

Oral Testimony (Final)
James Fellowes
CEO/Chairman, Fellowes, Inc.

Chairman Manzullo, Ranking Member Faleomavaega, members of the Subcommittee, my name is James Fellowes and I am third generation Chairman and CEO of Fellowes, Inc. Thank you for providing me the opportunity to testify today.

Fellowes is a family-owned company headquartered in Itasca, Illinois that produces business machines and office products reaching customers in over 100 countries. Until the time of our difficulties last August, we employed approximately 2,700 workers in 16 countries around the world, including 625 workers in the U.S.

Our company is perhaps best known for our market-leading line of paper shredders. **Fellowes' engineering expertise and intellectual property is what sets our shredders apart.**

Although Fellowes produces many products domestically, we began manufacturing paper shredders in China in 1998 to serve our global market. In 2006, Fellowes entered into a joint venture contract with Jiangsu Shinri Machinery Co. in Changzhou, China.

Under the terms of our contracts, Fellowes retained ownership over the tooling and IP used to manufacture Fellowes[®] brand shredders in the JV facilities. Moreover, the JV contract specifically provided Fellowes the right to manage the day-to-day operations of the JV.

For over three years, this engagement resulted in a productive partnership with Shinri to manufacture and ship goods to Fellowes locations around the world. Shinri enjoyed a 100%-plus return on its investment each year and was always paid on time.

In 2009, Shinri methodically imposed unreasonable requirements on Fellowes in an effort to extort more profit and ultimately control our global shredder business, in direct violation of our contract.

Specifically,

- unless Fellowes would assign its 100% owned tools to the JV,
- and unless Fellowes would assign its 100% owned engineering capability to the JV,
- and unless the Chinese sales division was assigned to the JV,
- and unless Fellowes immediately increased its prices by 40%,
- and unless Fellowes agreed to unilaterally contribute over \$10 million dollars to the JV,
- then, Shinri would close down the operation as Legal Representative of the JV.

When Fellowes refused these illegal demands, Shinri proceeded to destroy our business:

- They illegally obstructed shipments of paper shredders beginning August 7, 2010, forcing the JV to stop production. This ultimately led to the JV insolvency.
- They placed security guards and trucks at the gates of the JV facility to prevent entrance of our people and shipment of goods or transfer of Fellowes-owned assets.
- They expelled Fellowes-appointed management personnel from the facility.
- And they illegally detained Fellowes' injection molding tools.

Immediately after the closure of our facility, I traveled to Changzhou and met with local Chinese government officials. They sympathized with our plight, but were either unable or unwilling to force our Chinese partner to open the factory or facilitate Fellowes purchasing the JV.

Fellowes' sales volume for these blocked products is \$168 million dollars. **The cumulative impact of these actions is an economic loss totaling over a hundred million dollars for Fellowes.**

Also, we recently learned that affiliates of Shinri are planning to compete directly with Fellowes in the shredder business, all while using illegal tactics to block Fellowes from recovering our custom molding tools that represent the embodiment of Fellowes' engineering investment and IP rights.

As a result of Shinri's decision to stop shipments, suppliers have filed lawsuits against the JV for its failure to pay its invoices. The Changzhou Intermediate Court has initiated proceedings to liquidate the JV and auction its assets to satisfy the debts of the JV. **The sale of Fellowes' tooling or finished goods inventory to anyone other than Fellowes would directly violate our intellectual property rights.**

The immediate release of our tools is of great concern to us today. We have been restricted from these tools for nearly 8 months which hampers our opportunity to recover.

We want to close by commenting that we are working around the clock to retool our products and bring up new factories. One of these factories is in Itasca, Illinois. We will bring two high performance shredders up with the hope of adding more products in time. This will immediately create about 30 jobs at Fellowes and about twice that amount in 15 suppliers in the Midwest.

We are grateful for your efforts, Mr. Chairman and Ranking Member Faleomavaega, as well as the assistance we have received from Senators Durbin and Kirk and Congressman Roskam. We hope the U.S. government will act to protect the rights of American companies like ours.