STATEMENT FOR THE RECORD
SUBMITTED BY BRIAN SEMCER, PRESIDENT, MICRO
BEFORE THE HOUSE WAYS AND MEANS TRADE SUBCOMMITTEE
U.S. HOUSE OF REPRESENTATIVES
JULY 24, 2018

Good Afternoon, Chairman Reichert, Ranking Member Pascrell, and members of the subcommittee. My name is Brian Semcer and I am the President of MICRO, a precision medical device contract manufacturer located in Somerset, New Jersey.

While I greatly appreciate the opportunity to appear before the subcommittee to tell our company's story, all things considered, I wish my appearance here today was not necessary. Until recently, we had never actively sought the attention of leaders in Washington and we've certainly never wanted this kind of spotlight on our operations.

I am here today because our company is quickly running out of options.

MICRO is a third-generation, family-run business, and, currently, members of the fourth generation are either in college or interning at MICRO, preparing to continue that legacy. In many ways, MICRO is a quintessential American success story and our family is very proud of what we've achieved.

Today, MICRO employs about 460 people, all of them in New Jersey and Florida. Our annual revenue is approximately $115 million, and we've enjoyed roughly nine percent annual growth and added between 30 and 35 new jobs in each of the last five years.

About 85 percent of our business is in the medical device market. We manufacture device components and also assemble these components in-house to ship complete devices. Our customers – all of whom give us the highest marks for quality and efficiency – include some of the largest original equipment manufacturers, or OEMs, in the United States. For many of the products that we manufacture, we are our customers' sole supplier.

Most of our devices are made for minimally invasive surgical procedures. For example, to cauterize major vessels during heart surgery or insert a titanium marker where a breast biopsy has been taken for cancer screening. These devices allow doctors to perform life-saving procedures without making large incisions or requiring an open surgery.

All the medical devices that we manufacture have a common element: precision stainless steel tubing.

Combined, our product lines require 36 different high-grade tubes varying in size and specificity. Because these tubes are components for life-saving medical devices, quality control and extreme precision are absolute necessities. Finding a tube supplier that can meet these demands has not been easy. In the past, we worked with a domestic company that faced quality and delivery issues, which is unacceptable in our line of work. In light of this, our customers asked us to find an alternative source.

In 2008, after an intensive search for a new supplier, we formed an alliance with a small tube manufacturer based in South Korea, and that arrangement has been very successful in terms of both quality and delivery. We started by purchasing two million linear feet of tubing from the company in the first year. By 2020, if we can achieve our projected goals, we expect to reach nine million linear feet of tubing in order to meet 45 different product specifications. Over the years, we have searched for alternative domestic suppliers, but have been unsuccessful due to our quality and lead time needs.

Having a reliable supply of precision tubing has allowed us to become one of the premier companies in our industry and create quality manufacturing and engineering jobs here in the U.S. MICRO's continued viability and future growth directly depend upon the expansion of our medical device business. Given the subject matter of today's hearing, it will likely not surprise anyone to hear that we've had some major obstacles placed in our path.

In March of this year, the administration imposed a quota on steel imported from South Korea. Specifically, steel imports have been strictly limited to a maximum of 70 percent of the average tonnage imported from South Korea between 2015 and 2017.

Let me be blunt: For MICRO, this quota is catastrophic.

For companies like MICRO to continue growing, we need to increase sales and volume year after year. Even capping our materials at 100 percent of previous years' amounts would be extremely detrimental because it would not allow us to expand to new tubing-related programs – now or in the future.

Under a best-case scenario, the quota would limit MICRO's steel imports to 70 percent of our recent yearly average. That would mean a 30 percent loss of market share and would effectively bar us from helping our customers develop and introduce any new products or expanding our operations in the foreseeable future. For instance, we are scheduled to be part of two product launches in the fourth quarter of this year, but, as of now, we cannot source enough tubing to meet those demands.

Like I said, that's a hypothetical best-case scenario. In reality, things are actually much, much worse.

Under the U.S. agreement with South Korea, the quota is administered by the Korean Iron and Steel Association, or KOSA. There is no requirement that KOSA disburse imports proportionally among all U.S. importers, so there has never been any guarantee that MICRO would even get its 70 percent.

Still, after the quota was implemented, we moved forward assuming we'd be treated at least somewhat fairly based on informal communication between our Korean partner and KOSA. By June, we still had 20 tons available for importation under the quota, assuming we were going to get our 70 percent. That wasn't enough, but we were preparing to deal with it the best we could.

Then, on June 29th, KOSA informed us that our 20 tons would be cut down to twelve. A couple of weeks later, on July 10th, KOSA again reduced our remaining allotment from 12 tons down to zero. In other words, our imports were capped at approximately 60 percent of the total shipments we received in 2017. Our last shipment left Korea July 5th, and, if nothing changes, we will receive no more allotted shipments for the rest of 2018.

If the initial overall quota was catastrophic for MICRO, KOSA's additional reductions will be fatal. Put simply, if nothing changes, MICRO will be unable to supply critical medical devices and device components to its customers.

What does this mean? For starters, MICRO is the sole supplier to our customers of a number of important medical devices. These include trocars and access instruments; general surgical instruments such as scissors, dissectors and graspers; hernia tacking devices; ligation clip appliers, energy-based devices used for tissue transection and sealing; as well as surgical site closure devices.

If our tube supply remains cut off, MICRO will have to start shutting down production on some operations in a matter of weeks. That stoppage will rapidly expand throughout our product lines and end up affecting all our devices before the end of October, forcing us to reduce our workforce and costing the U.S. many high-paying manufacturing jobs.

