



Comments Concerning Proposed Modification of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation

**Docket No. USTR-2018-0026
September 6, 2018**

The Security Industry Association (SIA) is a U.S.-based international trade association for security solution providers, with more than 900 innovative member companies representing thousands of technology leaders who shape the future of the security industry.

North America is the largest market worldwide for security products. The U.S. is the largest contributor, where the security industry employs well over 1 million Americans. Our membership ranges from large global technology companies to locally owned and operated security industry participants that develop, manufacture, install, or service security products. These products include alarm systems, access control, camera systems, identity protection and management solutions, as well as security-related unmanned systems, robotics, and a range of other cutting-edge security solutions that help keep our streets, schools, critical infrastructure and businesses safe.

On behalf of our members, we appreciate the opportunity to provide comments on the Proposed Modification of Action Pursuant to Section 301 of the 1974 Trade Act on China's acts, policies, and practices related to technology transfer, intellectual property, and innovation.

Overall Concerns with Additional Unilateral Tariffs Versus Alternative Actions

As noted in our May comments on the first round of unilateral tariffs, our members continue to be concerned that employing these measures will have significant negative consequences for the security industry and the U.S. workers it employs both directly and indirectly. Rather than change the unfair Chinese business practices they are intended to rectify, escalating tariffs will simply raise costs for businesses and consumers in the U.S.

The Administration should focus instead on working with industry and international trade partners to develop a joint approach to press China to make changes on issues of mutual concern. SIA and its member companies favor open markets, competitiveness and innovation, as well as effective protection of Intellectual Property Rights (IPR), which are crucial to the business models of many of our members, both in the United States, China, and elsewhere.

SIA members conduct business globally, supporting constituents across the U.S. and around the world. Not only is the U.S. one of the largest security markets, it continues to be an important center for product development, intellectual property ownership and manufacturing for many of our members, which are dependent on a global supply chain.

Specific Concerns Regarding Security Industry and Consumer Impact

We are very concerned with the Administration's decision to impose another series of unilateral tariffs on an additional \$200 billion in Chinese imports, further escalating tariffs in response to the retaliatory tariffs on U.S. exports imposed by the Chinese government.

Again, this proposal for additional unilateral tariffs does not adequately consider the global value chain for the development and manufacturing of security products and security systems integration. Not only will the additional tariffs hurt U.S. security manufacturers by increasing the cost of key components as they compete globally, but additional applicability to finished goods will directly increase the cost of several critically important security products that are widely utilized throughout the U.S. security industry – such as burglar and fire alarm systems and video surveillance cameras.

For manufacturers, complex supply chains can take years to establish and cannot be shifted quickly without compromising contracts, quality and value for the consumer. In many cases there are few if any realistic alternative sources that can be pursued without significant supply chain disruption and increased costs. It's far more likely that U.S. security companies and their customers will simply be forced to pay more, which affects business growth and consumer demand.

The impact would be amplified for security integrators, which may have little ability to absorb the cost of increased tariffs, alter supplier arrangements, or to pass additional costs on to consumers. The vast majority of these companies are small businesses that compete fiercely for business within their region. Together they provide thousands of skilled workers with good paying jobs, selling and installing equipment that helps protect the lives, homes and businesses of those in their community. Imposing significant cost increases of up to 25% on products they commonly use could force many of these small companies out of business, costing middle class jobs for security and fire alarm systems installers in the U.S., who earn an average of \$47,100 annually.¹

In the residential market for example, many security companies subsidize the up-front cost of a security system and amortize these expenses over the course of a multi-year contract, and often do not turn a profit on an individual customer for several years. An increase in the cost of system components further tilts the market in favor of larger companies that can use their size to leverage better deals with manufacturers and offer a lower monthly cost to consumers. Smaller companies that make up the bulk of the industry can least afford to wait to see a return on their initial equipment investment.

Recommendations to USTR

We understand that, like previous tariffs proposals, the additional \$200 billion in Chinese imports were selected based on products identified both as benefitting from Chinese industrial policies and readily available from alternative country sources, while minimizing disruption to the U.S. economy and negative impact on U.S. consumers.

¹ <https://www.bls.gov/oes/current/oes492098.htm#top>

We respectfully submit that many of the product categories included in the additional proposed tariffs do not meet these criteria. **Therefore, we request that, at a minimum, the specific HTSUS subheadings listed and outlined below be removed from the final tariff list.**

Security Systems

| HTSUS Subheading | Product Description |
|-------------------|--------------------------------------------------------------|
| 8531.10.00 | Electric burglar or fire alarms and similar apparatus |

Often combined within an integrated security system, burglar and fire alarms are one of the largest product segments used by security, safety and facility management practitioners. Intrusion detection and fire protection form a baseline of securing facilities, in government, commercial and residential sectors. Products imported in this category also include motion detectors, conventional and addressable smoke detectors and fire alarm pull stations. Nearly half of all products imported under this category valued at \$382 million², are imported from China, which is the largest supplier.

