant member.

- SPG maintains a significant product testing process whereby all the subject goods are put through rigorous tests to verify high quality standards – post manufacture, but before entry into the market. We use internationally accredited third-party testing facilities to run quality, safety, chemical, and composition tests. Moving our sourcing out of China may also require finding a suitable accredited testing facility or facilities and require us to re-implement established testing protocols. These third-party testing facilities are not available in all countries, but most have an established presence in China.
- SPG's major U.S. retail partners (e.g., Walmart, Cabela's, Sportsman's Warehouse, Dick's Sporting Goods, etc.) require that product manufacturers undergo a comprehensive audit performed by an accredited third-party audit group: which again, would negatively impact current order production. Specifically, most of our major U.S. retail partners have their sophisticated compliance programs that generally require comprehensive audits be performed on product manufacturers. These comprehensive audits generally take anywhere from four to six months to complete and may include follow-up visits to correct deficiencies or issues that arise. SPG cannot – without significant financial harm - cease production for four to six months while these audits take place. SPG's current Chinese manufacturers have all been successfully audited: initially as well as on-going (during production).
- These after-market automobile accessories fall well outside of the scope of the Made in China 2025 program. These goods have no nexus to the Made in China 2025 program and do not further the goals of the Chinese government with respect to said program. In a nutshell, these goods are not the type of high-tech product that are the focus of the Made in China 2025 program.
- The imposition of the twenty-five (25) percent ad valorem duty on the subject of our after-market automobile accessories would not prevent China from its harmful intellectual property and technology practices. However, it would have a significant detrimental impact on SPG's business – resulting in loss of sales and placing the livelihood of SPG's employees at risk.

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In conclusion, and for the foregoing reasons, we respectfully urge the Committee to remove the tariff provision applicable to automobile accessories (subheading 8708.99.81 of the HTSUS) from the proposed list of tariff provisions that are subject to the imposition of the twenty-five (25) percent duty. Should you have any questions, please do not hesitate to contact our general counsel Michael N. Zundel by telephone at 801.524.1000 or by email mnz@princeyeates.com.

Respectfully,

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