Phone: 901 – 546-5687
Fax: 901-546-5627
Email: allen.w.pierce@cummins.com

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February 9, 2012

The Honorable James Holbein
Secretary
U.S. International Trade Commission
500 E Street SW
Washington, DC 20436

Re: *Investigation No. 332-525*
Remanufactured Goods: An Overview of the U.S. and Global Industries, Markets and Trade

Dear Secretary Holbein:

On behalf of Cummins Inc., Columbus, Indiana please accept the attached written submission for filing in connection with the referenced investigation.

Sincerely,

Allen W. Pierce
General Manager
New and ReCon Parts Manufacturing
4155 Quest Way
Memphis, TN. 38115

Attachment

Cummins Inc.
Street Address, MC 00000
City, ST 00000-0000 USA
Phone 1 000 000 0000
Fax 1 000 000 0000
cummins.com

Before the

United States International Trade Commission

Remanufactured Goods:
An Overview of the U.S. and Global Industries, Markets and Trade

Investigation No. 332-525

Statement of

Cummins Inc.

February 9, 2012

This submission is made on behalf of Cummins Inc., a corporation of complementary business units that design, manufacture, distribute and service engines and related technologies, including fuel systems, controls, air handling, filtration, emission solutions and electrical power generation systems. Headquartered in Columbus, Indiana, (USA) Cummins serves customers in approximately 190 countries and territories through a network of more than 500 company-owned and independent distributor locations and approximately 5,200 dealer locations. These comments are made in response to the invitation to provide information on the topic of U.S. remanufacturing industries, markets and trade.

BACKGROUND

The Cummins remanufacturing business began over 45 years ago in the United States. It has grown to be a nearly one billion dollar business today and we anticipate its continued growth as we gain even greater acceptance of remanufactured products as reliable, "green" and affordable repair options. We welcome this investigation by the U.S. International Trade Commission to gather information on this important industry.

Remanufacturing provides Cummins with an opportunity to be a good steward of the environment and at the same time provide significant value to its customers. An important aspect of the Cummins service strategy is to provide customers with the option of selecting remanufactured components and engines to facilitate repairs and/or refurbishment of Cummins powered equipment. All over the world, environmentally conscious end users are asking for sustainable products. They recognize the economic, environmental, and performance benefits of remanufactured as compared to new replacement parts or engines.

At Cummins we consider remanufacturing to be substantially different from rebuilding. Using various Cummins-developed technologies and remanufacturing specifications we clean, qualify, and restore failed components to same as new performance. Remanufactured engines and components are subjected to the same functional tests that they would undergo in new production. All of this occurs in a controlled, certified factory setting, enabling Cummins to provide the same warranty as we provide on equivalent new service products.

The use of remanufactured components can cost-effectively extend the life of an entire piece of equipment, whose vehicle and chassis can be updated to match the extended life of the engine.

Remanufactured components restore power and durability. Improvements that have occurred since the components' initial manufacture are often included in the remanufactured product.

Remanufactured products provide customers with a cost effective alternative to purchasing non genuine products. Remanufactured products sold into the Cummins service network are identified by the ReCon® trademark. Cummins estimates that for every $100 of repair parts purchased, $45 are non genuine. Non genuine products, legitimate or counterfeit, will generally not include product improvements. In North America, ReCon products make up about 55% of Cummins service part sales and are a good choice for all customers looking for a lower cost repair option that provides the performance, reliability and warranty of a new geniune part.