| HTSUS Subheading | Product Description |
|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| 8537.10.91 | Other boards, panels, consoles, desks, cabinets, etc., equipped with apparatus for electric control, for a voltage not exceeding 1,000, nesoi |

Imported under this subheading are security system control panels. China is the second largest source for all products imported under this category, providing 15% or more than \$1.4 million in goods last year.

| HTSUS Subheading | Product Description |
|-------------------|----------------------------------------------------------------------------------------------------------|
| 8523.21.00 | Cards incorporating a magnetic stripe |
| 8523.52.00 | Semiconductor media, "smart cards" |
| 8471.60.90 | Other input or output units of digital ADP machines, nesoi, not entered with the rest of a system |

Although most of the time & attendance and physical access control industry has moved to use of smart cards, there are still many U.S. businesses and organizations using “mag-stripe” readers and cards. China is the largest source of imports, accounting for 34% under this category.

Smart cards are also included in the proposed tariff list. Generally, this category includes any small plastic cards with embedded integrated circuits. While there are a variety of uses ranging from financial transactions to telecommunications, in security systems such cards are used for personal identification, authentication and access control. Nearly 50% of imported smart cards are sourced from China, worth \$281.5 million in 2017.

Physical security (and network security) applications require smart card readers for authentication and access control. Readers are included with in the broader category HTSUS subheading 8471.60.90, under which Chinese imports accounted for 71% if imports worth over \$645 million in 2017.

²All import figures cited are based on the U.S. International Trade Commission (ITC) data for total imports in 2017 included in the ITC tariff database - https://dataweb.usitc.gov/scripts/tariff_current.asp

| HTSUS Subheading | Product Description |
|-------------------|-------------------------------------------|
| 8534.00.00 | Printed circuits, without elements |

Products imported under this category are used in the manufacture of a wide variety of products in the industrial, residential and do-it-yourself (DIY) security market segments. China is by far the largest supplier, accounting for over 46% of nearly \$2 billion in imports.

| HTSUS Subheading | Product Description |
|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| 8471.80.40 | Unit suitable for physical incorporation into automatic data processing machine or unit thereof, not entered with the rest of a system, nesoi |

The general classification of “Automatic Data Processing Machines³” includes virtually every category and input/output device used in processing and storing data. Security products impacted the most from additional tariffs in this category are emerging residential and DIY products using small single-board microcomputers. China is the largest supplier of the components under this subheading, accounting for 34% of imports in 2017.

| HTSUS Subheading | Product Description |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 8518.90.81 | Other parts of microphones & stands, loudspeakers, headphones & earphones nesoi, electric amplifiers, & electric sound amplifier sets, nesoi |
| 8518.40.20 | Audio-frequency electric amplifiers, other than for use as repeaters in line telephony |

Use of audio components in the manufacture of electronic security products have become increasingly important with the use of IP audio technology and related analytics, as well as public address and emergency communications. Nearly 50% of \$200 million in imported components in this category were sourced from China, with the next largest source accounting for only 15%.

| HTSUS Subheading | Product Description |
|-------------------|------------------------------------------------------------------------------|
| 7407.10.50 | Refined copper, bars and rods |
| 7408.11.30 | Refined copper, wire, w/maximum cross-sectional dimension over 9.5 mm |
| 7411.10.10 | Refined copper, tubes and pipes, seamless |

Virtually all security solutions depend at least in part on physical network infrastructure, which is important considering the increasing dependence on higher CAT 6A and 7 cables for power-over-ethernet (POE). POE reduces overall installation costs and allows connected security devices to be more efficient and effective. These advanced cables require more copper to fabricate, so an increase in the cost of refined copper inputs will ultimately increase the unit installed cost of security sensors. China is one of the leading sources of imported material in these categories.

³ **automatic data processing equipment (ADPE) or IT:** Any equipment or interconnected system or subsystem of equipment, used in the automatic acquisition, storage, analysis, evaluation, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information by the executive agency, if the equipment is used by the executive agency directly, or is used by a contractor under a contract with the executive agency that requires the use of: (1) that equipment, (2) that equipment to a significant extent in the performance of a service or the furnishing of a product. It includes computers, ancillary equipment (including imaging peripherals, input, output, and storage devices necessary for security and surveillance), peripheral equipment designed to be controlled by the central processing unit of a computer, software, firmware and similar procedures, services (including support services), and related resources. <https://www.dau.mil/glossary/pages/2037.aspx>

| HTSUS Subheading | Product Description |
|-------------------|-------------------------------------------------------------------------------------------------------|
| 8531.20.00 | Indicator panels incorporating liquid crystal devices (LCD's) or light emitting diodes (LED's) |
| 8531.90.15 | Printed circuit assemblies of the panels of subheading 8531.20 |
| 8531.90.30 | Printed circuit assemblies of electric sound or visual signaling apparatus, nesoi |
| 8531.90.75 | Parts of the panels of subheading 8531.20, other than printed circuit assemblies |
| 8531.90.90 | Parts of electric sound or visual signaling apparatus, nesoi |

