

November 10, 2020

Mr. Andrew McGilvray
Executive Secretary
Foreign-Trade Zones Board
U.S. Department of Commerce
1401 Constitution Avenue NW
Washington, DC 20230

Teijin Carbon Fibers, Inc. Response to Public Comments (Docket B-52-2020)

Dear Mr. McGilvray:

Teijin Carbon Fibers, Inc. (“TCF”) submits this response to the public comments submitted to the Foreign-Trade Zones Board (“FTZ Board”) regarding TCF’s application for FTZ production authority. The majority of the public comments – from Members of Congress, state and local government officials, representatives from industry and academia, and one of the largest electric power holding companies in the U.S. (see Attachment 1 for letter of support from Duke Energy) – are supportive of our application. This rebuttal is intended to address the objections raised by Hexcel Corporation (“Hexcel”), which provided the only opposition from the private sector.

One theme of Hexcel’s objections is that TCF is seeking to misuse the FTZ system: “Hexcel believes it is a misuse of the FTZ system to allow the evasion of duty requirements...”

This application is far from a misuse of the FTZ: it falls squarely within the purposes of the FTZ to stimulate economic growth in the U.S. and promote U.S. competitiveness. Granting of FTZ status will allow TCF’s Greenwood, South Carolina plant to compete with foreign made carbon fiber, will spur innovation in a cutting-edge industry, will provide technical training to employees and so elevate vital skills to the U.S. workforce, and finally, will create jobs and provide a net positive economic impact in the U.S. at a time when our economy needs it the most.

To address this “misuse” argument head on, we evaluated TCF’s application against the criteria used by the FTZ Board to evaluate petitions for FTZ production authority.¹

Threshold Factors: This request does not run afoul of any of the threshold factors, nor have any objections been raised suggesting it does:

¹ 15 CFR 400.27(a), <https://enforcement.trade.gov/ftzpage/grantee/regs.html#400.27>

- 1) The requested activity is *not* inconsistent with U.S. trade and tariff law, or policy which has been formally adopted by the Executive branch;
- 2) Board approval of the activity under review would *not* seriously prejudice U.S. tariff and trade negotiations or other initiatives; and,
- 3) The activity does *not* involve items subject to quantitative import controls; however, the imports are subject to inverted tariffs. TCF must import PAN to utilize its investment in Line 1 of the South Carolina plant. As such, the use of zone procedures would *not* be the direct and sole cause of imports that, but for such procedures, would not likely otherwise have occurred.

Economic Factors: The petition is next evaluated under the following factors to determine the *net economic effect* of the proposed activity:

1) *Overall employment impact.*

- The employment impact of this greenfield plant will be considerable. Approval of TCF's petition will lead to an additional 270 jobs at the Greenwood facility but will also have significant positive impact on indirect employment. To quantify this, TCF engaged Matrix Global Advisors (MGA) to model the economic benefits that the expanded project will bring to the surrounding community and the U.S. economy. MGA's analysis² found that construction of two additional lines, including PAN precursor and polymerization facilities, will result in an increase in U.S. employment of 2,590 workers in 2026, 1,140 in SC and 1,450 outside of SC. Beginning in 2029, when both additional lines would be operational, MGA estimates 590 additional U.S. jobs will be created, 260 outside of SC and 330 in SC. The fourth and fifth lines, once constructed, are forecast to have identical impacts on employment.³

2) *Exports and re-exports.*

- TCF estimated in its application that the exports could be 25%. The majority of the plant's capacity will be utilized for a 24K product, which is designed for new and emerging markets. As such, it is too early to know with any specificity how much of this will be exported versus sold domestically. A small fraction of line one's capacity will be

² MGA used the IMPLAN model for its economic analysis.

