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June 25, 2018

Mr. Andrew McGilvray
Executive Secretary
Foreign Trade Zones Board
1401 Constitution Ave, N.W.
Washington, D.C. 20230

Re: FTZ Docket B-020-2018
MTD Consumer Group Inc.
Rebuttal to NCTO Comments

Dear Mr. McGilvray:

MTD Consumer Group Inc. ("MTD" or "the Company") submits this letter of rebuttal in response to the comments provided by the National Council of Textile Organization ("NCTO"). In its letter, the NCTO opposed MTD's application for full production authority for its Foreign-Trade Zone ("FTZ") located in Verona, Mississippi. The Grantee of MTD's zone is the Greater Mississippi Foreign-Trade Zone, Inc., grantee of FTZ 158.

If the Foreign-Trade Zones Board ("FTZB") authorizes MTD's application, the FTZB would help an American manufacturer, MTD, play on a level field vis a vis its foreign competitors by enabling MTD to realize a tariff inversion on imported polypropylene grass catcher bags which are subject to a 3.8% duty rate. These bags are assembled into walk behind lawn mowers that are duty-free.

If the FTZB does not authorize MTD's production application because of the comments submitted by the NCTO, then one must question the overall purpose of the FTZ program. NCTO's comments are unsubstantiated, without merit, and at best, theoretical. Clearly stated, NCTO's comments should not be considered by the FTZ Board in its evaluation of MTD's production authority application. There are four primary reasons why the FTZ Board should disregard NCTO's letter of opposition.

1 NCTO itself is not harmed by MTD's proposed FTZ activity and none of NCTO's members opposed MTD's request.

NCTO is a trade organization; it is not directly or indirectly harmed by MTD's imports of grass catcher bags. As such, the NCTO does not have a valid reason to submit a letter of opposition. Although NCTO claims that its members will be injured if the grass catcher bags are approved, none of these supposed members individually submitted comments to express their alleged concerns. Moreover NCTO did not even identify a single injured party. Therefore, NCTO has no interest in this matter unless they can demonstrate they have specific members that can produce the grass bags required by MTD. NCTO's objections seem to be based on the belief that textile products should not be used as a component in manufacturing operations in FTZs. This is ironic considering that NCTO's letter correctly mentions other FTZs with manufacturing authority on textile inputs.

Additionally, while MTD received numerous letters of support for its application from its domestic suppliers of components, none of the NCTO members individually wrote to oppose FTZB approval for the grass catcher bags. MTD can only assume that this silence indicates that the allegedly impacted industries are not concerned about approval of the grass bag catchers as the harm to their companies will be minimal.

2. No data or evidence to support assertions made in its opposition letter, rendering the claims unsubstantiated. NCTO did not provide any economic data demonstrating the alleged injury its members would sustain if production authority is granted. NCTO asserts that its members will be detrimentally impacted if approval for production authority is granted. However, the lack of specificity regarding the potential injury indicates that either NCTO has not quantified the potential impact to its members or that the impact is negligible.

If the approval of the grass catcher bags posed a true threat to the health of domestic textile producers, MTD would expect that the likely impact had been quantified on both an aggregate and an individual basis. MTD considers the failure to provide this information as indicative of the weakness of NCTO's overall argument as it is merely providing unsubstantiated assertions.

3. Lack of domestic capacity to adequately meet MTD's supply. There are no domestic suppliers of grass catcher bags that are capable of supplying the products in the quantity and quality that MTD requires. In its argument, NCTO notes that it "strongly opposes" the request for production authority for the grass catcher bags and that its members include "fiber and yarn producers as well as fabric manufacturers capable of supplying the subject textile input." However, it fails to provide specifics indicating which of its members are capable of providing the requisite materials at a competitive price in the quantity, quality and timeframe MTD requires. Additionally, MTD is interested in learning how these suppliers determined that they are capable of meeting MTD's needs when MTD's internal research indicates otherwise. Certainly none have approached MTD, which seems strange based on NCTO's assertion their members would be harmed.

As stated in its application, MTD has attempted to source this product domestically, but has not been able to identify any domestic suppliers that could meet its requirements and demands. In fact, as detailed in its production authority application, it engaged in discussions with Highland Industries ("Highland") to explore whether it could provide the grass catcher bags. However, Highland was unable to satisfy MTD's requirements for production and did not meet MTD's supplier requirements. Further, Highland, in fact, did not produce the grass catcher bags but rather imported them from El Salvador. Objections to FTZ applications should not be considered if it is to promote off-shore manufacturing of the products required by petitioners

Based on additional discussions and internal research, MTD believes that the domestic industry cannot provide the grass catcher bags in the quantity, quality and timeframe MTD requires. Finished lawn mowers are one of MTD's top-selling products. A delay or quality issue with its grass bags would severely compromise MTD's business model and potentially jeopardize the health of its company.

