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U.S. China Trade Hearings

I would like to thank Chairman D'Amato, Commissioner and Hearing Co-Chair Ellsworth, Commissioner and Co-Chair Becker as well as the rest of the members of the U.S.- China Commission for the opportunity to address you today.

Today I represent my company, the Thomas G. Faria Corporation, and the National Marine Manufacturers Association (NMMA). Faria is an active member of NMMA and I serve on the Accessory Manufacturers Division Board as well on the Association's main Board of Directors. NMMA is the country's largest recreational marine industry association. Its membership includes over 1,500 corporations and businesses that collectively manufacture over 80% of the recreational products produced in the United States. There are in excess of 13 million registered boats in the U.S., as well as 72 million US citizens that participate in boating. The industry contributes more than 30 billion dollars a year to the nation's economy and provides a lifestyle and pastime that is important to the quality of life for the American people. The industry is more than twice the size of the cruise ship industry and provides \$7 billion in wages every year.

While I represent a relatively small company that directly provides 325 jobs, and indirectly provides another 300 jobs, one of the problems that we now face has become a common thread in American industry today regardless of the size of the company. The challenge is unlike any other that I have experienced during a management career that spans in excess of 35 years in American manufacturing. The problem I refer to is the blatant and uncontrolled counterfeiting of products by the Chinese.

The son of a Portuguese immigrant founded our company in 1956. He had an unbounded belief in the opportunities that this country could provide its citizens. We at Faria have a long tradition of pride in being able to stamp "Made in USA" on our products. While we all enjoy a "bargain" it is disheartening to go into our country's largest retailers and discover that 80% of the products you pick up say "Made in China". The term has become synonymous in my mind with "Another American Job Gone".

Up until the early 1990's a segment of our annual sales were represented by what was primarily a replacement gauge market in Central and South America. The business had been fairly predictable in terms of volume from year to year when all of a sudden a marked downtrend started to rapidly develop. Through some investigation and consultation with our exporter to this geographic region, I discovered that counterfeit Faria gauges had started to enter the marketplace. Perhaps with a touch of naivety, we took the legal steps necessary to trademark or otherwise take actions that we believed would provide us protection against the infiltration of the marketplace with this counterfeit product. The counterfeiter went so far as to print our corporate name and

address on the instrument dials. Much to my dismay, I soon discovered that actions to enforce protective measures proved to be ineffective. Perhaps the most unsettling event relating to this experience occurred when a representative of our exporter was approached on the streets of the capital of Columbia and had both his and his family's lives threatened if we interfered with the sale of the counterfeit product. Needless to say, this resulted in an extremely hostile business climate and a product representative who became afraid to be associated with us. The export company, established in Miami, eventually went out of business. The loss for us represented 10 to 12 jobs and approximately \$1,000,000 in annual revenue.

Because this situation represented a relatively small part of our business, and with other growth opportunities facing us domestically, I decided not to continue to dedicate resources to an all out confrontation, particularly given the initial difficulty we experienced in law enforcement in the region.

Now, a new threat has presented itself. For the first time, to the best of my knowledge, Chinese counterfeiters have approached domestic customers for our product in an attempt to sell them copies of our instruments. I recently came into possession of one of these counterfeit gauges. These clones bear our name and address, as well as a label with a CE stamp on it certifying that the product has passed a battery of tests that are required in order for the product to carry this designation and be exported to the EU. In addition, the label on the case of the fake gauge also carries our catalog part number, and the initials of a calibrator as well as a final tester – all misrepresentations. When the product was checked on a test station it was found to be grossly inaccurate. One of the ramifications of this, beyond solely the ethical consideration, is that of creating a potential safety issue for whoever uses the faulty instrument. Every Hummvee being used in Iraq today has our instruments in the dashboard. I would hate to think of a vehicle engine failing at a crucial moment due to an inaccurate counterfeit instrument that failed to provide warning of a potentially catastrophic situation.

My possession of the counterfeit product came about as a result of a visit by an American boat manufacturer, who is also a customer of ours. They indicated that the counterfeiter had “thousands” of “Faria” gauges on their stock shelves. The Chinese company also indicated that they had produced instruments for us in the past, which is a total falsehood. A different individual from the marine industry was in the same factory during September and indicated in a conversation with me that the Director of the Chinese company was also the local head of the Communist Party and, in fact, the business was a government owned operation.

While the counterfeit gauge was actually one of our non-marine products, it was being offered to customers of ours in the marine industry, which is currently the largest single market channel for our product offerings.

More and more frequently, I hear stories from my associates in the marine industry who are facing ever-increasing instances of exact copies of their products being produced in China and sold around the world. I have one gentleman working for me now in our

shipping department who came to us from a marine hardware company that had been in existence since 1847. In 1979 they employed 2000 people. That was before the Pacific Rim copied their 7 catalogs and all of their products. When this gentleman left their employ recently he was one of five people left. The company is now just a memory in the history books of American industry. A week after he joined our employ, I distributed an internal employee newsletter. Part of the information contained therein referred to the Chinese counterfeiting issue. He told me afterwards that he literally became ill when he read the letter, as his only thought was “oh my god, it’s happening again”. He is 50 years old with two children in college.

You know, a half-century ago, over 40 % of the employment in the United States was provided by manufacturing jobs. A year ago, according to government statistics, that percentage was down to 11.2% and dropping rapidly. In many ways there is little that we can do to offset the impact that countries with much lower wage bases and operational costs will continue to have on the deterioration of American manufacturing’s ability to compete in the world marketplace on a sales price only basis. However, there is a limit to how much unethical behavior we should tolerate from a trading partner when that behavior is costing American citizens their jobs by the millions. Quite frankly, we in the manufacturing community are all growing tired of the rhetoric, rather than action, that continues while our job base rapidly diminishes.

China was allowed to enter the World Trade Organization in 2001. Part of their commitment, and obligation, as a member of that organization is to protect the intellectual property of companies and to prosecute those of their citizens who participate in counterfeiting. It is blatantly obvious that China is not living up to that obligation.

Akio Morita, the former Chairman of the Board of the Sony Corporation once said in a speech to a group of high level international business executives that “a world power that loses its manufacturing capacity will cease to be a world power”. We cannot let that happen.