³ MGA's report also shows the positive impact on GDP and tax revenue the project will generate: Once Lines 2 and 3 are operational, U.S. GDP will be increased by \$164.7 million per year; aggregate labor income from construction on Lines 2 and 3 will peak at \$142.5 million in 2026; Federal taxes will peak at \$32.2 million in 2026 and remain at \$10.2 million per year on an ongoing basis once both lines are operational. Construction of Lines 4 and 5 will have effectively identical economic impacts.

utilized to make a 12K carbon fiber, and it is anticipated that this product will be exported. TCF was granted production authority for re-export on October 11, 2019.⁴

3) *Retention or creation of value-added activity; and 4) Extent of value-added activity.*

- TCF's application addresses the value-add activity from a plant perspective. From a national perspective, value-add activity from the TCF project will contribute to the advanced manufacturing industry as a whole. TCF is currently filling skills gaps in the U.S. workforce by training otherwise low skilled employees in advanced manufacturing skills (see supporting letter from *L. Ray Brooks, Ed.D. President Piedmont Technical College*). TCF will contribute to public/private consortiums and existing innovation ecosystems (see supporting letter from *Professor Waddell of MIT*). TCF will work with its sister companies in the U.S. to accelerate the development of new applications of carbon fiber (see supporting letter from *President of Continental Structural Plastics*).
- All these activities are essential to support U.S. leadership in advanced manufacturing across industrial sectors. As stated in the October 2018 report from the Subcommittee on Advanced Manufacturing and the Committee on Technology of the National Science & Technology Council⁵: *“Advanced manufacturing—which includes both new manufacturing methods and production of new products enabled by innovation—is an engine of America’s economic power and a pillar of its national security. Advances in manufacturing enable the economy to continuously improve as new technologies and innovations increase productivity, enable new products, and create entirely new industries.”*
- From a regional perspective, TCF is already having a meaningful impact in Greenwood County, South Carolina. It has partnered with the local technical college and trained a local workforce in advanced manufacturing skills. This training includes sending newly hired employees to Japan and Germany to learn the skills necessary to manufacture carbon fiber. TCF currently has approximately 80 employees.⁶ The full expansion of the plant will increase that number by 270, and forever change the landscape of a region once decimated by offshoring of the textile industry.⁷ As stated in Textile World Magazine: *“Not so long ago, headlines were replete with news of textile and apparel*

⁴ FR Doc. 2019-22309, Docket B-038-2019

⁵ <https://www.whitehouse.gov/wp-content/uploads/2018/10/Advanced-Manufacturing-Strategic-Plan-2018.pdf>

⁶ This does not include the thousands of employees, many of which were hired locally, involved in the construction of Line 1 of the plant.

⁷ *“A Carbon Fiber Cluster Grows in South Carolina; <https://cen.acs.org/business/investment/carbon-fiber-cluster-grows-South/96/i29>. “Teijin’s choice of Greenwood as the site for its fiber plant has a historical resonance for the county and the state. Once upon a time, a great deal of South Carolina business centered on the textile fiber industry. In Greenwood, the local textile mill loomed large over the town’s business landscape. But not anymore. The world has changed, and though Greenwood Mills still exists, many of the jobs associated with the apparel industry have migrated to Asia”*

manufacturers offshoring their production,” said former National Council of Textile Organizations President and CEO Auggie Tantillo. “Today, the reverse is true. The United States has become a popular destination for large scale textile investment on the part of foreign companies, and in many cases from Asian companies.”⁸

4) Overall effect on import levels of relevant products.

- TCF is seeking domestic production authority for PAN precursor imports needed to feed production on Line 1 of the Greenwood manufacturing facility. With this authority, it will be able to compete in the global market and thus reinvest in additional manufacturing lines. This investment will include building domestic PAN precursor manufacturing capacity. As a result, the carbon fiber produced by the additional lines will not rely on imported PAN. This will serve to restrict the need for zone relief for imported PAN.

5) Extent and nature of foreign competition in relevant products.

