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[Trade cheating through transshipment to avoid tariffs and antidumping orders](#)

Posted on 06 May 2011 by Michael Stumo.

Here is very compelling [testimony by Karl Glassman of Leggett & Platt](#). The firm is a manufacturer of inner springs (for beds), won an antidumping case against China, South Africa and Vietnam, and testified about the massive efforts by those countries to avoid the duties by trans-shipping through third countries. It would make a good movie.

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Enforcement of the trade laws is very important. USTR needs to increase its enforcement dramatically. But more importantly, this is a customs inspection issue. Customs is not or cannot now do the job. They are concerned with drugs and bombs rather than determining the true country of origin of products with false documentation.

Statement of

Karl G. Glassman Executive Vice President and Chief Operating Officer Leggett & Platt, Incorporated

**Before the
United States Senate Committee on Finance
Subcommittee on International Trade, Customs, and Global Competitiveness**

“Enforcing America’s Trade Laws in the Face of Customs Fraud and Duty Evasion”

May 5, 2011

Good afternoon, Chairman Wyden, Ranking Member Thune and distinguished Members of this Committee. Thank you for holding this important Hearing on a topic that is critical to our business, to U.S. manufacturing, and to the integrity of our trade laws.

I am the Chief Operating Officer of Leggett & Platt, a diversified global manufacturer headquartered in Carthage, Missouri. We have over 19,000 employee-partners in 18 countries. In the United States, we operate in 28 states and manufacture a wide variety of engineered components and products.

Last August, Senators Wyden and Snowe introduced the ENFORCE Act to address the growing and serious problem of illegal evasion of our trade laws. During his statement for the record, Senator Wyden described “trade cheats,” as importers that “are increasingly – and brazenly – employing a variety of schemes to evade AD/CVD orders.” I want to tell you about our experience with trade cheats.

Leggett’s original product was the mattress innerspring and we have produced them continuously since 1883. Although we now manufacture many other products, innersprings are the heart of our business and we are the largest innerspring manufacturer in the world.

Chinese innersprings first came into the United States in the early 2000s at prices lower than our cost of production. We manufacture innersprings in China for the Asian market and know first-hand that it is not cost effective to produce and ship innersprings from China to the United States. Nevertheless, more and more Chinese innersprings continued to come in at very, very low prices.

By December 2007, our U.S. innerspring operations had deteriorated to the point that we filed an antidumping case against innersprings from China, South Africa and Vietnam. This case resulted in antidumping duty orders on goods from all three countries, and innersprings from China are now subject to antidumping duties ranging from 164% to 234%.

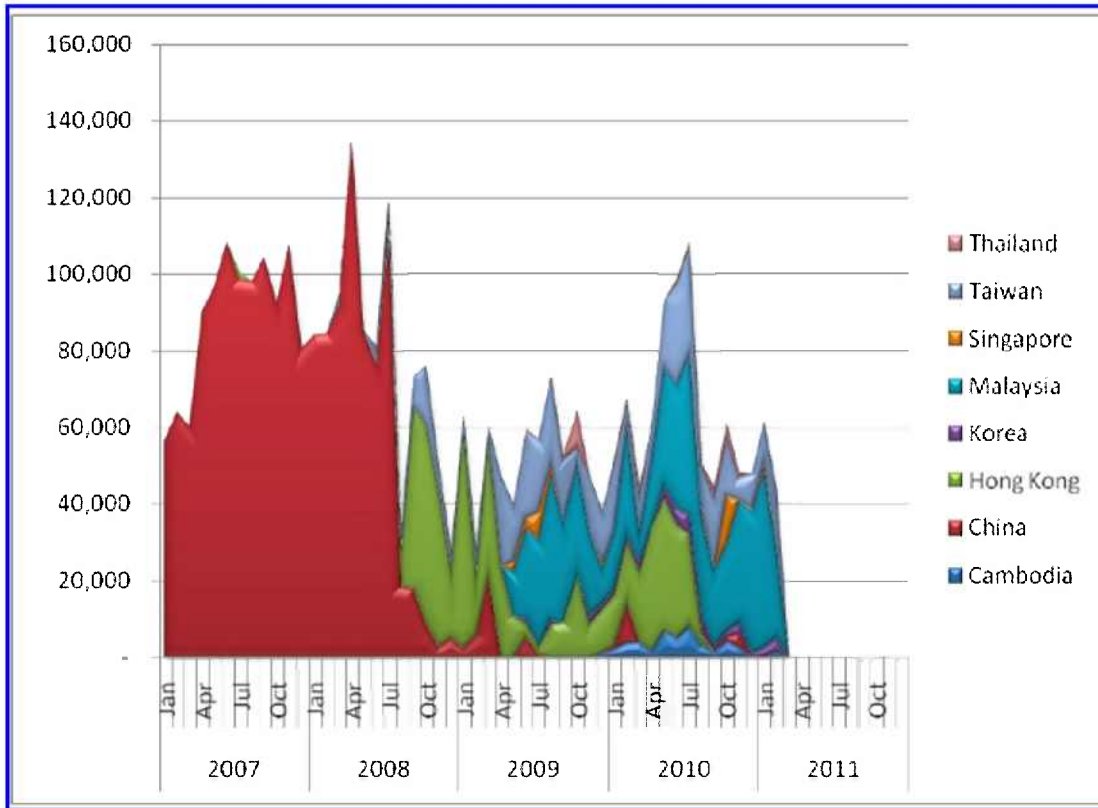
Unfortunately, even before the final antidumping duty order was issued, we had evidence that Chinese innersprings were being shipped to the U.S. through third countries for the purpose of evading these duties. For example, imports of low-priced innersprings from Hong Kong skyrocketed overnight. Prior to our preliminary order in July 2008, no innersprings units shipped from Hong Kong – yet by September 2008 over 35 container loads per month, easily worth \$1.5 million, were being shipped here.

