

Testimony of Stanley N. Manning
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Good morning. I would like to thank the Commissioners for the opportunity to appear before you today. My name is Stan Manning and I am the Interim Director, Strategy and Growth, in SC Johnson's global product supply group. I am here today to request that GSP benefits be extended to pinch-seal reclosable bags, classified under 10-digit HTS subheading 3923.21.0030, when imported from Thailand.

SC Johnson is a family-owned and operated company headquartered in Racine, Wisconsin. Founded in Racine in 1886, the company has been family-owned and managed by the Johnson family for five generations. SC Johnson is one of the world's leading manufacturers of products for cleaning, home storage, air care, shoe care, and insect control. We produce market leading brands such as Off!®, Windex®, Raid®, Saran®, Oust®, Mr. Muscle®, Glade®, Pledge®, Kiwi®, and Ziploc®. This petition covers a portion of the products we sell under the Ziploc® brand.

SC Johnson employs approximately 13,000 people globally, with operations in more than 70 countries and sales in virtually every country around the world. With respect to home storage bag operations, SC Johnson employs over 400 people located in Racine, Wisconsin, and Bay City, Michigan, who are primarily involved in the manufacturing, research & development, marketing, sales and executive operations related to pinch-seal and other reclosable bags. SC Johnson is the largest U.S. producer of pinch-seal reclosable bags, domestically producing more than half of its pinch-seal bags.

SC Johnson supplements its U.S. production with pinch-seal bags produced in Thailand, a country in which it has had a long-standing commitment. S.C. Johnson & Son, Ltd. (Thailand) is an established subsidiary founded by SC Johnson in 1968 which employs approximately 90 people. Additionally, we have established contract manufacturing relationships for the production of pinch-seal bags as well as for a number of other SC Johnson products.

SC Johnson, in conjunction with the Royal Thai Embassy, have jointly filed this petition with respect to pinch-seal zippered bags. These bags are produced from polymers of ethylene where the consumer seals the bag by aligning the zippers and “pinches” the zipper along the length of the bag. Pinch-seal bags can be differentiated by features such as a single or double “zipper,” an audible “clicking” sound, or a “bumpy” feel during the closure process. Pinch-seal bags comprise roughly 75 percent of the reclosable bags imported into the United States. The remaining 25% are comprised of “slider type” closure bags, which are classified with a different HTS statistical suffix and are not the subject of this petition.

The United States is the world’s largest market for pinch-seal bags that is now growing in rough proportion to population growth. The largest supplier for that market is the aggregate of private-label brands, such as Wal-Mart’s “Great Value.” Private-label bags are produced for the ultimate retailers by third party producers. The private-label industry is marked by stiff competition as they seek to take market share from branded products on the basis of price; as a result, private-label bags tend to be sold at lower margins.

In contrast, SC Johnson only sells products in the “branded” market. These are the products with recognizable name brands, such as Ziploc®, Hefty®, and Glad®. Rather than price, the “branded” market relies upon innovation for its comparative advantage. The continued introduction of new bag types – for example the double-zipper or the slider-seal bags – as well as

new features such as the clicking zipper or the expandable bottom bag, drives the market differentiation. The development and introduction of these new features results in higher costs – through substantial R&D investment as well as more sophisticated production facilities – but also enables branded bags to sell at a premium in the marketplace. As is true of innovation across any industry however, our innovations are quickly replicated. As private label producers work to mimic the new product, branded producers must continue to innovate in order to attract and retain customer loyalty, even at higher prices.

SC Johnson believes that extending GSP benefits to pinch-seal reclosable bags would provide a number of mutual benefits for both the United States and Thailand. First, U.S. extension of duty-free treatment to the import of pinch-seal plastic bags will help to partially offset the dramatically increased costs incurred by production facilities in Thailand during the recent floods. Thailand's economy shrank by almost 11 percent in the fourth quarter of 2011 and its manufacturing sector faces an estimated \$32 billion in rebuilding and remediation costs. Thailand needs a great deal of external support. The flooding affected the entire supply chain of primary and secondary suppliers for SC Johnson's contract manufacturers in Thailand, delaying and disrupting shipments of everything from component materials to finished products. While many of the pinch-seal bag manufacturers escaped direct damage, 25 percent of SC Johnson's employees were displaced from their homes in the flooding.