- An important objective of TCF's Greenwood facility is to displace the domestic sale of carbon fiber currently made in Japan and Germany. Given the duty-free status of these finished products, the plant in South Carolina cannot compete with the foreign plants. As stated in the application, TCF, at theoretical maximum capacity, would be producing 56% of its carbon fiber in the United States (15,000 metric tons per year), 24% in Japan (6,400 metric tons per year) and 19% in Germany (5,100 metric tons per year). Without production authority, that amount will reduce significantly, to producing 21% (3,000 metric tons per year) in the United States and 79% in Japan and Germany.
- For the past few years, several hundred metric tons of carbon fiber were imported into the U.S. from Teijin's foreign plants. With FTZ production authority, TCF will displace these and future imports of finished carbon fiber from the overseas plants, thereby greatly reducing America's dependence on foreign-made carbon fiber.
- Currently, there are several industry programs that require the type of 24K carbon fiber TCF plans to make.⁹ Teijin's plant in Germany currently is qualified to supply this 24K carbon fiber product. Once TCF's line is up and running, it will be able to qualify the 24K product made in the Greenwood plant. However, the foreign made 24K will have a competitive advantage over TCF's carbon fiber due to the duty-free status of the finished product. The 24K carbon fiber demand for these programs represents a meaningful

⁸ <https://www.textileworld.com/textile-world/2019/07/carbon-fibers-diamonds-of-the-21st-century-textile-industry/>

⁹ Hexcel does not make 24K tow carbon fiber. See section 6 (Impact on related domestic industry, taking into account market conditions).

portion of Line 1's production capacity. Without FTZ production authority, this would be a significant amount of production to lose to overseas plants. FTZ production authority is critical to level the playing field between TCF and the foreign producers and enable TCF's U.S. plant to compete globally for this business.

6) *Impact on related domestic industry, taking into account market conditions.*

- Hexcel claims that TCF is a direct competitor and is seeking to displace Hexcel in the market. Since TCF's plant is not operational, and no products have been made, it is hard to understand the basis for this claim.
- The investment in the new carbon fiber plant in South Carolina is being made to primarily manufacture a 24K tow carbon fiber. The "tow"¹⁰ is the number of parallel filaments that are typically grouped together and is often expressed with nomenclature where the letter K designates the number 1,000. Thus, 24K describes a CF tow having 24,000 filaments. Hexcel does not make a 24K tow carbon fiber.
- The carbon fiber products Hexcel makes are listed on its website.¹¹ The Hexcel product data sheet details a product called HexTow85 and describes it as a 24K carbon fiber *product*. However, this is not the same as a standard and intermediate modulus 24K carbon *fiber*, such as TCF will manufacture. Technically, HexTow85 is a relatively "low carbon" carbon fiber, with a carbon content of 85%.¹² By contrast, TCF's 24K carbon fiber has a carbon content of typically greater than 95%. This is a significant difference.¹³
- TCF's 24K carbon fiber is designed for structural applications in automotive, door, hood, front ends, bumpers, and leaf springs. HexTow85 is not suitable for load bearing applications, but instead is described by Hexcel as "developed specifically as a cost-effective replacement for rayon-based carbon fiber for ablative applications."¹⁴ It is a niche product primarily used for specialized products such as heat shields on rockets and hypersonic vehicles. It cannot serve any of the applications that TCF's 24K carbon

¹⁰ Synthetic fibers come in three basic forms: staple, tow, and filament. Staple is cut fibers, generally sold in lengths up to 120mm. Tow is a continuous "rope" of fibers consisting of many filaments loosely joined side-to-side. Filament is a continuous strand consisting of anything from 1 filament to many.

¹¹ <https://www.hexcel.com/Resources/DataSheets/Carbon-Fiber>

¹² Carbon fibers are defined as fibers with a carbon content of 90% or above. HexTow85 does not meet this threshold. <https://www.sciencedirect.com/topics/engineering/carbon-fiber>; <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5513585/>

¹³ The level of carbon content is what allows the carbon fiber to achieve particular mechanical properties and determines what applications they are suited for.

¹⁴ https://www.hexcel.com/user_area/content_media/raw/85_HexTow_DataSheet.pdf

fiber is designed for, and as such, the two products are not in competition with one another.