Cummins' remanufacturing business model is straight-forward. Through the utilization of core, which is any used part gleaned for use as raw material for the remanufacturing process, Cummins provides customers with the opportunity to purchase remanufactured service products at a lower price than they would pay for comparable new service products (typically a 20-40% discount). To take advantage of this discount customers must exchange their failed component or engine, (core) within a reasonable time period following their purchase of the remanufactured product. Cummins is able to remanufacture products at the lowest possible cost by reclaiming the high-value materials content of the returned products. There are two types of remanufactured product sales:

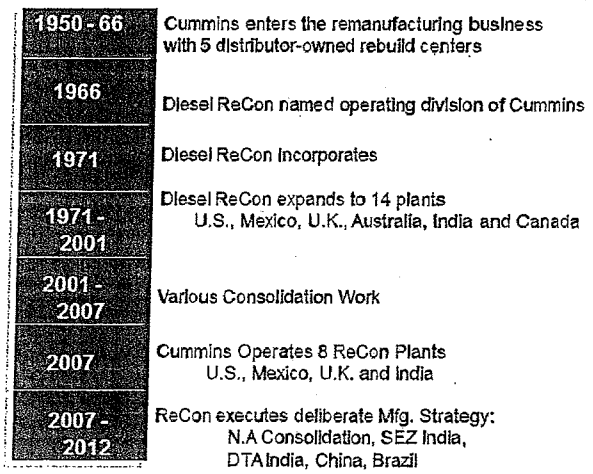
1. "Exchange" sales: the final customer purchases a remanufactured engine or component, returns the core within the time allotted and receives the full benefit of the exchange discount (customer pays 60% of new and saves 40%).

2. "Outright" sales: the final customer purchases a remanufactured engine or component, does not return the core, the used part, and pays a core bill. The customer pays the same price they would for an equivalent new product (60% + 40% =100% per the equation above).

In 2011 Cummins global core return rate was 86% and within North America it was 93%.

Cummins remanufacturing business has experienced steady profitable growth in mature markets such as the U.S. and U.K. Given the success of remanufacturing in these markets, it stands to reason that there are significant opportunities to develop thriving remanufacturing businesses in other large and growing markets.

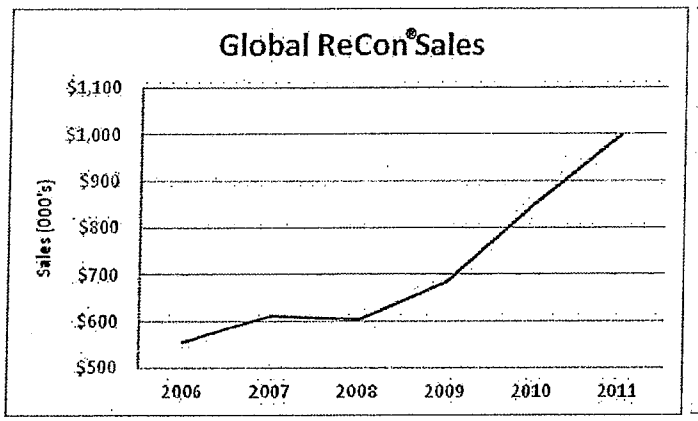
Cummins ReCon® History

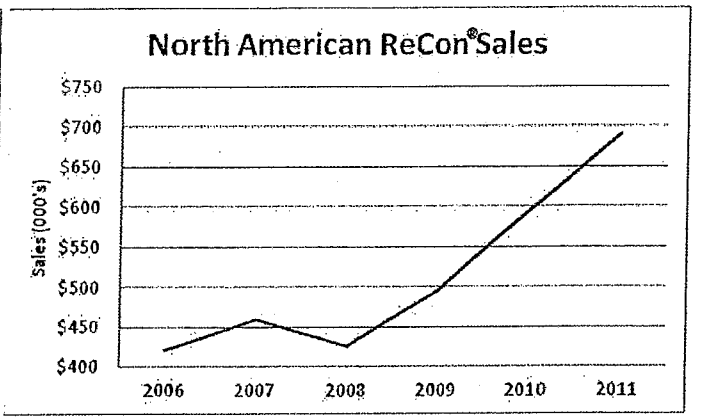


For the first 50 years Cummins remanufacturing business grew in a reactive way. Beginning in 2000 we designed the business to grow in a more deliberate way to match the continued and growing global customer demand for remanufactured products. Cummins' focus on improving manufacturing capability has resulted in fewer and larger facilites with more technical capability.