This made no sense to us, so we hired a private investigator to examine the alleged manufacturing facilities listed on the bills of lading. He found no evidence of legitimate innerspring production in Hong Kong.

Additionally, from December 2008 through January 2009, we traced 13 shipments of innersprings from China to Hong Kong and then from Hong Kong to the U.S. We provided Customs with this information in early 2009.

Since the antidumping duty order went into effect, we have also seen a huge influx of innersprings from Taiwan and Malaysia, again, places where there was no prior production of innersprings. And again, we have sent individuals to investigate the alleged manufacturing facilities but have found no innerspring manufacturing in Taiwan. In Malaysia, while there is some legitimate production, the facilities and manufacturing equipment are insufficient for the volume of innersprings reported to be of Malaysian origin in the U.S. International Trade Commission statistics.

From the chart below, which shows U.S. ITC data of innerspring imports by country, you can clearly see the migration of the declared country of origin of the innersprings from China to other Southeast Asian countries, and in particular Hong Kong, Malaysia and Taiwan.



We have developed evidence that each year over one million innersprings subject to the antidumping order are imported into the United States without paying duties of up to 234%. This illegal evasion costs the U.S. Treasury over \$60 million dollars annually on our product alone.

To put this in perspective, if these one million innersprings were produced in the U.S., it would require over 60 full time employees earning more than \$2.5 million in wages and benefits per year. This illegal behavior affects job creation and preservation at our facilities in 21 different states.

We regularly provide Customs with specific evidence on duty evasion. Since October 2008, we have met with or sent information to Customs on 21 separate occasions. Despite our best efforts, these innersprings continue to be imported into the United States with false and fraudulent documentation.

This is not an isolated problem. In September 2009, we and four other affected industries formed a coalition to address this problem. Today our Coalition is comprised of 11 industries, each with duty orders that are being illegally evaded. The Treasury loses over \$400 million each year in unpaid duties due to the evasion of orders in just eight of our industries.

Coalition members have individually and collectively met with Customs, ICE, Commerce, the USTR, this Committee's staff, House Ways and Means staff, and the offices of over 100 Senators and Representatives. We know many industries outside our Coalition with antidumping and/or countervailing duty orders are as frustrated as we are with the pervasive fraudulent evasion of our trade laws.

The Customs personnel we have met with understand our problem, our frustration, and clearly want to address the ongoing fraud and evasion, but the present enforcement scheme does not work. We want Customs and Commerce to have procedures and tools in place to address these illegal activities in a timely manner.

We were very encouraged by the introduction of the ENFORCE Act in both the Senate and House last year, and the efforts of many of our Senators and Representatives and their staffs to find a solution. It is critical that our laws be enforced, both for the integrity of the laws and for the industries that have been injured by unfair imports.

This ongoing illegal duty evasion is not about trade philosophy – it is about effective law enforcement. Leggett & Platt and all the members of our Coalition are committed to working with all stakeholders to come up with sensible, pragmatic, but above all EFFECTIVE legislation that ensures we receive the benefit of the trade remedy we have worked so hard for, and that U.S. laws are enforced.

Our innerspring operations went limping into the Department of Commerce and the International Trade Commission and emerged with what we thought was a meaningful and binding

U.S. antidumping duty order. However, what we and other industries we are working with have found is that the trade cheats are winning. They openly treat our laws with disdain, without repercussion. Importantly, there can be no global rules-based trade without effective enforcement.


Our company works hard to ensure we comply with all laws, in the U.S. and worldwide. We are dismayed to see the way unscrupulous foreign suppliers and their U.S. importers brazenly evade U.S. law, and we want to see those charged with enforcing our laws have the procedures and tools they need to stop the trade cheats.

We support and encourage this Committee to move forward with meaningful, effective legislation to make sure the trade cheats cannot continue to, in Sen. Wyden's words, "cheat American taxpayers out of the revenue that is supposed to be collected on imports ... and cheat American producers out of business that may otherwise be theirs".

Mr. Chairman, Ranking Member, and Members of the Subcommittee, thank you for the opportunity to address you today. I look forward to your questions.

2 Responses to "Trade cheating through transshipment to avoid tariffs and antidumping orders"



1.  *robert* says:
[May 7, 2011 at 10:07 am](#)

Unfortunately this is all too common. Further, our so-called free trade agreements often set up a mechanism to facilitate such behavior. It is as if DC wants to destroy the law and our economy in the process.

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2. *China Watcher* says:
[May 8, 2011 at 11:35 am](#)

One of the prime functions of the Customs Service has always been to “protect the revenue.” It’s plainly failing to do so. Nonetheless, this job belongs to Customs only. The Congress needs to reorder Customs’ priorities and give the agency all the resources to do the job.

Based on anecdotal evidence, the problem is far bigger even than the Leggett testimony establishes. There is reportedly massive evasion of regular as well as antidumping duties. Some K Street lawyers are apparently quite content to advise their importer clients to use a fraudulent tariff classification because “no one is looking.”

The issue becomes even more important as the Congress takes up the proposed Korea “free trade” agreement. The extraordinarily low content threshold for a good to be considered as “Korean” and hence subject to a zero import duty is an invitation to legalize customs avoidance; there would be no reason to cheat if a simple re-engineering of the supply chain assures the producer of most of the value — say in China — of duty-free access to the US market with no fear of Customs fraud penalties. That failure is USTR’s, and USTR’s alone.

In both cases, the Congress has the power to set things right — and it should use that power.

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