It should further be noted that NCTO is clearly not familiar with MTD as it makes inaccurate and misrepresentative statements regarding MTD's sourcing practices for this product. Although MTD sources some of the grass catcher bags from China, it is not the sole location from which it sources

the grass bags and does not source them from Mexico at all. In fact, MTD primarily sources approximately 60% of the bags from Europe. Further, although NCTO claims that imports of the relevant classification from China increased 10% in 2017, MTD notes that this has little bearing on the issue at hand, as MTD's imports encompass a small portion of the total imported products.

Finally, without any basis or knowledge of MTD's business model, NCTO challenges the statement that the competitiveness of the Verona facility is largely dependent on the production authority application for grass bags. However, approximately 85% of the lawnmowers leaving the FTZ contain grassbags. As a result, MTD is currently paying 3.8% duty for each grass catcher bag while importers of finished lawn mowers enter their products duty free. MTD's finished lawn mowers cannot be competitive with imported lawn mowers when the Company bears greater expense in producing them. MTD requires the level playing field offered by the FTZ program in order to compete with foreign producers.

4. The FTZ program exists to encourage companies to maintain and expand their business in the United States in competition with foreign competitors.¹ The NCTO seems to have a contrary view of the intent of the FTZ program. The NCTO opposes MTD's proposed production activity; permitting foreign competitors full FTZ benefits while denying MTD the same privileges. This is clearly inimical to the stated purpose of the program. NCTO failed to articulate a reason why MTD's foreign competitors should receive a benefit denied to MTD, which is a U.S.-based company, manufacturing lawn mowers in the United States.

MTD acknowledged that its foreign competitors, Stihl and Husqvarna Outdoor, received approval for products classified under 5911.90. MTD did not assert that Stihl and Husqvarna imported grass catcher bags and noted merely that the companies received approval to manufacture the same six digit HTS. However, these are textile products that, presumably, would have the same detrimental effect on domestic producers that NCTO claims will occur if MTD receives approval. NCTO itself cannot defend this determination and makes a vague reference to changes in trade policy, without offering clarity into how trade policy has changed as regards the classification in question. It is unclear why NCTO distinguishes grass bag catchers from other textile products that may be classified in this subheading.

Further, it is unclear on what basis the FTZB approved Husqvarna's and Stihl's requests for production authority for this classification while denying MTD's. It appears that there was little rationale for denying MTD the ability to benefit from the inverted tariff. MTD finds this particularly

¹ The FTZ Board website (<http://ia.ita.doc.gov/Ftzpage/letters/ftzinfo.pdf>) provides the following information on the FTZ Program:

The foreign-trade zones (FTZs) program was authorized by Congress in 1934 (FTZ Act - 19 USC 81a-81u) and is used to help encourage activity and value-added at U.S. facilities in competition with foreign alternatives by allowing delayed or reduced duty payments on foreign merchandise, as well as other savings.

- Enhancing Competitiveness. By reducing costs, FTZs level the playing field and improve U.S. competitiveness. FTZs can help businesses reduce production, transaction, and logistics-related costs by lowering effective duty rates, allowing special entry procedures, and encouraging production closer to market. Reducing costs through FTZ use can lead to more competitive U.S. operations, thereby helping to maintain U.S. activity and jobs.
- Creating/Retaining Jobs and Encouraging Investment. By helping local employers remain competitive, zones can contribute to maintaining or boosting employment opportunities. And lower FTZ-based production costs encourage increased investment in U.S. facilities.

confusing as it is a domestic company with strong community ties and a commitment to domestic manufacturing. Denying MTD one of the main benefits of establishing an FTZ without strong and supportable rationale undermines the program in which many companies rely and invest.

As such, it does not appear that NCTO has a single valid reason for claiming the circumstances surrounding these FTZs are different than MTD's nor does it elaborate why the approved textiles for these foreign competitors should receive a benefit that MTD, a U.S. company, is denied.

NCTO is correct in that the polypropylene grass catcher bags are one of many components MTD requested be afforded Non-Privileged Foreign ("NPF") Status. In an analysis of sample bills of material, we found that this product is typically the fourth most valuable (in terms of USD) component of the finished lawnmower, yet it carries with it one of the highest, if not the absolute highest, duty rate. Although this part alone comprises only 3% of the value of the finished good, the inverted tariff benefit on these grass catcher bags is imperative for the success and viability of MTD's FTZ program.

In sum, NCTO fails to demonstrate which of its members will be injured if the grass catcher bags are approved for production authority, nor does it offer any quantitative evidence of the level of injury. It further did not indicate which of its members has the capacity to produce the grass catcher bags to meet MTD's specifications. Finally, it did not adequately distinguish why MTD's competitors' FTZs should receive production authority for parts under the same classification and relied merely on the superficial rationale that trade policy changes.

MTD requests that the FTZ Board grant MTD full production authority so that it may admit the textile grass bag catchers in NPF status so that it can correct the inverted tariff on finished walk-behind lawn mowers and promote U.S. manufacturing interests in comparison with foreign competitors, by lowering FTZ-based production costs and supporting continued and increased investment in U.S. facilities.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary Sieffing". The signature is fluid and cursive, with a large loop at the end.

Gary Sieffing
Director, International Sourcing and Logistics
MTD Consumer Group