SIZE AND SCOPE OF CUMMINS REMANUFACTURING

While we do not have data on the overall size of the US remanufacturing market for engines and related components, we can comment on Cummins share of the market. Annual sales of Cummins remanufactured products (ReCon) are about one billion dollars worldwide.





ReCon sales have grown steadily over the past few years. In North America, ReCon generates more sales than new parts. The U.S. accounts for 64% of global and 86% of North America ReCon sales.

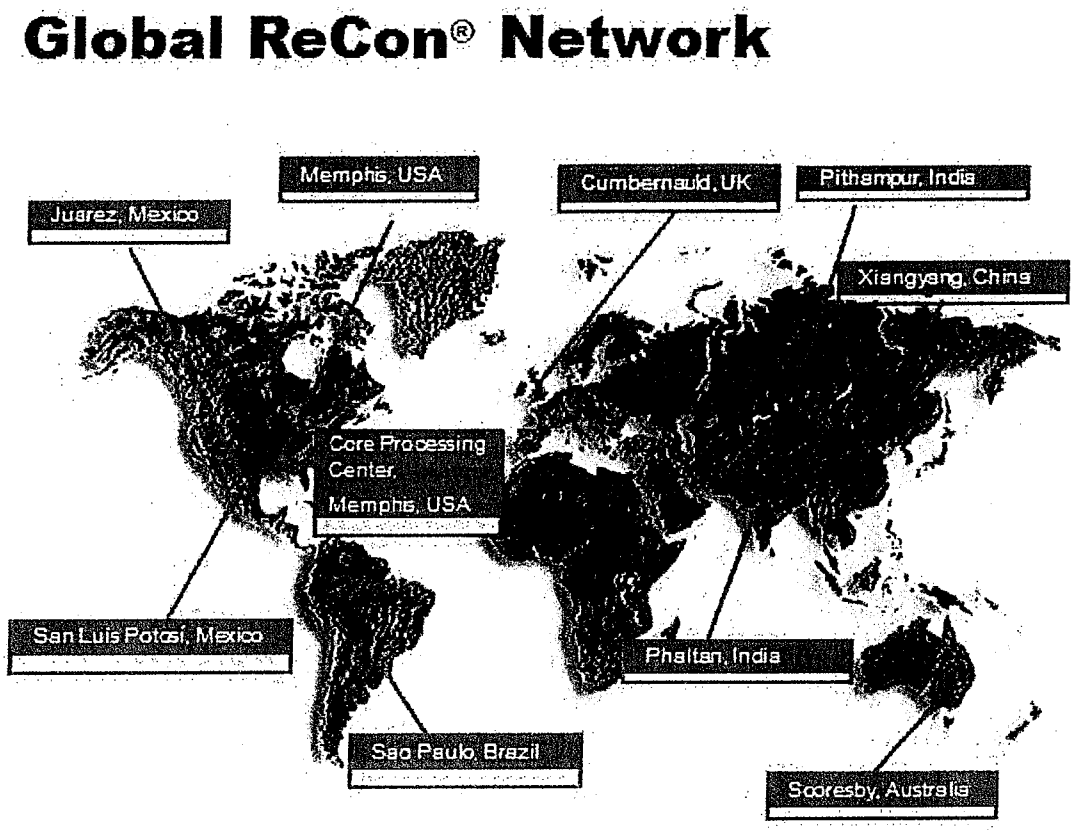
Cummins customers are Cummins Distributors and self-servicing Original Equipment Manufacturers (OEMs). We deliver service and information products for all engine market segments and provide logistics services for other Business Units. Our global supply base is a mix of internal and external suppliers. Cummins offers remanufactured alternatives for about 1,000 different component part numbers and 2,000 different engine configurations. More than 21% of ReCon employees are based in the U.S. An additional 270 jobs, classified as ReCon jobs, are contracted by Cummins in the U.S.

Trends that impact sales growth for remanufactured products include customer's desire for lower priced repair options for locally operated and older equipment along with a growing awareness of the sustainability benefits of remanufactured goods.