- Moreover, TCF is not targeting the markets or applications that Hexcel sells into. TCF will not sell into the military or space and defense sector. TCF is developing the 24K product to find new applications and sell into emerging markets not yet served by carbon fiber. It will work with Continental Structural Plastics, a tier one supplier of advanced composites to the automotive industry, to explore new opportunities in transportation light weighting. It will target new industrial and commercial applications.
- Hexcel has been in the carbon fiber business for decades. If they believed there was a promising market for 24K tow carbon fiber, they would have commercialized this product by now. They have chosen not to produce this product. TCF will produce this product, which will not serve the same market.
- A small fraction of TCF's production capacity will be used to produce a 12K tow carbon fiber. We acknowledge that Hexcel does make a 12K carbon fiber. However, TCF is targeting this product for applications not in Hexcel's aerospace or military markets and this product will be primarily for export.

7) *Other relevant information relating to the public interest and net economic impact considerations, including technology transfers and investment effects.*

- With FTZ production authority, TCF will continue to invest in the South Carolina plant, and build a new domestic source of PAN precursor production. TCF would then become an end-to-end domestic manufacturer of carbon fiber and, to the best of our knowledge, only the 4th producer of PAN precursor in the United States. This would significantly address the manufacturing and supply chain vulnerabilities specific to carbon fiber raised by Hexcel in their opposition.
- The technology transfers that would occur as a result of the expansion of the plant in South Carolina would be significant. The R&D, training and development of the local workforce will be valuable contributions to an expanding industry cluster in the region. The state-of-the-art PAN precursor manufacturing line in South Carolina will become U.S.-controlled technology. The creation of a supplier network around a carbon fiber cluster in South Carolina would also generate new technologies and new ways of doing business. The synergies with educational and research institutions will foster innovation and knowledge creation and can lead to more entrepreneurial activities. The economic impact analysis clearly quantifies the significant positive impact that will be derived from this plant.

In summary, TCF submits that the net economic impact overwhelmingly supports granting FTZ production authority and refutes Hexcel's claim that TCF is seeking to "misuse the FTZ system" in a manner that would result in damages to their company.

In addition to the argument that TCF is "misusing" the FTZ system, there are several other objections from Hexcel regarding TCF's petition. We have organized these objections as follows:

1. TCF is unlikely to invest in PAN production for many years, if ever. They will remain dependent on PAN imports, particularly in the context of the current economic downturn.
2. TCF is seeking to circumvent existing U.S. duties on products Hexcel manufactures domestically.
3. Hexcel's U.S. investments will be undermined, and its future investments in the U.S. will be put in jeopardy.
4. TCF's application is virtually identical to previous carbon fiber FTZ requests. Therefore, the FTZ Board should follow their own precedent and reject this petition.
5. Approving TCF's petition will harm military readiness by undermining U.S. PAN production and investments.

TCF's response to each of these objections is as follows:

- 1. Contrary to Hexcel's assertion, TCF has not changed its plans to build a PAN line should it receive FTZ production authority.**

Hexcel bases its objection on the assumption that the downturn in the aerospace market indicates that it is unlikely that TCF will invest in a PAN line.¹⁵

TCF remains optimistic that its proprietary 24K carbon fiber will be used in new and emerging markets, and that COVID-19 will not erode these markets. TCF also believes that the demand for expanded industrial uses of carbon fiber will survive and flourish despite the short- and medium-term impacts of COVID-19. TCF has not experienced any notable delays in our construction timeline or investment plans as a result of COVID-19 but given TCF's long-term outlook and strategy any delays that may arise would be temporary.¹⁶

¹⁵ From Hexcel's opposition: "The decision to build a PAN production line in the U.S. will be influenced by a number of factors. The primary factor will be overall demand for Teijin's carbon fiber products in the U.S. The current downturn in the commercial aerospace market, as well as other factors that drive carbon fiber demand would suggest that TCF's investment in PAN production in the U.S. is not likely to happen for many years, if ever." Page 1, ¶ 2

¹⁶ "With the increasing environmental concerns, the consumer's preference has shifted towards fuel-efficient vehicles to follow the government regulations regarding automotive pollution and to reduce the amount of CO2 emission from the vehicles. The expansion in the aerospace industry, especially in the North American and European countries, will further strengthen the carbon fiber market growth...With the COVID-19 outbreak, various uncertainties have been created in the market, which are adversely impacting the market's growth. However, the market is projected to bounce back in 2021 at a

COVID-19's impact on the carbon fiber market is not uniform across all industries. This is true even for Hexcel: their net sales into the commercial aerospace market declined 67% in the third quarter of 2020, while their net sales in its space and defense applications remained relatively unchanged, only decreasing 8.9% over the same time period. As such, not all industries have been impacted negatively by COVID-19. Nor has the need diminished for lightweight and fuel-efficient transportation. TCF remains committed to exploring new applications for 24K tow carbon fiber,¹⁷ despite current economic conditions.