Second, granting GSP-eligibility to these products will help ensure that SC Johnson and other similarly-situated companies maintain their production partnerships in Thailand by lowering the effective cost of exporting to the United States. SC Johnson's contract production of pinch-seal reclosable bags directly supports almost 1,000 workers in Thailand and indirectly supports more than 2,000 additional employees. This investment helps strengthen SC Johnson's

global operations and supplements U.S. production, while injecting much-needed capital into the local economy. The Royal Thai Government supports SC Johnson's petition, and has submitted written comments highlighting the importance of our request in addressing the economic impact of the recent flooding and extending economic benefits to Thai companies and workers involved in the production of pinch-seal bags.

Third, extending GSP benefits will help Thailand better compete with its principal competitor: China. In 2011, China produced more than 58% of the volume of U.S. pinch-seal imports. Most of the remaining U.S. imports are produced in Canada and Mexico, from which they can already be imported duty-free under NAFTA. Thai production is already at a comparative disadvantage to duty-free production within NAFTA, and it is being dramatically undersold by Chinese producers; in 2011, Chinese average unit values were more than 13% lower than Thailand's. Removing the 3 percent duty will thus enable Thailand's producers to lower their comparative costs and be more globally competitive.

Finally, this petition will benefit both U.S. producers and consumers. As the largest U.S. producer of pinch-seal bags, SC Johnson domestically produces more than 50 percent of the bags it sells in the United States. Moreover, 100 percent of our R&D – on which our leading position in the branded market depends – is located in the U.S. Our U.S. production relies on highly-skilled and compensated employees who operate sophisticated production lines, enabling continued innovation of our products. Our contract manufacturing relationships in Thailand are a strategic element in our supply chain that helps us optimize our production by ensuring we have the capacity to meet demand for all of our pinch-seal products in the time frames our customers need.

As I discussed before, SC Johnson and other branded producers, rely heavily upon innovation to drive our market position and justify the premiums our bags command in the marketplace. We therefore dedicate tens of millions of dollars to our U.S.-based research and development efforts to continually introduce new products and features. However, as we discussed, our U.S. production assets are already running at high utilization rates. Our Thai suppliers therefore occupy a key role in our introduction of innovation into the U.S. pinch-seal market. When we develop a new product or feature, we introduce it into our U.S. production facility to take advantage of our most sophisticated production capabilities and our highly-skilled work force. While the reallocated U.S. resources must necessarily stop their current production to focus on the new product, our customers continue to demand bags from our full product line. This is where we rely upon our Thai suppliers. They can begin production of our older products and supplement our U.S. production when we need to temporarily or permanently retask our U.S. production. In essence, we are shifting the risk of production variability to our Thai suppliers and away from our U.S. employees, ensuring we can always maintain high U.S. production rates, and can continue producing our current product line while still having the capacity to develop and introduce new innovations into the market. In recent years, this symbiotic relationship has enabled us to steadily increase our U.S. production and utilization, while we have simultaneously expanded our imports from Thailand. Granting GSP benefits to these products will therefore help expand, and not offset, U.S. production, allowing SC Johnson to simultaneously meet all aspects of our customers' existing needs while continuing to innovate and introduce new products within the U.S. pinch-seal market.

In conclusion, expanding GSP benefits to allow duty-free treatment of pinch-seal bags, classified in HTS ten-digit subheading 3923.21.0030 from Thailand will produce sizeable

benefits for Thailand, U.S. consumers, U.S. retailers, while helping buttress U.S. manufacturing and innovation. Pinch-seal bags already receive duty-free treatment when imported into the United States from every other GSP-country. SC Johnson, and the Royal Thai Embassy, are respectfully requesting the U.S. extend this same treatment to Thailand, thus aligning itself with the EU, Canada and other developed economies which already grant GSP benefits to pinch-seal bag imports from Thailand. As part of this request, SC Johnson requests the United States International Trade Commission, in conjunction with the GSP Subcommittee and USTR, to use its discretion to convert the ten-digit classification of pinch-seal plastic bags from a ten-digit to an eight-digit tariff classification to make the products classified thereunder eligible for GSP duty-free status.

Thank you for this opportunity to appear before the U.S. International Trade Commission. I will be pleased to answer any questions.