In general, the US has one of the most open systems to remanufactured products. The government recognizes that remanufactured products are not "used" products and they are able to move across US borders under the same rules as a new product. We are however, increasingly concerned about existing and proposed "Buy America" provisions which in some cases limit government purchasers access to remanufactured products. These provisions can restrict municipalities from taking advantage of the cost and environmental benefits a remanufactured product offers if the remanufacturing was done outside of the US. Such rules make it more difficult for us to argue against similar national purchase schemes in countries like Brazil and China. We do not have specific estimates of US trade in remanufactured goods, but are concerned that these provisions could slow that trade.

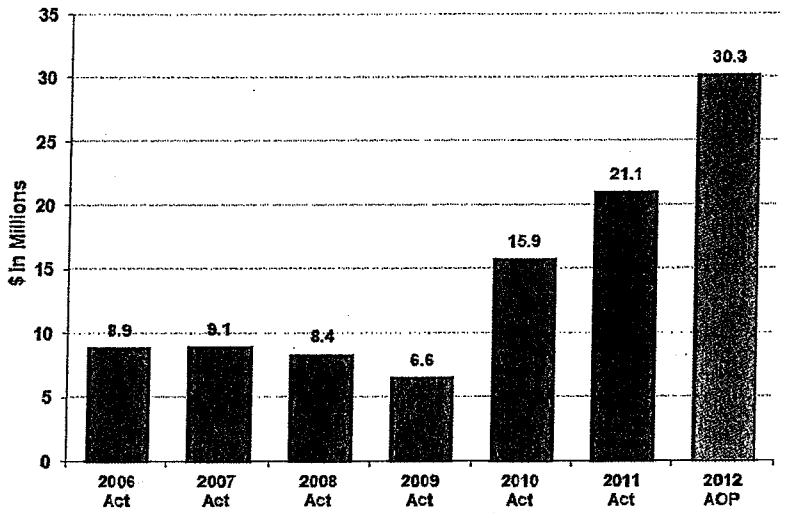
GLOBAL MARKETS FOR REMANUFACTURED GOODS

Cummins does not have specific information on the size of the global market for remanufactured goods, but we are seeing increased demand and are making global investments to meet that demand. In addition to the two U.S. facilities we currently operate eight remanufacturing facilities outside of the U.S. to serve global and North American markets.



Cummins has approximately 40,000 employees worldwide. At the end of 2011, 2,843 of these employees were classified as ReCon (442 professional, 148 office and 2253 shop). ReCon employment is projected to grow to 3206 people by the end of 2012.

In the most recent five years Cummins invested $61 million in infrastructure for the remanufacturing business. Cummins' five year expansion plan will add 50% remanufacturing capacity and improve global core collection capability. Cummins plans to invest $90M globally to build new manufacturing plants, upgrade remanufacturing process technology and improve support capability. Of this investment about 30% is planned for the U.S.



GLOBAL GOVERNMENT POLICIES THAT INHIBIT GROWTH IN REMANUFACTURING

Cummins sees opportunity to grow remanufacturing outside the U.S. where markets are growing rapidly. ReCon is a mature, yet growing business in the U.S. and Cummins remanufacturing growth strategy is aligned with where we see rapidly increasing market growth outside the U.S.

Cummins faces barriers to exporting remanufactured products into countries where these products are viewed as old, used, defective, or obsolete even though they meet the same quality and provide the same warranty as a new product. We also find situations where there is no provision to handle core. Below are some specific situations we have encountered in countries around the world.

Brazil

Brazil has in place substantial barriers to the importation of used machines and equipment and there are no special provisions to exempt the importation of cores. Although Cummins can do some remanufacturing, we are limited to domestic products because we cannot import core. We would like to use Brazil as a center to cost-effectively export remanufactured products to other South American markets but this will be limited unless the restrictions are lifted.