TCF's commitment to the carbon fiber market is further demonstrated by the fact that TCF has not laid off a single employee during this economic downturn. In contrast to other carbon fiber manufacturers who chose to downsize, TCF continues to hire new employees and invest in training. It is a success story of partnering with local and state workforce development agencies to provide new skills to otherwise unemployed workers, and by doing this, TCF is elevating the local workforce to the benefit of all adjacent industries in the region.

Hexcel's speculation that TCF's plans have changed is further rebutted by the fact that TCF has not stopped construction of Line 1. We note that many other suppliers have temporarily halted production at carbon fiber and PAN precursor manufacturing facilities, such as Hexcel's facility in Roussillon, France, and Toray's facility in Spartanburg, South Carolina. But TCF has not done this. If TCF believed that COVID-19 would irreversibly reduce the demand for carbon fiber, it would not have continued with the Greenwood construction project – a project that remains a significant capital investment. By maintaining this construction, TCF has generated thousands of jobs for employees, both inside and outside the state, at a time of significant unemployment in this country.¹⁸ Enhanced safety practices at work may have delayed the construction timeline, but TCF remains committed to its objectives of pursuing emerging markets in 24K carbon fiber. We have plans, permits, and the necessary land in place which would allow us to expand and build more lines, including PAN precursor and polymerization facilities. This demonstrates our commitment and negates the claim of Hexcel that TCF will not invest in additional carbon fiber lines, even with FTZ support.

Hexcel also questions why TCF did not build a PAN line for Line 1.

significant rate from 2022 onwards.” https://www.marketwatch.com/press-release/carbon-fiber-market-insights-current-and-future-market-trends-forecast-till-2027-2020-08-10?mod=mw_quote_news

¹⁷ TCF will partner with its sister company, Continental Structural Plastics, a tier one automotive supplier of composite automotive parts, to continue to develop innovations in carbon fiber composites and light weighting for the automotive industry.

¹⁸ As the economic analysis modeled demonstrated, construction of Line 1 will have the ripple effect of creating will 1,490 jobs, with ongoing operations resulting in 340 jobs in 2021, from inside and outside of South Carolina.

The answer is simple – it comes down to capital costs and the need for an initial income stream. The barriers to entry for new carbon fiber plants are enormous; with upfront capital costs in the hundreds of millions of dollars, high labor rates, and relatively long return on investment time horizons, not many companies can make this type of investment. The business plans for TCF necessitated that only Line 1 be completed initially, to earn revenue prior to a commitment to further line investments. FTZ production authority will allow TCF to compete with overseas producers and generate income to justify the continued expansion in the U.S.

Teijin had other options to locate this plant, as well as the planned future expansions.¹⁹ Teijin chose the U.S. to build Line 1, in part, due to the local incentives and the welcoming policies of the U.S. government to attract foreign direct investment (FDI), including the FTZ program. As acknowledged by Secretary Ross in August 2019: “FDI is critically important to the nation’s continued economic growth and prosperity. It supports more than 14 million U.S. jobs and is responsible for \$370 billion of U.S. goods exports. With a total FDI stock of \$4.34 trillion, no other country attracts more business investment. The Department of Commerce aims to keep it that way.”²⁰

Notably, TCF was touted by Secretary Ross in his opening remarks at the 2018 Select USA conference, noting that “Teijin broke ground earlier this month on a \$643-million, carbon-fiber production plant in Greenwood County, South Carolina.... company executives said that the local and state economic development officials welcomed them like they were, quote, “family.”²¹

2. TCF is not “circumventing” the U.S. duties – but is applying for FTZ zone approval in furtherance of the objectives of the FTZ program.