By itself, that would be bad enough, but the impact will actually extend far beyond MICRO, its customers, and its employees. The entire healthcare industry will feel the ripple effect.

Once we start pulling back production, our customers' supplies will quickly diminish, then hospitals nationwide will be facing device shortages of all our products throughout the fall. Ultimately, a shortage of minimally invasive surgical devices could require doctors to perform more invasive surgeries and procedures, resulting in longer recovery times and higher costs for patients and healthcare providers.

I don't say any of this to be alarmist, but if MICRO even partially starts shutting down operations, several key devices will soon be entirely unavailable. Given the inherent cost and timing restrictions on producing these types of products, it is unclear if or when any suitable replacements would come on the market.

The stated purpose of the quota is to help preserve U.S. manufacturing. At MICRO, we share that goal. In fact, MICRO already purchases over 93 percent of our raw materials from American metal suppliers. The tubes are the only raw materials we purchase from a foreign supplier, and we do so because, quite simply, there isn't a suitable domestic alternative.

I can't stress enough the importance of quality, precision, and specificity in the products we manufacture. Any potential tube supplier would have to meet the most rigorous demands, including qualification audits from our OEM customers to ensure that FDA standards will be met and maintained. We estimate that it would take a company anywhere from six months to three years to adequately prepare for production of these types of tubes.

On top of that, while the tubes are an essential element to the medical devices we manufacture, they are one of the least expensive parts of our supply chain. We spend only about $4 million a year to purchase less than 100 tons of tubing. So, it's been difficult to generate interest among potential American suppliers who would have to go through a long and expensive conversion and approval process just to start working on a product line that isn't all that lucrative.

Over the course of 10 years, MICRO has researched dozens of potential domestic supplier options, but we've had to rule them out due to lack of capability. Periodically, and most recently within the past two months, we've sent out requests for quotes to various U.S. companies. Most of them sent back either incomplete responses or no responses at all. Not a single company even claimed at the earliest stage to be able to meet all our needs, since the precision tolerances and quality requirements present a daunting challenge – not to mention our need for immediate sourcing.

MICRO has also considered purchasing raw strip steel here in the U.S. and shipping it to Korea for tube production. We actually purchased some U.S. stainless steel strip for this purpose. Such a transition would take six to nine months to implement, which, again, is too long, but we wanted to keep all options open in hopes that a new HTS code could be created for tubing made in Korea from U.S. base stock. However, we subsequently received feedback indicating that this process would not help us. Though the tubes would be built from strip steel produced here in the U.S, they would ultimately still be considered Korean products for the purposes of the quota.

Long story short, we don't have any recourse here.

While some apparently considered this quota to be a preferable alternative to new tariffs on South Korean steel, for a company like MICRO, the quota is far worse.

Tariffs would certainly increase our production costs, which would result in higher prices for our customers, health care providers, and, ultimately, patients. But, if it was necessary, we would pay tariffs and find a way to continue growing and innovating. With this quota, we don't have the option of paying a tariff and going about our business. Instead, we have a hard cap on our supply, one that can apparently be lowered at any time with minimal warning or explanation.

In addition, as the administration has been implementing tariffs on other countries' imports, they have considered and approved applications for exemptions for certain products and industries. Yet, with the quota, there is no exemption process whatsoever. The 70-percent limit applies across the board. In both form and substance, this quota is worse for MICRO than any tariffs would have been.

I want to reiterate that I have no desire to wade into our country's broader trade policy debate. I know that these are complicated matters and there are longstanding concerns about the balance of trade with certain countries. I won't presume to tell policymakers how to do their jobs, but MICRO is an American success story, and, if we're going to continue that success, we need help and fast.

As far as I can see, there are a handful of options the government could take to address these problems.

Creating a separate code under the Harmonized Tariff Schedule for high precision, medical-grade stainless steel tubing could pull these types of products out of the quota altogether. As it stands, our extremely small quantity of product is lumped in with the huge steel piping used on oil rigs and in construction. Placing our medical device tubes in the same category with every other steel product doesn't seem appropriate given the sensitive and even life-saving nature of the products that they are used to manufacture. In this light it seems like classification under a separate code would be mostly noncontroversial.

In fact, the overall quota for all South Korean steel imports is set at just over 2.6 million metric tons for 2018. Of that amount, only about 12,000 tons, or 0.5 percent, will go toward medical-grade stainless steel tubing. If MICRO's purchases this year ended up the same as in 2017, we'd take up only about 0.67 percent of the medical-grade tubing imports under the quota. In other words, creating a separate HTS code for medical-grade steel tubing would exempt only a miniscule share of steel from the quota, but it would go a very long way to preserving our country's edge in medical device manufacturing and keeping companies like MICRO in business.

At the very least, the administration could establish a process to apply for exemptions to the South Korea steel quota. They have already recognized the importance of the medical device industry by removing a number of devices from the list of Chinese products subject to Section 301 tariffs. In fact, it was members of this subcommittee who championed the effort to get that exemption. But, at the moment, no similar mechanism exists for the South Korea steel quota. If given a chance, I think MICRO could make a strong case that essential components for life-saving medical devices, which have exceptionally high precision quality requirements, should not be subject to such strict limitations.

There are, I'm sure, other alternatives that would grant our company some relief. Perhaps the combined knowledge and expertise of those in the room today can come up with a suitable solution.

Once again, without some kind of change, MICRO will have to start pulling back much of its operations almost immediately. I'm here today simply to urge Congress and the administration to act to address this problem quickly. It wouldn't just be in our company's interest to do so, it is also in the national interest to prevent a shortage of life-saving devices and to preserve our country's capacity to produce these types of innovative products in the future.

Thank you, once again, for inviting me to testify. I look forward to answering any questions members might have.