A further complication in Brazil is a domestic law which links the engine serial number to the vehicle registration. The Brazilian government requirement that returned engine cores be "de-registered" by the vehicle owner before they are transformed into a sellable remanufactured service product adds considerable time and cost to the process. This regulatory requirement essentially leaves some cores in "limbo" in that remanufacturers are unable to force the equipment/vehicle owner to complete the de-registration process. Ideally we would like to see Brazil allow importation of cores, as well as, remove the requirement to de-register cores that are used for remanufactured engines.

In addition to the restrictions listed above for Brazil, we are limited in our ability to import ReCon products into Columbia. Once the US-Columbia Free Trade Agreement is implemented these restrictions will be

eliminated. However, we face restriction in other Latin American Countries including: we cannot import ReCon products into Argentina; it is difficult to get core out of Venezula; and in Chile, ReCon can be sold only on an outright basis.

CIS

Russia, Belarus and Kazakhstan represent more than 80% of the ReCon sales in CIS. There is no direct legal restriction on remanufactured products, however complicated customs processes and paperwork requirements, combined with logistics challenges from Moscow and St Petersburg make core return to our parts distribution centers expensive. We would like to see the customs system simplified.

India

India allows remanufacturing of domestic products but does not allow products made with core from other countries to enter the domestic market. It does, however, allow us to conduct remanufacturing of non-Indian cores in a Special Economic Zone. Therefore, to comply with remanufacturing restrictions in India, Cummins has established two separate remanufacturing facilities:

- Special Economic Zone (SEZ) - Our remanufacturing operation in Pithampur, India fits the SEZ structure which requires that all core imported into the SEZ be tracked and exported out of India either as a remanufactured finished product or as scrap. These products cannot be sold into India. 100% must be exported.

- Domestic Tariff Area (DTA) - We have a separate remanufacturing operation in Phaltan, India to serve the local India market. The DTA structure allows us to remanufacture core that are sourced from within India for the purpose of sale within India.

We would like to see India eliminate the artificial restrictions on remanufacturing and allow us to combine the domestic and global activities.

China

China restricts the importation of remanufactured products and has strict limits on who can remanufacture and what can be remanufactured domestically. In the engine sector, several Chinese companies, including our Joint Venture Dongfeng Cummins Engine Company have been given licenses under a "pilot program" to do some domestic remanufacturing. Cummins serves as an advisor and extended work bench to the joint venture but our activities are extremely limited. We are now seeking a license from the Ministry of Industry and Information Technology to conduct our own remanufacturing operations.

We would like to see China eliminate the restrictions to importation of remanufactured products and allow us to establish and develop a local remanufacturing business.

CONCLUSION

Remanufacturing is viewed by Cummins as a sustainable means of delivering value to customers requiring service support. Over the last 45-plus years, Cummins has developed considerable capabilities to recover and remanufacture Cummins products on a global basis. The level of investment and the technical expertise required for developing and maintaining the global reverse logistics and manufacturing infrastructure for current and future products truly differentiates remanufacturing from other service alternatives.

Although the remanufacturing industry has been in existence for a number of years its expansion is being limited by the lack of a common understanding of the industry. We recommend the remanufacturing industry and government come together to develop a common definition and global standards for remanufacturing. We think this would help in removing barriers that currently restrict the movement of cores and remanufactured goods. Long-term, Cummins would like to see national restrictions lifted so

that it can provide remanufactured products as repair and refurbishment options for Cummins-powered equipment in all markets. We would like to see remanufactured products treated the same way new products are treated. We want a level playing field in all countries with freedom to import, export and transact business with remanufactured products and core.

The unique value proposition of remanufacturing is well understood in mature economies such as those in the NAFTA region and the EU. Unfortunately, many emerging economies do not differentiate between "used" goods and remanufactured goods. We believe that U.S. Government support to change such policies would greatly benefit the remanufacturing industry and our customers by increasing our flexibility to consider remanufacturing as one of our strategic growth options.

Respectfully submitted,

Allen W. Pierce
General Manager
New and ReCon Parts Manufacturing
4155 Quest Way
Memphis, TN. 38115