Although we have addressed this point above, we further add that our application is in clear alignment with the purposes of the FTZ program. TCF is seeking: 1) duty relief from an inverted tariff currently placed on inputs that are proprietary and not produced domestically, 2) which will encourage TCF’s goal of expanding its operations and manufacturing capacity in the United States, 3) while assisting state and local economic development efforts and 5) providing a significant economic benefit to the city of Greenwood, the state of South Carolina, and the United States broadly.²² The net economic gain is incontestable.

TCF’s application for FTZ production authority is no different than Hexcel’s efforts to seek exemption from Section 301 duties. We note that in 2018, Hexcel filed a Section 301 Product

¹⁹ Germany and Canada are two countries where PAN imported from Japan is duty free.

²⁰ <https://www.commerce.gov/news/blog/2019/08/secretary-ross-announces-appointments-departments-advisory-council-foreign-direct>

²¹ <https://youtu.be/MOZIVZrbJSU>

²² <https://enforcement.trade.gov/ftzpage/info/publicbenefits.html>

Exclusion Request with the United States Trade Representative (USTR) seeking an exemption on duties related to imports of carbon composite aerospace panels that could not be obtained from a U.S. manufacturer.²³ In their request, they stated “Hexcel would suffer severe economic harm if forced to pay the additional duties.” At the time, Hexcel told shareholders that “we’re actively pursuing exemption options to try to minimize this impact” and that they expected to be able to receive 50-60% relief on the nearly \$5 million in duties that were being imposed on these products.

Similar to TCF, Hexcel was seeking duty relief through established governmental channels. If Hexcel ever determined that it was necessary to import PAN precursor from its new manufacturing facility in Roussillon, France, they would be free to seek FTZ production authority as well.

3. Zone approval for TCF will not undermine Hexcel’s investments in the U.S.

Hexcel claims that granting FTZ production authority to TCF will jeopardize its workforce and its investments.²⁴ As set forth above, the carbon fiber that TCF will manufacture is not targeted to ablative applications and will not compete with Hexcel. The industry applications are not the same, and TCF will not compete with Hexcel in finding new markets for the 24K carbon fiber.

In an effort to better understand Hexcel’s concern that FTZ benefits will threaten its investments, TCF reviewed every filing Hexcel has submitted to the Securities and Exchange Commission over the last 13 years (2007 being the first year an FTZ application was submitted by a carbon fiber manufacturer). Our review included every 10-K annual report, quarterly presentation, and the transcripts of every quarterly earnings call Hexcel has held with its investors.

Due to the significant harms Hexcel claims it would face if another carbon fiber manufacturer were granted FTZ production authority for the U.S. market, it stands to reason that this would be materially relevant to investors and would be disclosed. However, this review found:

- No mention of foreign trade zones or submissions being reviewed by the FTZ Board;
- No mention of competitor companies with submissions before the FTZ Board or any relevant actions being taken by these competitors.²⁵

²³ October 9, 2018 letter from Patrick Matsumara of Hexcel to Ambassador Robert Lighthizer, Docket No. USTR-2018-0025

²⁴ From Hexcel’s opposition: “Granting an import duty exemption on PAN fiber will undermine Hexcel’s substantial U.S. capital investments in U.S. PAN production and jeopardize future investment incentives for Hexcel to locate additional PAN production in the United States.” Page 1, Bullet 4

²⁵ Hexcel’s latest SEC filing notes numerous potential risks that could negatively impact their operations or financial results. None mention FTZ benefits to TCF as a potential risk. The risks itemized by Hexcel are the following: downturn in markets in which they operate; decline in business with significant customers; decrease in supply chain; reductions in defense spending; lack of R&D spend to support innovation; geopolitical risks in international operations; cybersecurity breaches; environmental and safety requirements; risks associated with mergers and acquisitions; lack of compliance

We also note that despite the fact that prior carbon fiber applications for FTZ relief were mostly denied for U.S. entry, Hexcel chose to build its 2018 new PAN line in France, versus the U.S.

