Comments of Chris Klein at 2/20/20 ITC Hearing

My name is Chris Klein and I am the Executive Chairman of Fortune Brands, the parent company of MasterBrand Cabinets, the leading kitchen cabinet company in the United States. I was the CEO of Fortune Brands from 2009 to 2019, before transitioning to Executive Chairman this past January.

MasterBrand's sales represent approximately 25% of the total sales of kitchen cabinets and vanities in the US, and we are by far the largest US cabinet manufacturer. MasterBrand operates over 20 US plants and employs over 10,000 workers in the US, mostly in manufacturing jobs. We sell through three channels of distribution; 1) local kitchen & bath dealers, 2) national retailers like Home Depot and Lowe's, and 3) directly to home builders.

I have been intimately involved in the management and operations of MasterBrand since 2009 and am very familiar with the US cabinet business and the impact of the Chinese imports. We estimate that the U.S. market for cabinets and vanities is about $11 billion dollars annually.

I have seen first-hand how the Chinese ready to assemble cabinets, or RTAs, have seriously damaged MasterBrand and the rest of the US cabinet business. As their share of the US cabinet business rose by value from 9% in 2015 to approximately 15% by 2019, MasterBrand and the other US cabinet manufacturers felt significant negative effects on our businesses. MasterBrand's own data show that the

Chinese cabinet imports grew during that period by $900 million and captured three fourths of all of the growth in the US cabinet market. By 2018 the Chinese RTAs sales had increased to approximately $1.5 billion.

Our cabinet business has struggled since 2016. Despite growing housing demand, our total cabinet sales in the US have been flat during this period and we have lost market share to the Chinese imports. As a result, our plants have not been running at full capacity and we were forced to close two plants in 2018, one in Auburn, Alabama and a second in Cottonwood, Minnesota, where more than 600 of our workers lost their jobs. In 2019 we also eliminated 8% of MasterBrand's salaried workforce and are continuing to explore further plant closures and reductions in shifts.

While our sales have been flat during this period, our labor and raw material costs have increased significantly. As a result, the annual profitability of our cabinet business went down by more than 10% from 2016 to 2019. Again, this happened during a period of increasing housing demand and an expanding US economy.

Our most significant raw material increases have come from the rising cost of plywood. Meanwhile, the growth of the China imports has been facilitated by the dumping of cabinets and vanities with Chinese plywood as a main raw material input in their RTAs. In other words, China is moving up the value chain – first dumping plywood, and now dumping cabinets and vanities with parts made from plywood.

I understand that a main argument of the Chinese importers in this case is that their RTAs do not compete with the rest of the US cabinet business - that they are somehow in a separate market. This makes no sense – cabinets sold in the US compete in a single market across a continuum of price points, styles, quality and service levels for use in new construction and remodel projects. Contractors and builders find the best value product for their projects. MasterBrand sells a full portfolio of cabinets and vanities, with lead times as short as three days. We sell across stock, semi-custom and custom and all of our cabinets compete head-to-head with the Chinese RTAs. Even though we talk about stock, semi-custom and custom products, a cabinet is a cabinet and they all compete in the cabinet market where price is the most important variable for consumers. Our stock business with over $1 billion of sales competes with the Chinese RTAs, but so do our semi-custom and custom cabinets.

We have seen China moving up the value chain by dumping and subsidizing higher-value cabinets and vanities. The quality of the Chinese cabinets has increased significantly over the last few years and sales of Chinese RTAs are impacting us in all channels of distribution and all of our cabinet lines, even the premium ones. The Chinese products have added features such as plywood construction, soft close doors and painted cabinets which historically had only been offered in semi-custom US made cabinets. To be clear, Chinese RTAs are not in a separate market from us as they claim in this case.

We sell our cabinets and vanities through approximately 4,500 small kitchen & bath dealers in the US, like the ones you have seen in your neighborhood. These dealers represent approximately 50% of our total US cabinet sales and this is a critical distribution channel for us.

We are not exclusive in these dealers, however, and most of them also sell Chinese products. On the East Coast alone, we estimate that 80% of our dealers also sell Chinese RTAs right along side of our products. The Chinese RTAs and our cabinets are in the same showroom which is about as direct a competition as you can get. A consumer who goes into a local kitchen & bath dealer showroom can compare the quality and prices of Chinese RTAs to our cabinets and decide which to buy. Chinese cabinets and vanities are also in many of our retail customers such as Home Depot and Lowe's and they directly compete with us for sales to home builders.

We welcome fair competition on an even playing field, and compete with many other cabinet companies in the US. However, Chinese cabinet producers that receive subsidies from the Chinese government do not belong on a fair playing field.

On behalf of the over 10,000 workers in our facilities across the country, we hope the Commission will understand the harm that the Chinese cabinet imports are causing to MasterBrand and the entire US cabinet industry. We want to continue to operate all of our US plants and protect our workers jobs, but we cannot do this without your help.

Thank you for your time today.