Many security products, particularly emergency notification and communications systems, incorporate LCD or LED screens and indicators and well as analog and network horns and speakers, and horn/strobe signaling devices in their product range. Products imported under the categories above also include motion detectors for residential and commercial security systems, motion detectors for unlocking emergency exit doors, input devices for intrusion detection system control panels, dual path IP/cellular and ethernet communications devices for control panels. China is the primary or leading source of supply for many of these components. For example, for LCD/LED indicator panels, 45% of imports worth over \$600 million originated from China.

| HTSUS Subheading | Product Description |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| 8507.20.80 | Lead-acid storage batteries other than of a kind used for starting piston engines or as the primary source of power for electric vehicles |

These types of batteries are used extensively to power or provide backup power for burglar and fire alarm systems. China is the leading source of supply, accounting for \$304 million or 35.7% of imports in 2017.

Video Surveillance Systems

| HTSUS Subheading | Product Description |
|-------------------|------------------------------------------------------------------------------|
| 8525.80.30 | Television cameras, nesoi. |
| 8525.80.50 | Television cameras, digital cameras and video camera recorders, nesoi |

These are the two primary categories under which video surveillance cameras are imported, in addition to other types of camera. The increasing affordability and recent technological advances in video surveillance systems have made the benefits of these essential security and public safety systems available to more consumers throughout the public and private sectors.

Video surveillance cameras are sourced primarily from outside the U.S., with China being the leading supplier. For example, under 8525.80.50, China accounted for 53.5% of product imports in the overall category last year. The next largest supplier country provided 7%, with imports from an additional 30 countries providing between 7% and .1% each, according to USITC data.⁴

⁴ <https://dataweb.usitc.gov/scripts/details.asp?Phase=HTS8&HTS8=85258050&DESC=>

| HTSUS Subheading | Product Description |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| 9002.11.60 | Mounted objective lenses for use in closed circuit television cameras, separately imported, w/ or w/o attached elec. connectors or motors |
| 9002.90.85 | Mounted lenses, n/obj., for use in closed circuit television cameras, separately imported, w/ or w/o attached elec. connectors or motors |

For U.S. manufacturers, lens are critical components of video surveillance cameras that are generally available from a very limited number of sources. These are the two primary product categories for these components. China is the largest source, accounting for more than 40% (\$30.5 million) in imports in 2017.

| HTSUS Subheading | Product Description |
|-------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| 8516.80.40 | Electric heating resistors assembled only with simple insulated former and electrical connectors, used for anti-icing or de-icing |
| 8516.80.80 | Electric heating resistors, nesoi |

These categories encompass products that are used by U.S. manufacturers of camera housings and other control enclosures used in video surveillance systems. China is the 2nd and 3rd largest source of imports of imports in these categories, respectively.

Door Hardware

| HTSUS Subheading | Product Description |
|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| 8302.10.60 | Iron or steel, aluminum, or zinc hinges and base metal parts thereof, not designed for motor vehicles |
| 8302.41.60 | Iron or steel, aluminum or zinc mountings, fittings & similar articles, nesoi, suitable for buildings, & base metal pts thereof |
| 8302.41.90 | Base metal (o/than iron/steel/aluminum/zinc) mountings, fittings and similar arts, nesoi, suitable for buildings & base metal parts thereof |
| 8302.60.30 | Base metal automatic door closers |
| 8302.60.90 | Base metal parts of automatic door closers |

These are categories of basic door hardware and door components essential to physical access control and used widely in construction and retrofits in buildings throughout the country. Products in these categories are not high-tech products targeted by the Made in China 2025 program – hinges, door pulls, mountings, etc. Including them in the Section 301 tariff list will only serve to punish U.S. companies and manufacturers that rely on China sources of supply for their cost models.

China is the leading source of imports in all these categories, ranging from 41% for automatic door closer parts to nearly 62% under 8302.41.60, which includes non-keyed door locks (such as privacy or passage locks), doorstops, door pulls, and mountings and fittings for doors.

Conclusion

Imposition of tariffs on these products would negatively impact the continued growth of the security industry in the U.S. while putting at risk jobs for U.S. workers. As one of our members recently shared with us, “As an American manufacturer there is no doubt in my mind that these tariffs would cause price increases and impact growth.” It will also make it more difficult for our members to respond to U.S. customer demand for affordable security options – an issue which, for an industry committed to the mission of improving safety and security, has consequences that go well beyond the bottom-line.

The Security Industry Association sincerely appreciates the opportunity to provide input to USTR through this process. We hope these comments are helpful and constructive as the Administration continues its review of the proposed tariffs and their potential impact on the U.S. economy and global trade. SIA appreciates the Administration’s efforts to grow our economy and American jobs.

Sincerely,



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