Finally, Hexcel appears to have positioned itself well to protect against competition in the industries it serves. As Hexcel shares in its investor reports, it holds “leading, sole source positions in key markets with high barriers to entry”, and has a “sustainable competitive advantage” with an “increasing share of long-term growth markets.”²⁶ For Hexcel to claim that it is a vulnerable company whose future is at risk should production authority be granted to TCF is at odds with their public statements.

4. Prior carbon fiber FTZ applications are not identical to TCF’s application, and as such are not precedent for this application.

A review of all previous carbon fiber related FTZ requests demonstrates that TCF’s request is demonstrably different for a variety of material reasons. These include:

- All previous applications for carbon fiber FTZ production authority were for existing facilities with minimal impact to the local economy. TCF’s application is for an entirely new facility on undeveloped land. The greenfield characteristic of this operation is a significant differentiator.
- No other manufacturer who sought FTZ production authority identified how the FTZ will support domestic production of PAN precursor.
- Granting of FTZ production authority will facilitate significant additional investments in the construction of four additional manufacturing lines, including PAN precursor and polymerization facilities.
- No other application has demonstrated such significant net economic impact to the U.S. economy, which was measured through an economic impact study.
- None of the prior applications had the breadth of industry and legislative support: ten letters of support from elected officials, support from a cross section of supplier and customer industries, a large utility company, as well as support from several academic and research institutes.

with government procurement laws; risks over Woodward merger; business uncertainty when merger is pending; and costs associated with merger.

²⁶ Investor Report, October 20, 2020. <https://investors.hexcel.com/investor-overview/default.aspx>; https://s22.q4cdn.com/602714005/files/doc_financials/2020/q2/HXL-Investor-presentation-July-2020.pdf

5. TCF will not undermine military readiness, as claimed by Hexcel.

Hexcel states that it provides a “robust supply of PAN and carbon fiber” to the military. We see no reason why this would change. TCF currently does not plan to supply the Department of Defense with carbon fiber and will not compete with Hexcel for Department of Defense contracts.

Hexcel claims that zone approval to TCF will negatively impact national security and military readiness. TCF does question the inconsistency of Hexcel seeking duty relief for Chinese composite aerospace products but opposing TCF’s ability to use lawful duty relief measures that promote U.S. jobs and investment.

As noted in its application, TCF’s investments in advanced manufacturing will in fact support the growth of the domestic manufacturing base. TCF cites to the actions the Administration has taken to prioritize and promote the domestic manufacturing base in the context of their broader trade policy. In particular, we referred to Presidential Proclamation 9627 (PP 9627) and Executive Order 13806 (EO 13806).

In the case of Flemish Master Weavers (“FMW”) (Docket B-28-2017), the FTZ Board’s Report of the Examiner states that “the recommended approval of the FMW application... is consistent with the policy set out in PP 9627 and EO 13806, and with other recently presidential actions intended to support the U.S. manufacturing base.”

TCF cited these two presidential actions, as well as the report generated at the direction of Executive Order 13806 (“Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency in the United States”²⁷), in support of our request. Due to the fact that FMW’s products had no stated defense applications, our understanding is that the FTZ Board has interpreted these Presidential actions to be in support of bolstering domestic manufacturing broadly.

The Department of Defense report generated at the instruction of EO 13806 highlights the fact that the strength of the broader manufacturing base necessarily has implications for national security when it states that “The roots of America’s defense industrial base are planted in the broader manufacturing ecosystem.” The report goes on to state that “Although America’s traditional manufacturing base still accounts for an outsized benefit to the economy, decreases in key production capabilities, declines in manufacturing employment, and slow output growth for many manufacturing sectors have created key vulnerabilities and weaknesses that potentially threaten the nation’s defense-related manufacturing capabilities.”

²⁷ <https://media.defense.gov/2018/Oct/05/2002048904/-1/-1/1/ASSESSING-AND-STRENGTHENING-THE-MANUFACTURING-AND%20DEFENSE-INDUSTRIAL-BASE-AND-SUPPLY-CHAIN-RESILIENCY.PDF>

The importance of a strong manufacturing sector is further reiterated in the National Security Strategy of the United States of America²⁸, which states that “As America’s manufacturing base has weakened, so too have critical workforce skills ranging from industrial welding, to high-technology skills for cybersecurity and aerospace. Support for a vibrant domestic manufacturing sector, a solid defense industrial base, and resilient supply chains is a national priority.”

TCF’s continued investment in domestic carbon fiber manufacturing will strengthen the nation’s manufacturing base, while the training of our workforce further contributes to the nation’s high-skilled manufacturing capabilities. If granted FTZ production authority, TCF will be able to further contribute to reduce supply chain vulnerabilities, and strengthen the technical capabilities of the nation’s advanced manufacturing workforce.

* * *

In conclusion, TCF believes it has met all the threshold and economic factors for being granted FTZ production authority. Zone benefits will remove the disincentives associated with manufacturing carbon fiber in the U.S. versus overseas, will reduce America’s dependence on foreign-made carbon fiber, and will allow TCF to continue with its expansion plans in the U.S. It will spur innovation by developing new applications for carbon fiber for a product not currently manufactured by Hexcel. And, most importantly, the net economic impact generated cannot be overstated. The addition of 2,600 direct and indirect jobs from the development of two additional lines is enormous, as is the U.S. GDP growth of \$350 to \$450M. The tax revenue alone, which will peak at \$14M and then continue at a run rate of \$10.2M a year, more than offsets any duty reductions. These significant benefits should not be blocked by the speculative claims of a single domestic producer, who operates in a different market segment and whose opposition is focused on only one of eight factors evaluated when determining net economic impact.

At this moment, job creation and economic growth are sorely needed in the U.S. Granting production authority to TCF will not only validate the widespread economic benefits the FTZ program can yield, but also advance the objectives of increased manufacturing and FDI in the U.S.

Thank you for your consideration.

²⁸ <https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>

Attachment 1

Support Letter for Teijin Carbon Fibers, Inc. FTZ Application

Theo L. Lane – Duke Energy

Nov. 9, 2020

Andrew McGilvray
Executive Secretary
Foreign-Trade Zones Board
United States Department of Commerce
1401 Constitution Avenue NW
Room 2814B
Washington, DC 20230

Subject: Letter of Support for Teijin Holdings USA, Inc. Foreign Trade Zone Application

Dear Mr. McGilvray:

On behalf of Duke Energy, I am writing to express our support for Teijin Carbon Fibers, Inc. ("TCF") and their request for FTZ production authority at their brand-new carbon fiber plant in Greenwood, South Carolina.

We understand Teijin is seeking Foreign Trade Zone (FTZ) production authority for their new facility and we categorically support this decision. If this request is granted, it will remove the inverted tariff which as it stands, encourages companies to grow manufacturing offshore. Moreover, FTZ approval is crucial as Teijin cannot obtain the PAN precursor from the US open market. As a result of the FTZ production authority, the company will be incentivized to significantly expand its South Carolina manufacturing operations generating countless benefits for the US economy over the next decade. This expansion will include the building of a PAN line, which will help accelerate sustainability applications such as light weighting of the automotive and transportation industry.

To date, TCF has been a strong contributor to South Carolina industry, and their growth will continue to support the state economy. Recently Duke Energy awarded to TCF the 2020 Power Partner Award. This honors businesses and other organizations that achieve notable results in categories including solution innovation, community excellence, economic development, sustainability innovation, storm restoration and renewable excellence.

Duke Energy hold this award in the highest regard, and TCF has earned the award because their business demonstrated both operational excellence and a commitment to the welfare of their respective local communities.

In the short time since arriving here in Greenwood County, Teijin has demonstrated their commitment to investment in our local communities and a focus on 'giving back'. They not only are elevating the work force in the region with training on advance manufacturing skills, they are contributing in a significant way to grow jobs and carbon fiber expertise in the US overall.

Both as my customer, and as a business constituent of our County Government, I unequivocally support their request for FTZ production authority.

Sincerely,


Theo L. Lane,)

Government & Community Relations Manager

Duke Energy South Carolina

Greenwood County Councilman

District 7